

Understanding gap financing options

The Federal Parent PLUS Loan, private student loans, and private parent loans

Many families are considering financing their student’s education with either a Federal Parent PLUS Loan or a private education loan. This comparison chart will help you understand the features and benefits of each type of loan.

Interest rates and fees for private loans vary between lenders and are typically based on the credit of the individual borrower and cosigner. Families should apply for one or more private loans and compare options before deciding which type of loan is best; however, other factors may also be considered.

	Federal Direct PLUS Loan for Parents ¹	School-certified private student loan ²	Private parent loan ²
Primary borrower	Parent	Student	Parent or other eligible non-student individual
Credit check required	Yes. Applicant or endorser cannot have an adverse credit history.	Yes. Loan approval and pricing are generally based on creditworthiness. Lenders may also consider other factors.	Yes. Loan approval and pricing are generally based on creditworthiness. Lenders may also consider other factors.
Cosigner requirement	No, but if a parent has adverse credit history, an endorser may be required.	No, but a student with little or no credit history may have a better chance of approval by applying with a creditworthy cosigner.	No, but if the primary borrower is not eligible on their own some lenders may offer a cosigner option.
Cosigner/parent release option	No, parent is making a commitment to repay the loan for the life of the loan.	Many lenders provide a cosigner release option where the student can apply to release the cosigner after they graduate, make a specified number of on-time payments, and meet underwriting requirements.	Varies by lender. Check for availability.
Interest rate	For loans first disbursed on or after July 1, 2018, and before July 1, 2019, the interest rate is 7.60%.	Many lenders offer both variable and fixed interest rates. Interest rates start from 3.88% to 13.12% for variable and range from 5.25% to 14.29% for fixed. Rates are typically based on the borrower’s and cosigner’s credit history, so those with good credit may qualify for a lower rate.	Most lenders offer a fixed interest rate. Fixed interest rates range from 5.74% to 12.99%. Some lenders may also offer variable rates. Variable interest rates start from 5.02% to 12.24%. Rates are typically based on the applicant’s credit history; other factors such as income and repayment term may also be considered.
Origination/disbursement fees	4.248% for loans first disbursed on or after October 1, 2018 and before October 1, 2019.	Varies by lender, most offer 0%.	Varies by lender, most offer 0%.
Minimum payment amount while the student is enrolled in school	Loans will automatically be placed in principal and interest repayment. The borrower can apply to have the PLUS loan payments deferred while the student is in school and for six months after graduation (interest continues to accrue during this time and unpaid interest is added to the loan’s principal amount when the deferment period ends).	Varies by lender. Many lenders allow private loan payments to be deferred while in school (interest accrues during this time and unpaid interest is added to the loan’s principal amount when the deferment period ends). Many lenders offer options to make interest payments during the in-school period.	Varies by lender. Some lenders allow interest-only payments while in school. Others may offer or require immediate principal and interest repayment.
Repayment term	10 – 25 years of principal and interest payments.	Varies by lender; typically terms of 5 – 20 years of principal and interest payments are offered.	Varies by lender; typically terms of 5 – 15 years of principal and interest payments are offered.

	Federal Direct PLUS Loans for Parents ¹	School-certified private student loan ²	Private parent loan ²
Payment flexibility	PLUS loans are eligible for graduated and extended repayment options, federal consolidation, and some public service loan forgiveness options.	Varies by lender. Some lenders may work directly with borrowers to assess repayment options.	Varies by lender. Some lenders may work directly with borrowers to assess repayment options.
Responsibility to pay	Parent and endorser (if applicable)	Student and cosigner (if applicable)	Parent or other creditworthy adult
Loan limits	Up to 100% of the school-certified cost of attendance minus other financial aid received.	Generally, up to 100% of the school-certified cost of attendance minus other financial aid received. Lenders can have different loan limits for different loan programs and may base the limits on various factors.	Varies by lender, may or may not require school-certification. Some lenders may have minimum and maximum loan amounts and may base the limits on various factors.
Minimum enrollment status	At least half time.	Varies by lender. Some offer loans to students who are attending school less than half-time.	Varies by lender. Some offer loans to borrowers who have students who are attending school less than half-time.
Application process	Online with the Department of Education through the FAFSA process.	Online with lender or applying over the phone.	Online with lender or applying over the phone.
Free Application for Federal Student Aid (FAFSA) required	Yes. In addition to the FAFSA, some states/colleges require additional forms or applications for aid.	No. Families are not required to complete the FAFSA unless it is the policy of the school.	No. Families are not required to complete the FAFSA unless it is the policy of the school.
Borrower benefits	0.25 percentage point interest rate reduction for automatic debit enrollment.	Most lenders offer a 0.25 percentage point interest rate reduction for automatic debit enrollment. Additional benefits vary by lender.	Most lenders offer a 0.25 percentage point interest rate reduction for automatic debit enrollment. Additional benefits vary by lender.
Death and disability loan forgiveness	Yes. If the primary borrower or student beneficiary dies, or if the primary borrower becomes permanently and totally disabled, then the payments on the loan will be waived if certain conditions are met.	Varies by lender. Some lenders waive the remaining balance in the event of the primary borrower's death or permanent and total disability.	Varies by lender. Some lenders waive the remaining balance in the event of the student's death or permanent and total disability.
Ability to consolidate through the Department of Education	Yes. Parents can consolidate with other federal loans in their name (not the student's).	No.	No.
Options for denied loans	If parent applies and is denied, an undergraduate student may be eligible for additional unsubsidized loans.	Student can apply with a different cosigner if the cosigner is denied.	Varies by lender. Parent or other creditworthy individual may be able to obtain a cosigner.
Tax deduction for interest paid ³	The interest paid on the loan may be deductible subject to IRS guidelines.	The interest paid on the loan may be deductible subject to IRS guidelines.	The interest paid on the loan may be deductible subject to IRS guidelines.

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Borrow responsibly

We encourage students and families to start with savings, grants, scholarships, and federal student loans to pay for college. Students and families should evaluate all anticipated monthly loan payments, and how much the student expects to earn in the future, before considering a private student loan.

¹ Federal student loan rate and fee information is based on a May 31, 2018 Electronic Announcement from Federal Student Aid, an office of the U.S. Department of Education. Other federal student loan information was gathered on October 25, 2018 from studentaid.ed.gov. Check this website for the most up-to-date information about federal loan products. Rates, fees and availability of federal loan products are subject to change by the Federal Government.

² Private loan information is based on a September 30, 2018 review of national private loan programs offered by publicly-traded companies or subsidiaries thereof. Private loans that have variable rates may go up or down based on the changes of an underlying interest rate index.

³ This information is not meant to provide tax advice. Consult with a tax advisor for education tax credit and deduction eligibility. For more information, see IRS Publication 970.

Explore federal loans and compare to ensure you understand the terms and features. Private loans that have variable rates can go up over the life of the loan. Federal student loans are required by law to provide a range of flexible repayment options, including, but not limited to, income-based repayment and income-contingent repayment plans, and loan forgiveness and deferment benefits, which other student loans are not required to provide. Federal loans generally have origination fees, but are available to students regardless of income.

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