

Federal PLUS Loan Program

Loan Sources

Federal PLUS Loans are granted through the Federal Family Education Loan (FFEL) Program. Most colleges and universities participate in the FFEL Program. The Federal PLUS Loan is for parents of undergraduate students or graduate and professional students.

General Eligibility Requirements for Parent Borrowers

Parents may borrow on behalf of dependent undergraduate students who meet the following requirements:

- Demonstrate one of the following qualifications to enroll in postsecondary education:
 1. Have a high school diploma or GED
 2. Pass an approved ability-to-benefit (ATB) test
 3. Complete a state approved home-school curriculum
- Be a U.S. citizen, or eligible non-citizen
- Valid Social Security Number
- Register with the Selective Service if required to do so (available on the FAFSA)
- Formal acceptance by a degree-granting accredited college, university, or technical school.
- Maintain satisfactory academic progress, as determined by the school
- Maintain at least half-time enrollment status

Qualifying for a PLUS Loan is based on good credit only, there are no provisions for debt-to-income ratios or employment verification.

If the applicant does not pass a credit check, they may still be eligible for a PLUS Loan, if they can provide extenuating circumstances or a cosignatory that passes the credit check.

Borrowing Limits

Borrow up to the cost of education minus any other financial aid received. Graduate and Professional students are required to have completed a Free Application for Federal Student Aid and applied for the annual loan maximum eligibility for Federal Subsidized and Unsubsidized Stafford Loans before applying.

Dependent vs. Independent Status

The PLUS Loan is available to all parents of dependent students and is not need-based. Most students who are entering college straight from high school are considered “dependent” students.

Federal regulations created by Congress dictating the definition of independent students for financial aid must be followed by school financial aid administrators in determining one's eligibility for federal and state aid funds. Whether a student lives in his own home or apartment and/or claims himself as an exemption on his federal income tax return is not considered when determining if a student is considered independent for financial aid purposes.

The only way a student can be considered independent for financial aid purposes (which means the custodial parents' income and asset information are not required on the FAFSA) is if the student meets at least one of the following guidelines:

1. For the 2007-2008 school year, the student must be born before 1-1-1984; or for the 2006-2007 school year, the student must be born before 1-1-1983; or
2. The student must be married; or
3. The student must have a child or other dependents who receive more than half their support from the student; or
4. The student must be enrolled as a graduate (master's, doctoral) or professional student (medicine, dentistry, or law); or
5. The student must be a qualified veteran of the U.S. military; or
6. The student must be an orphan (parent's deceased) or ward of the court or was a ward of the court until age 18.

Graduate and Professional students are considered independent for financial aid purposes if at the beginning of the academic year will be working on a master's or doctorate program (such as an MA, MBA, MD, JD, PhD, EdD, or graduate certificate, etc.).

Disbursement of funds

The borrower will be paid through the school in a minimum of two payments, which generally coincide with the beginning of the semester, trimester, etc. Funds will be disbursed to the school by Electronic Funds Transfer "EFT". The loan monies must first be applied to tuition, assorted fees, room, and board. Any remaining funds will be forwarded to the student, usually in the form of a check.

Interest and Other Charges

Effective for loans with the first disbursement after July 1, 2006, the interest rate through June 30, 2007 is fixed at a Federal Rate of 8.5%. AAA member benefit reduces interest rate to a fixed rate of 7.5%. With automatic electronic payment election, interest rate reduction of 0.25% applies, AAA PLUS Loan Interest Rate as low as 7.25%.

A 3% origination fee is deducted from the loan, and goes to the federal government to reduce the cost of the loan. Additionally, some lenders charge a 1% default fee, which further reduces the amount that the student will receive. *The AAA Student Lending Program Federal Loans waive this default fee.* If loan payments are not made according the terms of the agreement, late fees and/or collection costs may be assessed.

Repayment

The repayment of the PLUS Loan begins 60 days after the disbursement of funds. Parents are responsible for paying both the interest and principal of the loan—even while the student is in school. Graduate and professional students can delay their payments while in school by applying for an in-school deferment. During the 60 day grace period, parents will receive repayment information, including the first payment due date. Parents are responsible for making payments even if they do not receive such notification, as failure to do so may result in defaulting on the loan(s).

There are several repayment options available:

- A 10 year plan (minimum payments of \$50)
- A graduated plan that starts with low monthly payments, and gradually increases over the repayment period
- An extended plan that allows for a longer repayment period (up to 25 years); or
- A plan that bases the monthly payment amount as a percentage of one's income

An interest only option is also available for 2 years.

Deferment, Forbearance, and Default

If there is a time where you find it difficult to make payments, you may request a deferment or a forbearance of the loan. Since all PLUS Loans are unsubsidized, the borrowers will be responsible for paying the interest on the loan. Unpaid accrued interest can be capitalized, adding to the principal. During forbearance, payments will be postponed or even reduced. As with deferment, the borrowers are responsible for the interest payments.

Deferment and forbearance periods are not counted as a part of the repayment period, however you must continue to make payments until the request for deferment or forbearance has been officially granted. Failure to do so could result in the loans defaulting. Defaulting on a student loan may have serious consequences including, but necessarily limited to:

- Ineligibility for loan deferments
- Ineligibility for additional aid
- Damage to credit record, or
- Legal action

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Cancellation of Loan

A PLUS Loan may be canceled under any of the following conditions:

- The borrower, or the student on whose behalf a parent borrowed, dies
- The borrower becomes totally and permanently disabled
- The loan is discharged in bankruptcy (in most cases, federal education loans are not discharged)
- The student's school closes before s/he completes the course of study
- The school fraudulently certifies the loan
- The school does not make a required return of funds to the lender.