

The Perils of PLUS Loans

Examining the Effects of the Federal Government’s Most Unfavorable Student Loan Program

Both graduate school students and parents helping their dependent offspring finance college may rely on the federal Direct PLUS Loan program. The Direct PLUS Loan program can be an important college access tool, but it can also be an overly risky investment for too many people. This brief examines Direct PLUS Loan borrowing trends over time, identifies how borrowers are ill-served by the both the opacity and terms and conditions of the program, and makes recommendations federal policymakers can implement to improve the program for both borrowers and taxpayers.

Direct PLUS Loan Program Overview and Historical Trends

The Department of Education makes Direct PLUS loans available to parents of dependent undergraduate students (a parent PLUS loan) or graduate or professional students (a grad PLUS loan). Unlike other federal student loans, grad PLUS and parent PLUS loans require a modest credit history review, but the review does not assess the borrower’s ability to repay the loan. PLUS loans differ from other federal student loans because students and parents can borrow up to the total cost of attendance less all other aid making it possible to borrow huge sums of money both annually and in the aggregate. In addition to potentially large loan disbursements, the Direct PLUS Loan program has higher interest rates and fees than other federal student loans.

	Interest Rate	Loan Fee
Grad PLUS and Parent PLUS Loans	8.05%	4.228%
Undergraduate Subsidized and Unsubsidized Loans	5.50%	1.057%
Graduate Unsubsidized Loans	7.05%	1.057%

Source: U.S. Department of Education, *Federal Student Aid*, as of December 1, 2023

Just like with other federal student loans, missing payments can result in late fees, delinquency, and default, which can lead to harsh consequences including having wages garnished and having tax refunds or social security benefits offset.¹ However, Direct PLUS Loan program borrowers have fewer repayment options compared to other federal student loans, and the terms of the available options are generally less favorable than they are for other federal student loans.² Notably, federal student loans are not subject to Truth in Lending Act disclosure requirements making it difficult for consumers to compare Annual Percentage Rates (APRs) across different student loan providers.



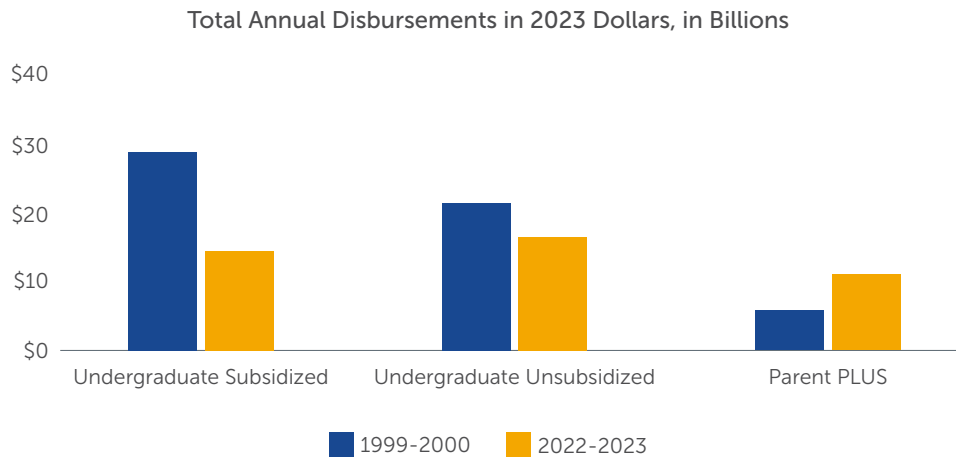
Key Takeaways

- Students and families increasingly depend on the high-priced Direct PLUS Loan program to pay for postsecondary education.
- The limited outcomes data made publicly available by the Department of Education and captured by third-party survey data suggest that too many PLUS loan borrowers struggle to successfully repay their debt.
- Because the Direct PLUS Loan program features higher rates and fees and parents have fewer repayment benefits available to them, some families should consider borrowing a lower-cost loan from a state-based or nonprofit student loan program.
- Congress must reform the federal student aid system to address Direct PLUS Loan failures and set more students up for success.

