

PLUS Loan versus an Alternative Loan: Which Should I Choose?

In recent years the volume of alternative loan borrowing at Messiah College has increased significantly as compared to the PLUS Loan. The policy of Messiah College has always been to allow the family to choose the option which is best for them, but we want to provide you with some important points to consider when making this choice.

One of the primary reasons families give for choosing an alternative loan over a PLUS Loan is that the parents would like the loan to be in the student's name and many alternative loans give that option.

Keep in mind that most alternative loan programs either require a "co-borrower" or offer significantly better loan terms when there is a co-borrower. The co-borrower is usually a parent. A co-borrower is **equally** liable to repay the loan obligation. Furthermore, once the loan is disbursed, it is listed on the co-borrower's and the student borrower's credit report. Any outstanding debt and delinquencies the borrower has directly impact the co-borrower's credit rating.

Many parents desire to delay payments while their child is in school and most alternative loans give that option.

PLUS Loan borrowers can also receive 'forbearance', which means that only interest payments must be made during the period that the student is enrolled.

The PLUS Loan has a fixed interest rate and is federally insured against death and disability.

PLUS Loans have a fixed interest rate of 7.9%. Most alternative loans have a variable interest rate with no cap, meaning that they could go much higher than 7.9% if market interest rates increase, which they almost certainly will over time. And, the fee that is taken out of your PLUS Loan proceeds at the time of disbursement insures you against having to repay the loan in case of death or disability. Many alternative loans do not offer this option.

Here are some additional comparison items between the PLUS Loan and a typical Alternative Loan

PLUS Loan Program

- Fixed interest rate of 7.9%
- Accrued interest capitalizes **once** at final repayment
- May borrow up to the cost of education less other financial aid
- Credit check based upon federal standards (easier to qualify); no debt-to-income ratios or credit-scoring
- Parent is responsible for payment
- Wide selection of deferment privileges available
- Federally insured against death and disability for both the parent and student
- Repayment begins 60 days after loan is fully disbursed, unless forbearance requested. (This means the Spring semester if the loan is for the full academic year - Fall & Spring.)

Alternative Loans

- Variable interest rate (monthly or quarterly)
- Interest rate usually will not exceed 18% to 21%, but most do not have a cap.
- Accrued interest may be capitalized **monthly, quarterly, or once** at repayment
- Most allow borrowing up to cost of education less other aid
- Borrowers must pass comprehensive credit check
- Student is usually responsible for repayment (however, a co-signer is equally liable and the loan and payment history are listed on a co-signer's credit report)
- Not federally insured against death and disability
- Limited forbearance and consolidation options available
- Most offer deferred payments while student is enrolled at least half-time

As you can see, a PLUS Loan is usually the most cost-effective choice, offering Federal protection and more repayment options. The average interest rate over time is far greater for alternative loans. However, the choice is yours. We hope this information will help you make an informed decision. For more information about either type of loan, including information on how to contact our list of lenders, please go to http://www.messiah.edu/offices/financial_aid/loans/private.html