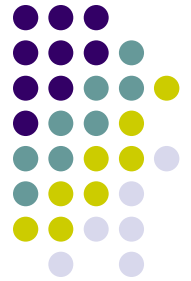


Times, They are a Changin'



# Comparing PLUS, Alternative and Home Equity

NHASFAA

November 2, 2006

North Conway, NH

Mary Dyer, University of Maine  
Martha Johnston, Citizens Bank

# Agenda



- Program Specifics
- Comparing Loans
- Advising Students & Families

# Borrowing Beyond Stafford



- Need to borrow for Expected Family Contribution (EFC)
- Need to borrow to fill gap left over after financial aid awarded
- Student did not (or will not) apply for financial aid

# FAFSA Requirement



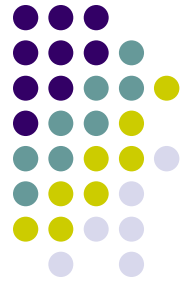
- Not required for Parent PLUS Borrower
- Required for Graduate PLUS Borrower
- Program is regulated by Title IV of the Higher Education Act (HEA)
- Institutional policy could strongly suggest completion of FAFSA for parent borrower since the student has to meet all Title IV eligibility

# FAFSA Requirement



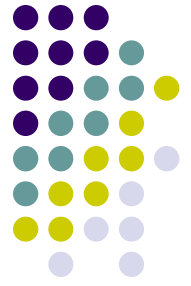
- Not required for Alternative Loans or Home Equity
  - Not regulated by Title IV of the HEA
  - Can establish institutional policy requiring for alternative loans

# Federal PLUS/Grad PLUS Loans

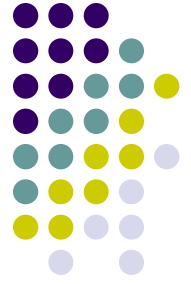


- Grad what?????????????????
- Budget Deficit Reduction Act
  - Signed into law February 8, 2006
- Effective July 1, 2006 - Allows graduate student to borrow a PLUS loan on behalf of his/her own education

# Federal PLUS/Grad PLUS Loans



- For parents of dependent, undergraduate students
  - Biological, adoptive or step parent on FAFSA
  - Not a legal guardian
- Graduate students may borrow on behalf of their own education
  - Effective July 1, 2006
- May borrow up to the cost of attendance minus financial aid

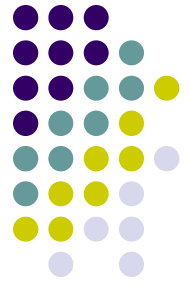


# Federal PLUS/Grad PLUS Loans

- Not Need Based
  - FAFSA not required for parent borrowers
  - FAFSA REQUIRED for graduate student borrowers
  - Graduate PLUS borrowers must apply for and have their eligibility determined for subsidized and/or unsubsidized Federal Stafford Loans.
    - Students cannot be required nor forced to take their Stafford Loan prior to taking a Grad PLUS



# Federal PLUS/Grad PLUS Loans



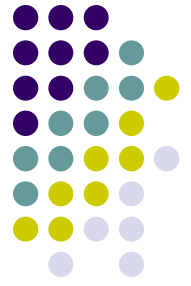
- Borrower cannot have adverse credit (set in Title IV)
  - Lender can have more restrictive credit criteria and income requirements, must be applied to all applicants
  - Typically no debt-to-income ratio requirements
  - Endorser can be obtained, cannot be the student in the case of a parent borrower

# Federal PLUS/Grad PLUS Loans



- 3% origination fee, up to 1% guarantee fee
  - Cannot offer a zero-fee PLUS
- Loans disbursed after July 1, 2006
  - Fixed interest rate of 8.5% in FFEL
  - Fixed interest rate of 7.9% in DL (can we say "typo")
- Loans disbursed prior to July 1, 2006
  - Variable rate, fixed annually on July 1
  - Interest rate cap of 9%
  - Won't have any Grad PLUS in this rate category

