

Parent PLUS Loans



With school preparing to head back in session, many parents are preparing to send their college students off to school. For some, that means taking on loans to enable their children to attend their college or university. Federal parent PLUS loans are pretty easy to obtain. They are frequently listed alongside grants and undergraduate loans on financial aid awards letters. Schools want to get paid, and they want your student to attend, so it is in their best interest to include this option, but that doesn't mean it is in your best interest.

For parent PLUS loans, there aren't traditional underwriting requirements that factor in credit history and income. They also don't have a limit on how much a parent can borrow in total. Because of this along with the rising cost of education, it is easy for parents to find themselves deeper in debt than is comfortable, all in the name of helping to provide a quality education for their kids—be careful.

While you might be more easily able to recognize that taking on a loan for a car you cannot afford or buying a home that would make you house poor are bad ideas, that is harder to do when considering student loans for your children. As parents, we can struggle with feeling responsible to over-indebt ourselves for the well-being of our kids.

One of the main reasons that parent PLUS loans can be a problem is that they don't have the repayment flexibility afforded to standard student loans. That means that if your child doesn't graduate, or struggles to repay those loans, the burden of repayment falls on you, and your means of mitigating that cost are less readily available than they are to a normal student. Another reason you might be better off avoiding this kind of debt is that interest rates are a lot higher for a parent PLUS loan. They carry an interest rate of 6.28%, compared with the standard undergraduate loan rate of 3.73%.

According to nerdwallet.com, parent PLUS loan debt has grown from \$62.2 billion to \$103.6 billion — a 67% increase—over the past seven years. That means more parents are choosing this option to help their kids get an education.

If you've had to resort to a parent PLUS loan to pay for your child's tuition, here are some options available to you to manage repayment.

Income-Contingent Repayment Forgiveness

While your options are limited compared with those of a standard student loan borrower, you do still have options for income contingent repayment of your student loans. This option caps your payments at 20% of your discretionary income and the plan lasts for 25 years. This can be helpful for older parents who expect to have lower income on retirement than when they took on debt, but debt in retirement is not recommended.

Refinance privately in your child's name

Another way to get rid of your debt is to refinance in your child's name with a private company. Doing this allows your child to take legal responsibility for that debt. There are limited options in terms of companies who do this, and once done, you lose some of the federal repayment protections you *do* have, so this option should be weighed carefully. If you have any other questions about student loans or student loan debt, contact the Money Coaches and we'd be happy to talk with you!

One potential antidote for the problem? Starting school at a 2-year community college and living at home. This can allow students to work during that time and help mitigate or even cover the cost of education. It isn't possible in every situation, but for many it is a workable solution that avoids unnecessary debt.

THE MONEY COACHES

Rich Keller
Cell: (765)592-0027
rich@themoneycoaches.com

Kathy Keller
Cell: (765) 592-0285
kathy@themoneycoaches.com

Chris Blystone
(765) 731-1107
chris@themoneycoaches.com

Allen Cobb
(765) 731-1107
allen@themoneycoaches.com

