

# *Financing Options for Students and Parents 2012-13*

Since 2001, grants have replaced student loans in the Princeton financial aid package for all aid recipients. No Princeton student is required to borrow to meet their determined financial need.

While this policy has made it possible for many students to graduate Princeton with little or no debt, some families may wish to take advantage of the various loan options available to help finance the cost of college. This guide is designed to help you understand these options and, if you decide to request a student or parent loan, find the best type of loan to meet your needs. The informational chart included at the end of this guide will help you compare the terms and conditions of the loans discussed below.

It is the policy and practice of the Undergraduate Financial Aid Office to help students minimize the need to borrow whenever possible, and to assist students and parents in selecting the most beneficial type of loan available once the decision to borrow has been made. Since loans are not required in the Princeton financial aid package, any student or parent who borrows does so at their own initiative.

We recommend that you contact us to discuss your financing options before applying for a student or parent loan.

## *Student Loans*

Student borrowing falls into two general categories.

1. **Need-based loans:** These loans typically replace the student earnings requirement in the aid package or cover an educational expense not included in the basic student budget. A financial aid counselor must determine your eligibility for need-based loans.

Common reasons for requesting a need-based student loan include:

- to cover a shortfall in expected summer savings
- to replace all or part of the campus job portion of the aid package
- to pay for an extra expense, such as the purchase of a personal computer or other educational costs that exceed the basic budget

Need-based student loans qualify for an interest subsidy during in-school periods. This means interest is not charged to the student, and is not added to the amount borrowed, while the student is enrolled. Interest charges begin after the student ceases to be enrolled. The interest subsidy, generally low rates and in some cases the lack of an origination fee, make need-based student loans your most favorable option if you qualify.

Princeton offers subsidized need-based loans only after federal eligibility has been exhausted.

Need-based student loans described in the chart at the end of this brochure include the following:

- Federal Perkins Loan
- Direct Subsidized Stafford Loan
- Princeton Subsidized Student Loan

**2. Non need-based loans:** These loans typically replace the expected parental contribution as determined by the aid office, and therefore finance a portion of the family's payment rather than meet demonstrated need in the aid package.

Students may request a non need-based loan when a portion of the parental contribution is not available, or as part of an overall family financing plan that includes a decision to have the student assume some educational debt. Since these loans are non need-based, students who applied for aid but did not qualify may also use the programs.

Non need-based student loans do not offer an interest subsidy during enrollment periods. Interest must either be paid annually or added to the loan principal. It is therefore important for aid students to contact the aid office to determine their eligibility for more favorable need-based loans before requesting an unsubsidized loan.

While there is a clear hierarchy in the assignment of federal versus Princeton need-based loans, the assignment of non-need based loans takes other factors into account. These include, but are not limited to, the student's prior borrowing history and whether a family has applied for need-based aid. Students are strongly encouraged to discuss their options with a financial aid counselor before borrowing.

Non need-based student loans described in the chart at the end of this brochure include the following:

- Direct Unsubsidized Stafford Loan
- Princeton Unsubsidized Student Loan
- Alternative Student Loan

**A note about alternative loans:** These commercial loans (sometimes referred to as "private loans") are credit-based and should be viewed as a last resort after all other borrowing options have been considered. Although terms and rates vary among private lenders, in many cases a federal student loan may provide the student with more beneficial terms and conditions than private loans. The benefits of federal loans may include a fixed lower annual percentage rate, fewer and lower fees, and more favorable repayment options. If you initiate an alternative student loan application, the Princeton University Financial Aid Office will contact you before certifying the loan to review other options that may be available to you. If a student or parent chooses to borrow an alternative loan, Princeton does not require the use of particular lenders or in any way limit their choice of lenders. Further, Princeton does not recommend lenders or maintain a "preferred lender" list.

## Parent Loans

There are two primary long-term education loans available to Princeton parents, as well as a short-term monthly installment loan.

**1. Princeton Parent Loan Program (PPL):** This University program offers parents who qualify the opportunity to borrow their share of Princeton's costs and make repayments over a maximum 14-year period. Both aid and non-aid families may apply, and a review of creditworthiness is required. A sample repayment schedule is shown on Table 1.

In recent years, the PPL has been a favorable financing option available exclusively to Princeton parents. You can compare PPL rates and terms with the PLUS Loans for parents on the chart at the end of this section.