# Federal PLUS/Grad-PLUS Loans



- Ten year repayment term
- Repayment must begin 60 days after loan is fully disbursed
- Additional Unsubsidized Stafford available to dependent students whose parents have been denied a PLUS Loan
  - Annual Loan limits apply for “additional unsubsidized”

# Federal PLUS/Grad PLUS Loans Application process



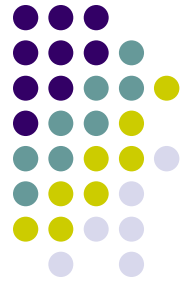
- Master Promissory Note
  - Borrower, Lender and Student must be the same for multi-year use (yes, school can change)
  - Grad PLUS borrower needs separate MPN if he/she is also a PLUS borrower for a dependent
  - 10 year expiration, unless...
    - No disbursements ever made within first 12 months of note being signed
    - Borrower requests note to be inactive

# Federal PLUS/Grad PLUS Loans Application Process



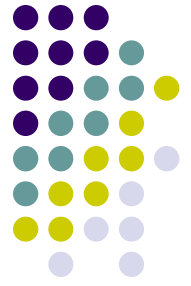
- Credit criteria evaluated each year
- School certification required annually
  - Must certify the lesser of the amount requested by the borrower or the amount for which the borrower is eligible

# Federal PLUS/Grad PLUS Loans Additional Items



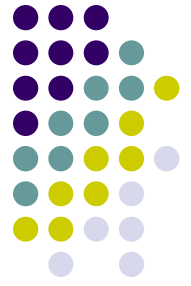
- Federally Guaranteed
  - Cancellation due to death of borrower or student (in the case of a parent borrowing)
  - Cancellation due to permanent disability of the borrower
  - Identity Theft Cancellation - effective July 1, 2006

# Federal PLUS/Grad PLUS Loans Additional Items



- Deferments
  - A parent borrower may receive a deferment for a PLUS Loan based on his/her own half-time enrollment status
    - i.e. NOT the dependent student's enrollment status
  - A graduate PLUS borrower may receive a deferment while enrolled in school at least half-time. This may not be automatic.
  - There is no grace period for any type of PLUS Loans.

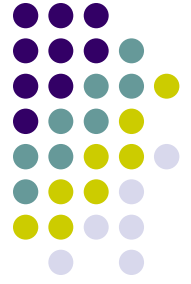
# Federal PLUS/Grad PLUS Loans Additional Items



- Repayment Options
  - Standard, Income Sensitive, Extended
  - Unemployment and Economic Hardship  
Deferments
  - No prepayment penalty
- Tax Benefits
  - Interest may be written off in some  
cases - "Speak with your tax advisor"



# Federal PLUS/Grad PLUS Loans Borrower Benefits Lender/Guarantor Specific



- Interest rate reductions
  - On time payment
  - Auto debit from bank account
- Guarantee fee may not be waived by guarantor. It may be subsidized by the guarantor or lender.
- Origination fee cannot be discounted nor waived.

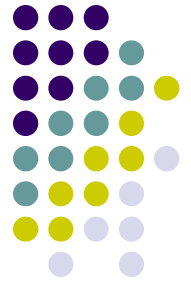
# Federal PLUS/Grad PLUS Loans

## Borrower Benefits

### Lender/Guarantor Specific



- Principal Credits
- Postpone principal and interest while dependent student enrolled half-time
  - Not specified in Title IV
  - Not a deferment
  - Typically uses portion of forbearance when exercised



# Estimated Repayment- Federal PLUS/Grad PLUS Loans

- Standard Repayment Example  
\$10,000 Loan at 8.50%
- Months in Repayment :120
- Monthly Payment: \$124
- Total Finance Charge: \$4,878

# Alternative Loans



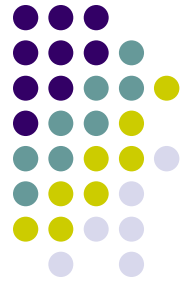
- Not regulated by Title IV
  - Terms and Conditions vary greatly among lenders.
  - Everything in this discussion is program specific.