Parent PLUS loan borrowing has expanded dramatically since it was first created in 1980. Annual total parent PLUS loan disbursements increased from about \$5.8 billion³ in 1999-2000 to more than \$11 billion in 2022-2023.⁴ Outstanding parent PLUS loan debt increased from \$79 billion⁵ to \$111 billion between 2014 and 2023.⁶ The average annual parent PLUS disbursement has also been rising, increasing by over 50 percent between 1999-2000

and 2019-2020. The most current data from 2022-2023 show a slight decrease in the annual average parent PLUS loan disbursement, perhaps due to financial pressures coming out of the pandemic.⁷

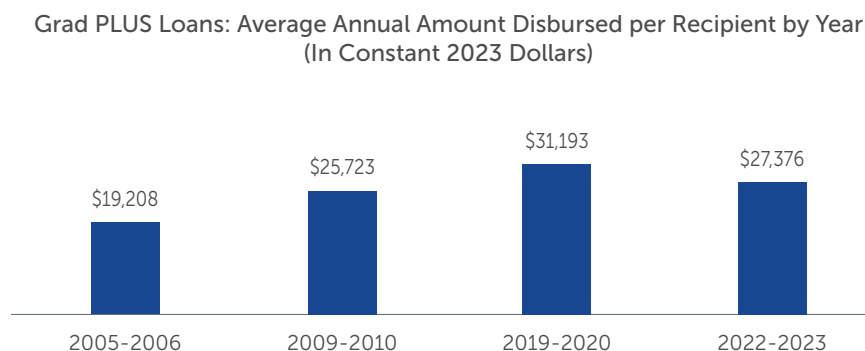
This increase in parent PLUS loan debt stands in contrast to a trend of decreases in the undergraduate subsidized and unsubsidized loan programs.



Source: U.S. Department of Education, Federal Student Aid

Grad PLUS loan borrowing has also expanded, with total annual disbursements increasing from \$8 billion⁸ in 2009-2010 to \$11.8 billion in 2022-2023.⁹ Outstanding grad PLUS loans more than doubled between 2014 and 2023, increasing from \$49 billion¹⁰ to \$102 billion.¹¹

Similar to parent PLUS loans, the average annual grad PLUS loan disbursement increased by more than 50 percent between 2005-2006 and 2019-2020, and then saw a slight decrease in 2022-2023.¹²



Source: U.S. Department of Education, Federal Student Aid

Direct PLUS Loan Borrower Outcomes

Over the past several decades, the Direct PLUS Loan program has been used by a wider audience as both overall enrollment of students from low-income backgrounds and college costs have increased.¹³ There were more than three times as many parent PLUS loan recipients that were under the poverty line in 2018 as there were in 1996. In fact, in almost six out of ten cases of parent PLUS loan borrowers since 2000, the dependent child they were borrowing for had also received a Pell grant.¹⁴

About seven percent of parent PLUS loan borrowers default on their debt after three years in repayment.¹⁵ Almost one in ten parents who borrowed Parent PLUS loans between 2017 and 2019 were in default or were seriously late (delinquent) with their payments within two years of their child leaving school. Almost 60 percent of those parent PLUS borrowers were from low-income households.¹⁶

This expansion of the program in lower-income households combined with the ability to borrow very large amounts have led to concerns that many parents are on the hook for debts they will not be able to cover. After ten years in repayment, more than half of the initial balance remains to be paid by the average parent PLUS borrower, and more than a third remains after 20 years in repayment.¹⁷ High-balance loans likely contribute to the reason parent PLUS borrowers still have so much remaining on their loans after being in repayment for years. Research has found an increasing trend of slower repayment rates for high-balance student loan borrowers.¹⁸



