Education Finance Council™

Helping Families Plan & Pay for College℠

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**EFC Encourages Families to Consider Low-Cost Nonprofit and State-Based Education Loan Options**

*EFC Members offer lower rates and fees than high-cost Federal PLUS Loan*

WASHINGTON, D.C. — With federal student loan interest rates set to increase on July 1, Education Finance Council (EFC), the national trade association representing nonprofit and state-based student loan organizations, is urging families to carefully compare all their higher education financing options. Specifically, if families are considering a Parent PLUS Loan, EFC suggests that they also consider the lower-cost products available through nonprofit and state-based organizations, who offer consumer-friendly loans at lower rates than the PLUS Loan.

The interest rate on the most expensive federal loan, the Parent PLUS Loan, is increasing to 7 percent, up from the current rate of 6.31 percent. The PLUS Loan also comes with a steep 4.276 percent origination fee. These numbers fail to represent the true cost these loans, since the federal government doesn't supply borrowers with an Annual Percentage Rate (APR), which factors in both interest rate and loan fees to give a truer representation of cost. However, based on standard APR calculations, EFC estimates that the APR for the Federal Parent PLUS Loan will range from 7.09 percent to 7.99 percent, depending on whether payment begins immediately, interest-only payments are made while the student is still in school, or payments are deferred until the student leaves school.

As the Federal Parent PLUS program becomes increasingly expensive, it is imperative that families research all their options and know that the PLUS Loan may not be the best option for them. Currently, all nonprofit and state-based lenders offer a loan with a lower rate than the PLUS Loan, and with low or no origination fees. The majority of these loan programs require a credit-worthy borrower or co-signer, resulting in extremely low default rates (often less than one percent). Many of these programs may also include borrower benefits, such as flexible repayment options, interest rate reduction options, no prepayment penalties, and benefits for graduates that work in a critical field in the organization's state.

These organizations are a smart option for families, as they are trusted resources, guided by a robust set of principles that define their consumer-first programs. As such, their interests are inherently aligned with the students and families they serve — not shareholders. Nonprofit and state-based lenders also integrate personalized counseling as part of their loan programs to ensure that borrowers are fully aware of the options available to them and only borrow what they need and can afford to repay.

Furthermore, loans made by nonprofit and state-based lenders are subject to an extensive array of existing consumer protection laws, including the *Truth-in-Lending Act*. Loans made under the Federal Direct PLUS program, along with Federal Direct Stafford Loans and Federal Direct Consolidation Loans, are not subject to the same laws and disclosure requirements.

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