As of July 1, 2010, PLUS loans are available only through the Direct Loan Program. Prior to that time, there were also FFEL PLUS Loans. There are PLUS loans for both parents (parent PLUS loans) and graduate/professional students (graduate/professional PLUS loans). The program was extended to graduate/professional students in July 2006. A graduate or professional student’s maximum annual Stafford Loan eligibility must be determined before the student applies for a PLUS loan.

Many PLUS loan borrowers have high balances because of the absence of numerical loan limits. The yearly limit on PLUS loans is equal to the student’s cost of attendance minus any other financial aid received.

Parent PLUS loans allow parents to borrow to pay for the education of dependent undergraduate children enrolled in school at least half-time. Beginning with the 2011–2012 award year, the dependent student on whose behalf a parent has applied for a Direct PLUS Loan must have filed a FAFSA form. This requirement is intended to verify that the student is not in default on federal loans and has met other eligibility requirements.

Schools may choose whether to participate in the Direct PLUS Loan Program. However, a school that chooses to participate and that has both undergraduate and graduate students must make PLUS loans available to both parents and graduate/professional students. If a school that offers graduate and professional degree programs chooses to participate in the PLUS loan program, it must also offer Direct Stafford Subsidized and Unsubsidized Loans, since a condition for originating a graduate/professional PLUS loan is that the school must first determine the student’s eligibility for subsidized and unsubsidized loans. However, a graduate/professional student may decline a subsidized or unsubsidized loan and may choose to borrow only a PLUS loan.

There is a “credit check” requirement for both parent and graduate/professional PLUS loans. The Department issued final regulations in October 2014 amending these standards. The new regulations went into effect on March 29, 2015.

PLUS borrowers must show that they do not have adverse credit histories. As of March 29, 2015, “adverse credit history” means that, as of the date of the credit report, the PLUS loan applicant—

1. Has a total combined outstanding balance greater than $2085 that is ninety or more days delinquent or has been charged off or placed in collection within the two years preceding the date of the credit report; or
2. 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 of the Act during the five years preceding the date of the credit report.

The absence of any credit history cannot be considered an indication of an adverse credit history and is not to be used as a reason for denial.

Even borrowers with adverse credit histories may still qualify for PLUS loans if they obtain an endorser who does not have an adverse credit history or document to the Department’s satisfaction that extenuating circumstances exist. The Department may determine that extenuating circumstances exist based on documentation that includes, but is not limited to, an updated credit report or a statement from the creditor that the borrower has made satisfactory arrangements to repay the debt.

The Department uses standard letters when approving or denying PLUS loans. The denial letter states that it has reviewed the application and is unable to approve it due to adverse credit information obtained in a credit report. The letter lists the source of this information as well as the specific reason for the denial, for example, wage garnishment within the last five years or tax liens. The consumer is given information about Fair Credit Reporting Act rights. The letter also explains that, if the consumer believes extenuating circumstances exist, the consumer may send documentation explaining the situation and that the consumer may qualify by obtaining an eligible endorser.

The changes to the “credit check” regulations came about after the Department faced considerable controversy for tightening the credit standards without new regulations in 2011. At that time, the Department announced that it would include more delinquent accounts in the adverse credit category. Specifically, the Department extended the look-back period for charge-off accounts and accounts in collection from ninety days to five years. The decision occurred during a period of high PLUS loan acceptance rates and increased borrowing.
The Department may also have been concerned about increased default rates. This was unclear because PLUS loans are not calculated as part of the cohort default rate (CDR) and the Department does not publish data on these defaults. However, during 2014 negotiated rulemaking sessions, the Department released some summary data on parent PLUS loan defaults. The data showed that defaults on parent PLUS loans nearly tripled in recent years but remained below the default rates for other federal student loans.47 In addition, the Department announced in October 2014 that it will begin collecting and, when appropriate, publishing information about the performance of PLUS loans, including default rate information based on credit history characteristics of PLUS loan borrowers and individual institutional default rates.48

PLUS loan denials increased dramatically at certain schools after the Department tightened the adverse credit category.49 Denials increased by 50% for parents of students at historically black colleges and universities, costing the institutions about $50 million in enrollment revenue.50 These schools and their allies pushed the Department to reconsider its position. In response, the Department initially made some changes to the borrower appeals process and later stated that Department staff would reach out to borrowers who could have their denials reconsidered.51 The Department then changed the regulations after a negotiated rulemaking process in 2014.

Footnotes

32 [32] See § 2.2.3 [1], infra (PLUS terms and limits).

33 [33] 34 C.F.R. §§ 682.201(b)(3); 685.200(b)(4).

34 [34] 34 C.F.R. § 685.203(f).


36 [36] See id.


51 [51] Id. See also U.S. Dep’t of Educ., Electronic Announcement, PLUS Loan Applicant Communications (Apr. 19, 2013) (describing Department’s notices to PLUS loan applicants encouraging them to request reconsiderations of initial denials).

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