A study of parent PLUS borrowers in Texas who entered repayment between 2004 and 2010 found that 38 percent had been delinquent on their payments at some point within seven years of entering repayment or had used deferment or forbearance to delay payment, and seven percent had a higher outstanding loan balance than their original balance at the seven-year repayment mark. Less than half of the borrowers had a lower balance than they started with and were successfully repaying with uninterrupted payments (meaning they had not used deferments or forbearances and had not experienced delinquency or default).¹⁹

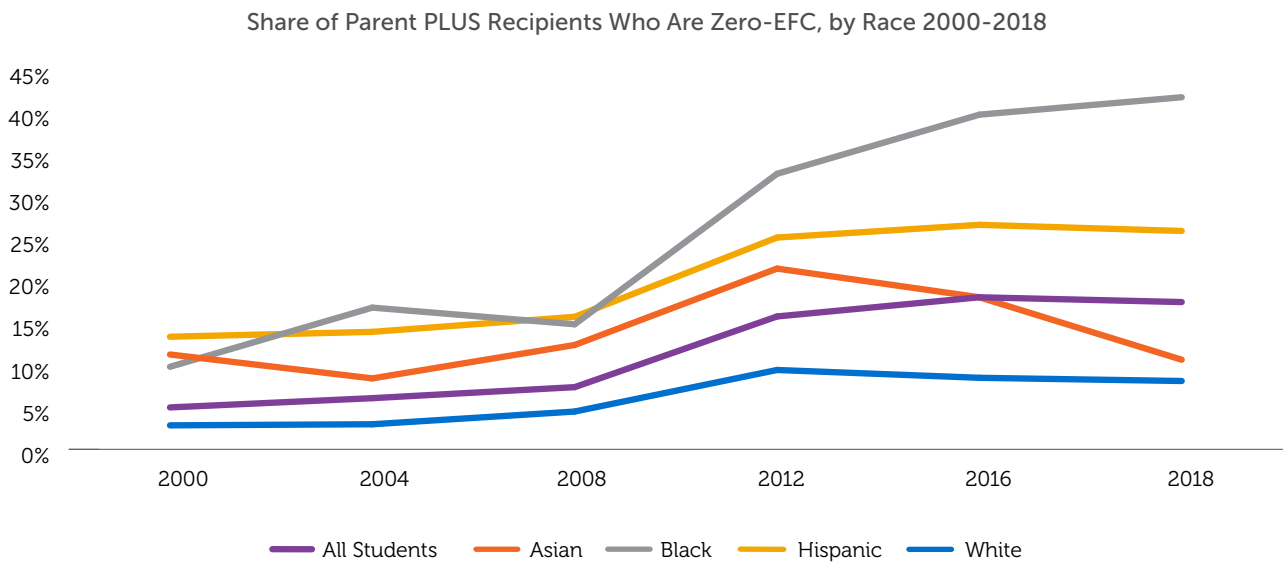
Repayment Category		Parent PLUS Borrowers in Texas (n=59,096)
Successfully Repaying	Uninterrupted Payments	45%
	Had Deferment, Forbearance, and/or Delinquency	23%
	Had Delinquency Only	7%
Default	Had Deferment, Forbearance, and/or Delinquency	5%
	Had Delinquency Only	3%
No Reduction in Principal Balance		7%
Consolidation*		12%

Source: Trellis Company and Federal Reserve Bank of Dallas, *PLUS Borrowing in Texas: Repayment Expectations, Experience, and Hindsight by Minority-Serving Institution Status (2020)*

*The repayment status of consolidated loans could not be tracked after consolidation.

