SLBA
Student Loan Borrower Assistance

The Student Loan Borrower Assistance Project (SLBA) is a program of the National Consumer Law Center (NCLC)

The Dangers of Parent PLUS Loans

Parent PLUS loans can be very dangerous products for borrowers because:

- The current PLUS loan interest rate is 6.41%. And this is historically low. Most older PLUS loans have interest rates of 7.9%. In comparison, the current Stafford loan interest rate is 3.86% for undergraduates.
- PLUS loans currently have origination fees of 4.2% compared to NO FEES for other federal loans.
- Unlike all other federal student loans, there are no explicit borrowing limits for parent PLUS loans. Parents may borrow up to the full cost of attendance, which is determined by the institution, not the government, and includes books, travel and living expenses.
- There are no ability-to-repay standards for PLUS loans. There are only minimal credit standards that most borrowers are able to meet initially or on appeal.
- Parent PLUS loan borrowers are not eligible for income-based repayment (IBR) and therefore have fewer options for avoiding default and its consequences.
- A parent PLUS loan consolidated with other loans taints the entire consolidation loan so that the borrower cannot repay using IBR.
- Similar to other federal student loans, parent PLUS loans are nearly impossible to discharge in bankruptcy.
- Parent PLUS loan borrowers in default face the full range of draconian government collection powers, including wage garnishment, Social Security offsets and tax refund offsets. There is no time limit on government collection.

Schools have incentives to encourage PLUS loan borrowing because PLUS loan defaults are not counted in cohort default rate (CDR) calculations.

CDRs are extremely important to schools because the schools face sanctions if rates are persistently high, but parent PLUS loans are not included in the CDR calculation.

To encourage PLUS loan borrowers, some colleges lay out offers of thousands of dollars of parent PLUS loans directly in their financial aid packages, presenting it as part of a financial aid “award” that includes scholarships, grants, work study, and student loans, even though parent PLUS loans are not guaranteed and can be dangerous products.

There is insufficient data to understand the full scope of the dangers of parent PLUS loans.

Although PLUS loan defaults are counted as part of lifetime default rates, the Department of Education does not publicly release separate information about parent PLUS loan defaults by institution or by borrower characteristics. Other key information in the Department's Integrated Postsecondary Education Data System (IPEDS) such as average amount of student loan aid, does not include PLUS since these loans are taken out by parents, not students. [1]

Understanding the Department of Education's 2011 PLUS Loan Policy Change

In 2011, the government issued $10.6 billion of parent PLUS loans to approximately one million families. This is almost double the amount of borrowers and an increase of $6.3 billion in inflation-adjusted dollars since 2000.[2] Borrowing has slowed more recently due to the Department of Education's decision to tighten the credit standards. **The Department of Education described the changes as intended to "prevent people from taking on debt they may not be able to afford while protecting taxpayer dollars."** [3]

The For-Profit Education Sector, not Historically Black Colleges and Universities (HBCUs) Were Hit Hardest by the PLUS Loan Policy Change

Since the change in the credit standard went into effect, for-profit colleges have lost about $790 million more in PLUS loan disbursements than HBCUs.[4] HBCUs only make up a small share of volume in the parent PLUS loan program. About 2% of all undergraduates are in HBCUs and these institutions represent between 3 and 4 percent of PLUS borrowers. In contrast, from 2006 to 2011, the share of for-profit undergraduate enrollments were about 10 percent, but accounted for 16 to 18 percent of total parent PLUS loan recipients.[5] (This is particularly significant since for-profit schools have been viewed as focusing on the needs of adult students who do not qualify for parent PLUS loans). In addition, since the Department's policy change, over 72% of the institutions that lost the largest number of PLUS loan recipients and 87% that lost the largest amount of disbursements are from the for-profit sector. The rest of the schools that had the largest declines in recipients and disbursements are high-priced nonprofit colleges and public universities.

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[1] See Rachel Fishman, "Parent PLUS Loans a Minus for Many", New America Higher Ed Watch (Oct. 10, 2012).
[2] Marian Wang, "The Parent Loan Trap", The Chronicle of Higher Education (Oct. 4, 2012).
[3] Id.
[4] Rachel Fishman, "The Parent Trap", New America (January 2014).
[5] Id.

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