



## PARENT PLUS LOANS

### BACKGROUND

The federal Parent Loans for Undergraduate Students (Parent PLUS Loans) program provides unsubsidized loans to parents of dependent undergraduates to help them meet college expenses after other sources of federal student aid are exhausted. Parent PLUS Loans are limited to the total cost of attendance minus other student financial aid. Parents must undergo a credit history check; those found to have “adverse credit” may be denied loans.

In 2011, the U.S. Department of Education unexpectedly tightened Parent PLUS Loan credit standards, negatively impacting approximately 400,000 students nationwide and causing significant enrollment declines at Historically Black Colleges and Universities (HBCUs). After a negotiated rulemaking process in 2014, the Education Department revised the credit standards, which became effective March 2015. Under revised regulatory standards, parents can fail the credit check and be denied a Parent PLUS loan if they do not meet certain credit conditions.<sup>i</sup> In addition, the U.S. Department of Education developed a voluntary loan counseling tool for parents, which provides customized information to Parent PLUS Loan borrowers on loan obligations and repayment.

In 2017, the federal government is expected to issue one million Parent PLUS Loans or 5.9 percent of 17 million total new Direct Loans. Parent PLUS Loan volume is estimated to be \$13.3 billion or 13.7 percent of a total \$97.2 billion in new Direct Loans, a relatively small share of the total number of new loans issued.<sup>ii</sup> For the 2016-17 academic year, the origination fee for Parent PLUS Loans was 4.3 percent of the amount borrowed and borrowers paid a 6.3 percent interest rate. While interest rates for federal student loans have decreased recently, the Congressional Budget Office projects rising interest rates over the next ten years. Parent PLUS Loan interest rates are capped at 10.5 percent.

### Key Points:

- **Parent PLUS Loans are a critical lifeline to a college education for hundreds of thousands of students who do not receive sufficient federal Pell Grants and Stafford Loans to fully cover their college expenses.**
- **The Parent PLUS Loan program is particularly important for students at HBCUs, primarily low-income students of color, who rely on Pell Grants (70 percent) and federal loans (78 percent) to attend college.**
  - In the 2015-16 academic year, over 39,000 students at HBCUs relied on Parent PLUS Loans to meet their college expenses, about 13 percent of all HBCU students. Another 8,600 HBCU students received Graduate PLUS Loans.
  - In the 2015-16 academic year, HBCUs received \$513 million in Parent PLUS Loan disbursements and \$160 million in Graduate PLUS Loan disbursements.

- **Parent PLUS Loans have low default rates and one of the best repayment histories of any federal student loan program.** Ultimately, over 91 percent of PLUS Loans are repaid over the life of the loans. In contrast, lifetime default rates for unsubsidized Stafford Loans and subsidized Stafford Loans come in at 16.7 percent and 14.2 percent, respectively.<sup>iii</sup> Considering interest earnings and fees, the cash recovery rate for Parent PLUS Loans is 99 percent.
- **The Parent PLUS Loan program generates excess revenues for the federal government due to high interest rates and fees.** The program generates more revenue than it spends, no matter which accounting method is used. Under federal credit reform accounting, the federal government earns 33 cents on each new dollar loaned in 2017 instead of incurring costs. Under fair value accounting, the government earns about 14 cents for each new dollar loaned.
- **Cuts to, changes in eligibility for, or elimination of Parent PLUS Loans will drive some students and parents to private loans with less favorable terms and others simply will not qualify for loans, hurting college access.** Without the Parent PLUS Loan program, parents with minor credit problems will be faced with private loans with exorbitant interest rates, far exceeding the rates charged in the federal program, and those with no credit history simply won't be able to obtain private loans at all. This will only increase the cost of college for some students and hurt college access for others.
- **Cuts to, changes in eligibility for, or elimination of Parent PLUS Loans will lead to enrollment declines and undermine the financial stability of HBCUs unless replaced by substantially better financial aid options, such as increased Pell Grants, Work Study, and Direct Loan limits.** In the first year after the U.S. Department of Education instituted commercial credit standards in the program in 2011, the share of families at HBCUs with Parent PLUS Loans declined 46 percent, and the dollar amount of Parent PLUS Loans fell 36 percent—a larger decline than at other institutions of higher education. Enrollment at HBCUs declined 3.4 percent in the 2012-13 academic year, at the same time that enrollment was increasing at other institutions of higher education.<sup>iv</sup>
- **Parent PLUS Loans are an essential college financing option for some students and parents that can be improved; however, the program must be repaired, not repealed.** Parent PLUS Loans can be improved by lowering excessive origination fees and interest rates that raise borrowing costs for families; mandating robust loan counseling for all borrowers; and establishing income-based repayment options for parents to better manage loan repayment.

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<sup>i</sup> Adverse credit is defined as one or more debts with a total combined outstanding balance greater than \$2,085 that is 90 or more days overdue, charged off, or in collections in the past two years, or debt that has been the subject of a default determination, bankruptcy discharge, foreclosure, repossession, tax lien, wage garnishment or write off of a debt under Title IV in the past five years.

<sup>ii</sup> Congressional Budget Office. 2017. January 2017 Baseline Projections for the Student Loan Program.

<sup>iii</sup> U.S. Department of Education. 2016. FY 2017 Department of Education Justifications of Appropriation Estimates to the Congress.

<sup>iv</sup> Johnson, M., Bruch, J., & Gill, B. 2015. [Changes in financial aid and student enrollment at historically Black colleges and universities after the tightening of PLUS credit standards.](#)