Parent PLUS loans have been a critical tool for college access for many families, and particularly for Black families due to racial wage and wealth gaps that leave them with fewer resources to pay for college. Unfortunately, parent PLUS loans appear to exacerbate racial and ethnic disparities. Analysis of 2016 national data revealed that the average parent PLUS loan borrowed by Black families for one year took up about a quarter of the average Black family income. This was a higher debt-to-income ratio than found for white (14 percent), Hispanic (22 percent) or Asian American families (20 percent).²⁰

The share of Black parent PLUS recipients who had no expected family contribution (meaning their income was too low to pay any out-of-pocket expenses for college) has increased dramatically in the past two decades, rising from 10 percent in 2000 to 42 percent in 2018. After ten years in repayment, parent PLUS borrowers whose children attended the top colleges for Black enrollment still owed 96 percent of their principal balance. Comparatively, parent PLUS borrowers whose children attended the top colleges for white enrollment owed 47 percent.²¹



Source: The Century Foundation, *Parent PLUS Borrowers: The Hidden Casualties of the Student Debt Crisis* (2022)

Nonprofit Alternatives to the Direct PLUS Loan Program

Federal loans are not the only source of student loan aid. State-based and nonprofit lenders often provide loans with lower rates than federal student loans. A 2017 study found that almost 60 percent of graduate loan borrowers could have borrowed a private loan with a lower interest rate than any federal student loan, and more than 80 percent could have borrowed a private loan with a lower interest rate than the Direct PLUS loan program.²²

State-based and nonprofit student loan providers are often able to offer lower rates to borrowers because they are mission-driven to help students and they have access to tax-exempt financing. Families considering whether to borrow from the Direct PLUS program should research nonprofit organizations to determine whether they may have a more affordable option available to them.

Federal Policy Recommendations

Apply Truth in Lending Act disclosure requirements to federal student loans

Require federal student loans to comply with the disclosures mandated in the Truth in Lending Act that private education lenders must follow. Requiring these disclosures would protect all student borrowers and allow them to compare APRs across all student loan programs.

Institute Direct PLUS Loan program limits

Apply limits to the amount that parents, graduate students, and professional students can borrow through the Direct PLUS program. The current maximum – the total cost of attendance minus financial aid – allows students and parents to borrow very large loans that may be difficult to repay. Saddling students with debt they cannot afford is an unfair, deceptive, and abusive act.

Increase support for students from disadvantaged backgrounds while implementing stricter credit criteria

Congress should strengthen the adverse credit check for Direct PLUS Loan program applicants and simultaneously provide higher loan limits to the dependent students whose parents failed to qualify for the new parent PLUS standard. Congress should also consider providing a Pell Grant bonus to those students with a -\$1,500 Student Aid Index, which can safeguard access to higher education and reduce the need for families to use debt to finance their education.

Modify preferred lender list rules

Congress should overhaul the preferred lender list restrictions that limit awareness of state-based and nonprofit private student loans that are equal to or more generous than the federal student loan programs.