# Alternative Loans

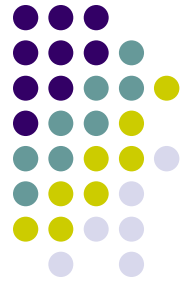
- Borrower Eligibility
  - Student may be the borrower.
  - Other persons may borrow or co-sign, doesn't necessarily have to be a parent.
  - International student options, typically need US co-signer.

# Alternative Loans



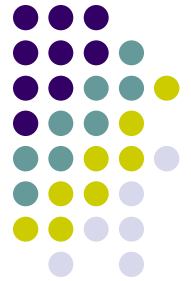
- "Private Credit" Programs
  - Credit criteria established by the lender
  - Income verification more likely to be required
  - Debt-to-income ratios more likely to be required

# Alternative Loans - Terms



- Interest Rates and Fees
  - Index + Margin
    - e.g. Prime + 2%, Libor +3.5%
  - Tiered interest rates
    - Excellent, Good and Fair credit
    - Presence of a co-signer
  - Fixed and/or Variable Interest rates
  - Disbursement and/or Repayment Fees

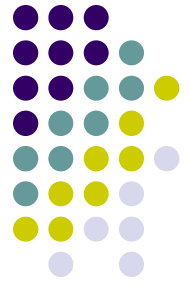
# Alternative Loans - Terms



- Loan Limits
  - Most programs allow up to the cost of education less aid (COELA)
  - Some programs may have aggregate limits
    - Total Private Debt
    - Total Educational Debt
  - Some programs may offer past due balance option



# Alternative Loans - Terms



- Many lenders require SAP
- Some lenders require student to be in degree program
- Funds must be applied for each year with a new application (no MPN in most cases) and credit evaluated each year
- School certification usually required and school may count it as a resource even if no school certification is required (if we know about it)
- In-school deferment common, though interest accrues

# Alternative Loans - Terms

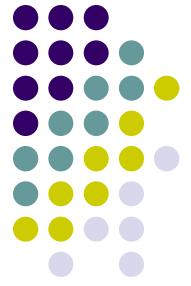


- In-school repayment or interest only payment
- No cancellation due to death or disability
- May have limited forbearance options for economic hardship, unemployment, return to school
- Frequency of capitalization

# Alternative Loans - School Requirements?



- Do you require students to borrow all of their Stafford eligibility before certifying an Alternative Loan?
- Do you require that the student complete a FAFSA?
- Do you require any Alternative Loan Counseling?
- The University of Maine requires on-line counseling prior to certification
- [www.umaine.edu](http://www.umaine.edu) (click on A-Z directory & then select financial aid, then click on Loan Counseling (Alternative))



# Alternative Loan Counseling Highlights

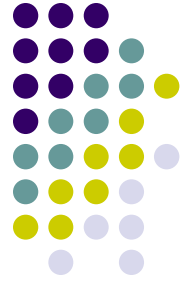
- Topics Covered:
  - What is an Alternative Loan?
  - Know Your Credit Score
  - Financial Aid Options
  - Reduce Your Expenses
  - Budgeting & Planning
  - Interest Rates on Your Alternative Loans
  - Application Process
  - Promissory Notes & Disbursement
  - Repayment: Loans **MUST** be Repaid!
  - Alternative Loan Counseling Quiz

# Home Equity



- Not regulated by Title IV
  - Terms and Conditions vary greatly among lenders
- Borrower Eligibility
  - Home Owner
- Interest Rates
  - Can be fixed or variable

# Home Equity

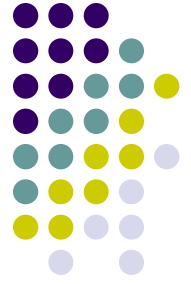


- Approval
  - Based on credit criteria established by the lender
  - Income verification and debt-to-income ratios more likely to be required
  - Low-Doc or No-Doc Loans for high credit scorers

