

College Loan Options for Parents: Advantages and Disadvantages of the PLUS Program

CLTV interview with Joseph Orsolini, CFP, CCPS
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Host: Bill Moller
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Mr. Moller: I think many people are thinking about cashing in part of their mutual funds right now to pay for college as costs continue to increase far faster than inflation. Let's talk about college loans with Joe Orsolini, the president of College Aid Planners. The PLUS Program – which stands for Parent Loan for Undergraduate Students – is a very important one. What are the advantages?

Mr. Orsolini: PLUS is a federal loan program that lets parents borrow money to cover any costs not already covered by the student's financial aid package, up to the full cost of attendance. One of the big advantages, Bill, is that the interest rate is going to be better than the rate on other kinds of unsecured loans that you can use to pay for college. The PLUS rate for the 2003-2004 academic year is 4.22 percent.

Mr. Moller: Better than home equity loans?

Mr. Orsolini: The PLUS rates are going to be very comparable to home equity loans. Of course, PLUS rates are not as low as the interest on Stafford loans, which are loans to the students themselves, not to the parents. The current Stafford interest rate is about 3.5 percent. But one of the other advantages of the PLUS is that parents who don't itemize their deductions can take a deduction for the interest that they pay without itemizing.

Mr. Moller: All right. The PLUS loans, perhaps some disadvantages?

Mr. Orsolini: One of the big things is that you actually have to qualify for it. Your credit has to be good. Although, if your application for the PLUS loan is rejected because of bad credit, your child becomes eligible for a higher limit on the Stafford loan.

But another disadvantage is that you must start paying back the PLUS loan – principal and interest – 60 days after you get the money. By contrast, on a home equity loan you can pay interest only, you don't have to start paying the principal back.

Mr. Moller: And you have 10 years to pay back the PLUS loan?

Mr. Orsolini: Yes, a 10-year payback on that. And it's the responsibility of the parents, not the student.

Mr. Moller: All right. There are different kinds of loans, including PLUS, Stafford, and Perkins. Which one should the family consider first?

Mr. Orsolini: Certainly, your child should take advantage of Stafford loans, because it has the lowest interest rate. And since the Stafford loan is in the child's name, they are ultimately responsible for it. That's a plus if you're getting close to retirement and have to think about saving for that as well.

The Perkins loan is for students with exceptional financial need. If your child is in that category, it's the best loan available, because the interest is subsidized by the federal government while the student is in college, so the student doesn't begin repaying it until almost a year after graduating.

Mr. Moller: All right. Thanks, Joe.

Mr. Orsolini: Thank you, Bill.

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For more information, visit the College Aid Planners website (www.notpayingforcollege.com), or call Joe Orsolini at 630-469-6776.