

YOUR MONEY

Sallie Mae Now Offers Education Loans to Parents, Too

Your Money Adviser

By ANN CARRNS APRIL 29, 2016

SALLIE MAE this week became the latest lender to make private loans available to parents who want to help pay for their child's higher education.

Sallie Mae, the largest private student lender by loan originations, said its new parent loan was more flexible, and potentially less expensive, than the federal government's education loans for parents and graduate students, known as Direct Plus loans.

More private lenders are marketing parent loans, including Citizens Bank and online lenders like SoFi, as college costs continue to increase and the student debt burden grows. The average debt for graduating seniors at four-year colleges in 2014 was nearly \$29,000, according to the Institute for College Access and Success. And a new report from researchers led by the Institute for Research on Higher Education at the University of Pennsylvania Graduate School of Education found that college affordability had worsened in 45 states since 2008.

Most student loans are made by the federal government. But because the government limits the amount that students can borrow, parents of students who fall short may turn to the federal Plus program or to private lenders. The proportion of students graduating with the help of parent loans has steadily increased over the last decade, according to an analysis by Mark Kantrowitz, publisher of the college

selection website Cappex.com.

Given the financial burden of college, parents are looking for options. “Most families see paying for college as a shared responsibility,” said Charles Rocha, executive vice president and chief marketing officer at Sallie Mae, adding that the company’s research found that many parents wanted a “competitive alternative” to the Plus loan.

The rate for federal Plus loans is currently 6.84 percent. (Federal loans are offered at fixed rates only.) Sallie Mae said its fixed-rate parent loans were 5.74 to 12.87 percent, depending on the applicant’s credit rating.

Mr. Rocha also said the parent loan charged no upfront fee, while the federal government currently charges 4.272 percent for Plus loans.

Unlike the federal government, Sallie Mae also offers variable-rate parent loans, with rates currently from 4 to 10.37 percent. With variable rate loans, monthly payments increase as rates rise. Mr. Rocha said he expected the variable option to be popular, since a majority of borrowers in its undergraduate private loan program choose it.

Student aid experts cautioned that probably only those with excellent credit could qualify for Sallie Mae’s best rates. Mr. Rocha said he could not specify how many borrowers might qualify for the lowest rates, but, “We generally expect applicants to fall across the range of rates.”

Pauline Abernathy, vice president of the Institute for College Access and Success, an advocacy group, said in an email that private parent loans might cost less than federal parent Plus loans for parents with good credit. But she said, there are potential drawbacks borrowers should weigh carefully. Private loans, for instance, will not guarantee some of the same protections and options as federal Plus loans, she said, like the ability to discharge the debt because of a school’s closing, loan deferments for economic hardships, and potential access to a repayment option that can tie payments to the borrower’s income.

Also, Ms. Abernathy noted, if a parent of an undergraduate student applied for a

Plus loan and was denied, the student could borrow more money beyond the usual federal loan limits. So, she said, “there are real reasons to apply for parent Plus loans before considering a private parent loan.”

Borrowers should also keep in mind their overall debt load, regardless of how favorable terms seem, Mr. Kantrowitz said. Turning to private loans to finance your college education may be a sign of “overborrowing,” he has written, since students who graduate with private loans — or with federal Plus loans — are more likely to have more debt than they can afford to repay.

Here are some questions and answers about parent loans:

■ *Who is eligible to borrow Sallie Mae’s new parent loan?*

Parents of undergraduate or graduate students, as well as other “creditworthy” adults, like grandparents, aunts and uncles, and guardians who want to help finance the student’s education, can apply for the loan, Mr. Rocha said.

■ *Will interest rates on federal Direct Plus loans change soon?*

Rates are determined each spring under a formula set by Congress in 2013, and take effect July 1 for the following 12 months. (While rates for new loans may change annually, once a loan is issued, its rate remains the same for the life of the loan.)

■ *Where can I complain about problems with student loans?*

The Consumer Financial Protection Bureau takes complaints about private loans as well as about student loan servicers, the companies that collect payments and otherwise oversee your loan.

If you have a problem with a federal loan that you cannot resolve through your servicer, you can contact the Department of Education’s loan ombudsman.

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