

How to choose between a Grad PLUS loan and a private student loan

In February 2006, the federal government decided to allow graduate students to take out federal PLUS loans on their own behalf. Previously this loan had been restricted to parents of undergraduate students.

What is the Grad PLUS loan?

- A federal loan with a fixed interest rate of 8.5%
- Credit check required*
- Borrow up to the total Cost of Attendance, minus other financial aid
- Payments can be deferred while you are in school
- Up to 25 year extended repayment period
- 3% origination fee is deducted from the disbursement amount
- 1% guarantee fee (some lenders may pay this for you)
- Can be included in a federal loan consolidation
- No aggregate loan limit
- No grace period, but some lenders offer forbearance
- Some lenders offer on-time repayment incentives reducing the effective interest rate

*In order to be approved for a Grad PLUS loan, you will need to have no adverse credit. Adverse credit is defined as 90 days or more delinquent on any debt, or having a credit report that shows default, discharge, foreclosure, repossession, tax lien, wage garnishment, or write-off of a Title IV (federal student loans) debt, in the past five years.

What is a private (alternative) student loan?

- A student loan from a bank that specialized in student loans
- **Variable** interest rate, depending on lender
- Credit check required*
- Borrow up to the total Cost of Attendance, minus other financial aid
- Payments can be deferred while you are in school
- Up to 15 or 20 year repayment period, depending on lender
- Fees vary, depending on lender
- **Cannot** be included in a federal loan consolidation
- Aggregate loan limit depends on lender
- 6 to 9 month grace period, depending on lender
- Some lenders offer on-time repayment incentives reducing the effective interest rate

* Individual lenders have different credit requirements, but in general the requirements for private student loans are more stringent than those for Grad PLUS loans.

Which is better?

Some private lenders may be able to offer you a lower interest rate than the Grad PLUS loan. The key to deciding if a private loan is a better choice for you is that the interest rates are **variable**. They change quarterly and are usually the Prime Rate or the LIBOR plus a percentage. As interest rates have been

rising steadily, the question to ask is what will the interest rate be when you are paying off the loan? The low variable rate could increase above 8.5% by the time you graduate, or it might not. You will have to decide if you want to gamble that the interest rate on a variable rate loan will average less than the fixed interest rate on the Grad PLUS loan over the total life of the loan.

Other factors to consider include:

- Length of repayment for the loan - a longer repayment period means a lower monthly payment, but a higher total payment.
- Total fees charged - be sure to check for fees that are charged when your loan goes into repayment.
- Deferment and forbearance options - in general, private loans have stricter deferment and forbearance options than the Grad PLUS loan.

As with the Federal Stafford Loan, you have the choice of lender.