

Private Loans vs. Graduate PLUS Loans

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Why do I need to know this?

- Dispel Myths
 - Gain greater understanding of the industry
 - Empower your office with new knowledge
- Help Students
 - Comprehensive loan counseling
 - Provide access to financing options

The Private Student Loan Market

Fact about Today's Market Originations

Did you Know?

93% of all new student loans are originated by the federal government? (\$114 billion –Page R-15 Dept. of Ed Budget)

Private lenders only originate 7% of today's loans equal to \$7 to \$8 billion

Myth versus Fact

MYTH:

Government loans are always less expensive for borrowers than private loans.

FACT:

When measuring the true cost of credit through an APR comparison, private loans often compare favorably to unsubsidized federal loans, particularly Graduate PLUS Loans.

Myth versus Fact

MYTH:

Private student loans are all variable products with extremely high interest rates.

FACT:

Most lenders offer students the choice of fixed-rate or variable-rate products.

Myth versus Fact

MYTH:

Private student loans can pose more risk for borrowers than federal student loans.

FACT:

Federal loans, in contrast to private student loans, are provided without the most basic consumer protection – a determination of the borrower's ability to repay.

Myth versus Fact

MYTH:

Students and families do not receive adequate information about private student loan terms before borrowing.

FACT:

Lenders provide three notices containing 18 disclosure items about private loan terms at three different times before a private loan is made. These disclosures are required by law. The Federal Reserve conducted extensive consumer testing before establishing these new disclosure requirements, which have been in effect since February 2010.

Private vs. Grad PLUS

Features	Private Student Loan (Most Major Lenders)	Grad PLUS
Fixed Interest Rate	As low as 5.75% (Check Rates)	7.90%
Variable Interest Rate	As low as 2.75% (Check Rates)	Not available
Fees	Usually 0%	4%
Term	Up to 25 years	10 years
Borrower Benefits	0.25% - 0.50% IRR for ACH and or on-time payments; Graduation Rewards	0.25% IRR for ACH
FAFSA Requirement	No	Yes
SAP Requirement	Varies by Lenders	Yes
Primary Borrower	Graduate Student	Graduate Student

Private vs. Grad PLUS

Features	Private Student Loan (Most Major Lenders)	Grad PLUS
Credit Eligibility	Loan approval is based on credit. Students without sufficient credit are encouraged to apply with qualified cosigners.	Student must not be in default on a federal student loan. No adverse credit (90 days or more delinquent on any debt).
< than ½ time attendance	Sometimes Yes	No
School Certification	>95%	Yes
Past Due Balance	Varies by Lenders	No
Choice of repayment options	Yes: Deferred, Interest only, full Principal & Interest	Yes: Deferred or full Principal and interest

Private vs. Grad PLUS

Features	Private Student Loan (Most Major Lenders)	Grad PLUS
Forbearance Options	Limited	Liberal
Loan Forgiveness	The loan will be forgiven in the unfortunate event of the student borrower's death or permanent and total disability	The loan will be forgiven in the unfortunate event of the student borrower's death or permanent and total disability
Debt Forgiveness for service in low income communities	No	Yes
IBR, Graduated Repayment	No	Yes

What are other schools doing?

- Providing objective comparisons
- Encouraging students to make the best choice for their particular situation
- Issuing RFP's
- Publishing Preferred Lender Lists
- Ceasing to auto-package Grad PLUS
- Providing disclaimers on financing options

School reference #1 - Stanford Graduate School of Business

See PDF Handout

UC Berkeley Haas School of Business

Federal v. Private Loans

- **Federal**

- Fixed interest Rates of 6.8% and 7.9%
- 1% and 4% disbursement fee
- Definite Forbearance options
- Death and Permanent Disability Cancellation
- Possible Bankruptcy Cancellation

- **Private**

- Variable rates, often lower than Federal
- Often zero disbursement fees
- Possible Forbearance options
- Rare cancellation options for death or permanent disability

Types of Aid

MyFinAid

CARS

Debt Management

School reference #3 - University of Mississippi (Ole Miss)

http://www.olemiss.edu/depts/financial_aid/CreditBasedLoan.html

School reference #4 - Texas Christian University

http://www.fam.tcu.edu/loans_ugrd_loan_compare.asp

School reference #5 University of Maine

<http://umaine.edu/stuaid/files/2010/03/Graduate-Lender-List-UMO9.pdf>

Loan Comparison Tools

Many vendors in the marketplace:

- ELM Select
- Fast choice (Great Lakes)
- Simple Tuition

These platforms provide students and schools:

- Comparison Tools
- Data Management
- Compliance

How can I help my students?

- Educate them to become savvy consumers
- Provide them with the best available consumer information and financing options
- Network with colleagues at peer institutions
- Meet with lender partners to review their loan products
- Attend FSA conferences/review conference materials that pertain to private loans and PLUS loans

References

Thank you to the following schools and organizations:

CBA Education Funding Committee

[www.cbanet.org/Advocacy/Issues/Student Lending Facts Archive.aspx](http://www.cbanet.org/Advocacy/Issues/Student_Lending_Facts_Archive.aspx)

Stanford Graduate School of Business

See Handout

UC Berkeley Haas School of Business

www.haas.berkeley.edu/MBA/finaid/loans/private-loans.html

University of Mississippi (Ole Miss)

www.olemiss.edu/depts/financial_aid/CreditBasedLoan.html

Texas Christian University

www.fam.tcu.edu/loans_ugrd_loan_compare.asp

University of Maine

<http://umaine.edu/stuaid/files/2010/03/Graduate-Lender-List-UM09.pdf>

CLFE Mission

As a diverse coalition of industry participants, CLFE shall engage in activities that improve and preserve the quality and integrity of education financing products and services delivered to California students, parents and schools.