# Home Equity



- Loan Limits
  - Equity in home directly impacts amount borrowed
- Loan Fees
  - Origination, Appraisal, Closing Costs
- Not federally insured against disability and death

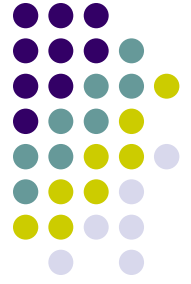


# Home Equity

- No deferment during economic hardship or unemployment
- Pre-payment penalties may exist
- Tax Benefits
  - "Speak with your tax advisor"



# Comparing Loans



- Do the tried and true “pros and cons” list
  - Remember these are relative to the person creating the list

# Comparing Loans



- Help students and families establish borrowing preferences and needs
  - Questions
  - List of Features
  - Comparison of all three types of loans
    - see sample

# Federal PLUS/Grad-PLUS Loans



## ● Pros

- Parent is the borrower for undergrad students
- Death, disability, identity theft cancellation
- Fixed/Capped interest rate
- Economic Hardship and Unemployment Deferments
- In-school Deferment based on borrower's enrollment
- No pre-payment penalty
- Comparatively lenient credit standards
- MPN
- Federal Consolidation

## ● Cons

- No shared debt burden with student (undergrad)
- Ten year term

# Alternative Loans



- **Pros**

- Parent acts as co-signer with possible release
- Student establishes credit
- Longer repayment terms

- **Cons**

- More debt burden on student
- More difficult to get approved
- Rates and fees may be higher
- Longer term means more interest
- Can't be consolidated into a federal loan

# Home Equity Loans



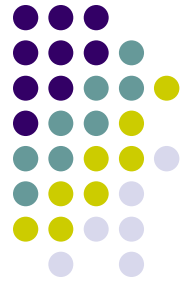
- **Pros**

- Secured loan
- Interest is tax write-off (for now!)
- No school certification

- **Cons**

- Reduces asset
- More difficult to get approved
- Application fees may be higher
- Many do not have death/disability cancellation benefits
- Closing costs
- Market sensitive limits - equity
- Longer term means more interest
- Higher interest rate caps
- Failure to repay the loan may jeopardize home ownership

# Questions



- Have you applied for financial aid and looked for outside scholarships?
- Can you manage a monthly payment plan to finance a portion?
- Who will be doing the primary borrowing?
- Should you share?
- What affect does this have on other family plans?
- What are short and long term goals of family, student?
- Is smallest monthly payment most important?
- Is lowest interest rate important?
- Are low origination fees important?
- Are the tax benefits most important?

# Features



- Borrower Eligibility
- Loan Payment and Terms
- Payment Insurance
- Interest Rate and Caps
- Loan fees; origination, repayment, appraisal, "closing costs"
- Approval Criteria
- Application Process
- Deferment Options
- Repayment Options
- Loan/Borrowing Limits
- Tax Benefits
- Pre-payment Penalties

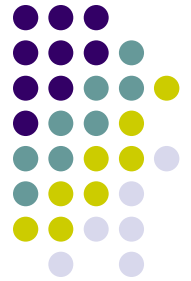
# Advising



- The only true advice you can offer
  - Look at total picture and all options - may need to use several different vehicles
  - Look at long-term - over 1, 4, 20 years
    - Additional children going to college
    - Rising interest rate environment



# “Speak with Your Tax Advisor”



- Education Tax Benefits
  - IRS Publication 970
  - web-site: [www.irs.gov](http://www.irs.gov)
  - phone number: 1-800-829-1040
  
- Other Useful Web Sites
  - [www.bankrate.com](http://www.bankrate.com)
  - [www.mapping-your-future.org](http://www.mapping-your-future.org)
  - [www.nasfaa.org](http://www.nasfaa.org)



# Questions