- ¹ Tretina, K. and Hahn, A. (Forbes, 2022). What Happens If You Don't Pay Parent PLUS Loans? Retrieved from <https://www.forbes.com/advisor/student-loans/what-happens-if-you-dont-pay-parent-plus-loan/>.
- ² Granville, P. (The Century Foundation, 2022). Parent PLUS Borrowers: The Hidden Casualties of the Student Debt Crisis. Retrieved from <https://tcf.org/content/report/parent-plus-borrowers-the-hidden-casualties-of-the-student-debt-crisis/>.
- ³ In 2023 dollars.
- ⁴ Federal Student Aid. Title IV Program Volume Reports: Direct Loan Volume AY 1999-2000, Federal Family Education Loan Program AY 1999-2000, Direct Loan Volume AY 2022-2023 Q4. Retrieved from <https://studentaid.gov/data-center/student/title-iv>.
- ⁵ In 2023 dollars.
- ⁶ Federal Student Aid. Federal Student Aid Portfolio by Loan Type. Retrieved from <https://studentaid.gov/data-center/student/portfolio>.
- ⁷ Federal Student Aid. Title IV Program Volume Reports: Direct Loan Volume AY 1999-2000, Federal Family Education Loan Program AY 1999-2000, Direct Loan Volume AY 2009-2010 Q4, Federal Family Education Loan Program AY 2009-2010 Q4, Direct Loan Volume AY 2019-2020 Q4, Direct Loan Volume AY 2022-2023 Q4. Retrieved from <https://studentaid.gov/data-center/student/title-iv>.
- ⁸ In 2023 dollars.
- ⁹ Federal Student Aid. Title IV Program Volume Reports: Direct Loan Volume AY 1999-2000, Federal Family Education Loan Program AY 1999-2000, Direct Loan Volume AY 2022-2023 Q4. Retrieved from <https://studentaid.gov/data-center/student/title-iv>.
- ¹⁰ In 2023 dollars.
- ¹¹ Federal Student Aid. Federal Student Aid Portfolio by Loan Type. Retrieved from <https://studentaid.gov/data-center/student/portfolio>.
- ¹² U.Federal Student Aid. Title IV Program Volume Reports: Direct Loan Volume AY 1999-2000, Federal Family Education Loan Program AY 1999-2000, Direct Loan Volume AY 2009-2010 Q4, Federal Family Education Loan Program AY 2009-2010 Q4, Direct Loan Volume AY 2019-2020 Q4, Direct Loan Volume AY 2022-2023 Q4. Retrieved from <https://studentaid.gov/data-center/student/title-iv>.
- ¹³ Baum, S, Blagg, K., and Fishman, R. (Urban Institute, 2019). Reshaping Parent PLUS Loans: Recommendations for Reforming the Parent PLUS Program. Retrieved from <https://www.urban.org/research/publication/reshaping-parent-plus-loans-recommendations-reforming-parent-plus-program>.
- ¹⁴ U.S. Department of Education (2023). Data on Older Borrowers and Parents. Retrieved from <https://www2.ed.gov/policy/highered/reg/hearulemaking/2023/data-on-older-borrowers-and-parents-session-2.pdf>.
- ¹⁵ Granville, P. (The Century Foundation, 2022). Parent PLUS Borrowers: The Hidden Casualties of the Student Debt Crisis. Retrieved from <https://tcf.org/content/report/parent-plus-borrowers-the-hidden-casualties-of-the-student-debt-crisis/>.
- ¹⁶ Krupnick, M. (Newsweek, 2021). Parent Loans 'Fraught With Peril' As Default Rates Hit 20, 30 Percent at Many Colleges. Retrieved from <https://www.newsweek.com/2021/07/30/parent-loans-fraught-peril-default-rates-hit-20-30-percent-many-colleges-1610943.html>.
- ¹⁷ Granville, P. (The Century Foundation, 2022). Parent PLUS Borrowers: The Hidden Casualties of the Student Debt Crisis. Retrieved from <https://tcf.org/content/report/parent-plus-borrowers-the-hidden-casualties-of-the-student-debt-crisis/>.
- ¹⁸ Looney, A. and Yannelis, Constantine (2018). Borrowers with Large Balances: Rising Student Debt and Falling Repayment Rates. Retrieved from https://www.brookings.edu/wp-content/uploads/2018/02/es_20180216_looneylargebalances.pdf.
- ¹⁹ Fletcher, C., Webster, J., and Di, W. (2020). PLUS Borrowing in Texas: Repayment Expectations, Experience, and Hindsight by Minority-Serving Institution Status. Retrieved from <https://www.trelliscompany.org/wp-content/uploads/2020/01/parent-plus-borrowing-study.pdf>.
- ²⁰ Jackson, V., Williams, B., and Mustafa, J. (The Education Trust, 2023). Parent PLUS Loans are a Double-Edged Sword for Black Borrowers. Retrieved from https://edtrust.org/wp-content/uploads/2014/09/Parent-PLUS_Brief_V6.pdf.
- ²¹ Granville, P. (The Century Foundation, 2022). Parent PLUS Borrowers: The Hidden Casualties of the Student Debt Crisis. Retrieved from <https://tcf.org/content/report/parent-plus-borrowers-the-hidden-casualties-of-the-student-debt-crisis/>.
- ²² Bhole, M. (2017). Why do federal loans crowd out the private market? Evidence from graduate PLUS loans. Retrieved from https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3080691.