

College Loans for Parents

Borrowing money to pay for your child's education? Take advantage of this federal loan program.

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A college education is an investment in your child's future that pays big dividends. The Census Bureau reports that U.S. workers with a bachelor's degree earned an average of \$54,689 in 2005, compared with \$29,448 for workers with a high school diploma.

So it can make sense for students to borrow judiciously to finance their own education. Like a home mortgage, student loans at subsidized interest rates can be used to purchase an asset that appreciates over time.

Realistically, paying for college is a family affair, and most parents would probably be willing to help foot the bill, possibly by borrowing. To make sure that no one's debt gets out of hand, your family will have to decide how much is reasonable and find the lowest-cost loans. For students, that means federal Stafford loans. For parents, that means another federal program, Parent Loans for Undergraduate Students (PLUS).

With PLUS loans, parents can borrow as much as they need to pay for any costs not covered by the student's financial-aid package, up to the full cost of attendance. So there's usually no need to take out private loans.

And terms are attractive. PLUS loans have a fixed interest rate of 8.5%. You don't have to file the Free Application for Federal Student Aid (FAFSA) to apply. A credit check is required but isn't onerous.

Some lenders do offer lower rates or discounts. For example, they might cut your rate by 0.25% or more if your monthly payment is debited directly from your bank account. Immediate discounts are better than future benefits that are tied to a certain number of on-time payments, a standard that's tough to meet (for more on loan discounts, including calculators, go to www.finaid.com).

Despite their attractive terms, parents don't take full advantage of PLUS loans. One study shows that only 7% of parents use them, although that number is increasing. It may be that parents aren't aware of the program, or, if they borrow, prefer to tap their home equity.

Most home-equity lines of credit carry variable rates that are tied to the prime rate -- currently 8.25% -- so right now they're competitive with PLUS loans. But interest on home-equity loans is deductible. In the 25% tax bracket, for example, the effective interest rate on an 8.25% home-equity line is 6.19%.

Nevertheless, some financial advisers still recommend that parents consider using PLUS loans to avoid

depleting their home equity or having to pay off the entire loan at once if they want to sell the house and downsize.

See Janet's college-financing series:

- [Smart Ways to Pay for College](#)
- [Best Deals on Student Loans](#)
- College Loans for Parents
- [How to Pay off Student Loans](#)
- [How Much College Debt is Too Much?](#)

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