*Note: The exact interest rates (fixed and variable) are not set until July 15 and January 15. If after learning of the interest rates you choose not to proceed with the PPL, you may withdraw your application without penalty. More information about the PPL can be found on the Web at [www.princeton.edu/parentloans](http://www.princeton.edu/parentloans) or by calling 609-258-6401.*

**Table 1. PPL Sample 14-Year Repayment Schedule**  
(This example uses a 6% annual interest rate)

| <i>Annual amount borrowed</i> | <i>Four-year total</i> | <i>Monthly payment</i> |
|-------------------------------|------------------------|------------------------|
| \$10,000                      | \$40,000               | \$319                  |
| \$15,000                      | \$60,000               | \$479                  |
| \$20,000                      | \$80,000               | \$639                  |
| \$25,000                      | \$100,000              | \$799                  |
| \$30,000                      | \$120,000              | \$959                  |
| \$35,000                      | \$140,000              | \$1,118                |
| \$40,000                      | \$160,000              | \$1,278                |
| \$50,000                      | \$200,000              | \$1,597                |

**2. Direct PLUS loan program:** The Direct PLUS program is another option for both aid and non-aid families to finance the parental share of Princeton's costs. Fees of up to 4% may be charged by the Direct Loan Program, and the fixed interest rate can be compared with other options on the chart below. The PLUS loan is credit-based. More information about the Direct PLUS Loan can be found on the Web at [www.studentloans.gov](http://www.studentloans.gov).

**Table 2. Parent Loan Comparison**

| <i>Parent loan type</i>       | <i>2011-12</i>       |             | <i>2010-11</i>       |             | <i>2009-10</i>       |             |
|-------------------------------|----------------------|-------------|----------------------|-------------|----------------------|-------------|
|                               | <i>Interest rate</i> | <i>Fees</i> | <i>Interest rate</i> | <i>Fees</i> | <i>Interest rate</i> | <i>Fees</i> |
| <b>Princeton Parent Loan*</b> |                      |             |                      |             |                      |             |
| Fixed rate                    | 4.9%                 | None        | 5.44%                | None        | 5.9%                 | None        |
| 6-month variable fall         | 1.24%                | None        | 1.55%                | None        | 1.7%                 | None        |
| 6-month variable spring       | 1.61%                | None        | 1.31%                | None        | 1.18%                | None        |
| <b>Direct PLUS Loan</b>       |                      |             |                      |             |                      |             |
| Fixed rate                    | 7.9%                 | 4%          | 7.9%                 | 4%          | 8.5%                 | 4%          |

\*Interest rates for the 2012-13 Princeton Parent Loan will be set on or about July 15, 2012 and January 15, 2013.

**3. Princeton Monthly Payment Plan:** This University monthly installment loan is a short-term financing option allowing parents to make 12 monthly payments with interest, rather than two semester payments at no interest charge. The 2012–13 interest rate is 2.25%.

## *Lenders*

1. Princeton University acts as lender for the following types of loans:

- Federal Perkins Student Loan (a federal loan administered by Princeton)
- Princeton Subsidized Student Loan
- Princeton Unsubsidized Student Loan
- Princeton Parent Loan program
- Princeton Monthly Payment Plan

Princeton does not charge application fees for any of these loans. Current terms and rates are listed on the attached chart. Loans made by Princeton to students or parents are not sold to other financial institutions; as such, repayment is made to Princeton. With the exception of the Federal Perkins Loan, loans made by Princeton cannot be consolidated with loans obtained from other financial institutions. Application for Princeton loans is made directly through Princeton's Undergraduate Financial Aid Office, or the Princeton Parent Loan Office. Educational Computer Systems, Inc. has been contracted by Princeton University to assist in the administration of the student loans listed above; however, the University remains the loan holder at all times.

2. The federal Direct Loan Program acts as lender for the following types of loans:

- Direct Subsidized Stafford Loan
- Direct Unsubsidized Stafford Loan
- Direct PLUS loan for parents

Interest rates and fees for the Direct Loan Program are determined by the federal government. Princeton students and parents may learn more about the Direct Loan application process by contacting the Office of Undergraduate Financial Aid.

3. Alternative student loans (sometimes referred to as “private loans”) are offered by private banks and lending institutions. Lenders are required to provide a full disclosure of the terms of these loans, including how interest rates are determined. In addition, alternative loan marketing materials should encourage students to consider more favorable loan options such as the federal student and parent loans before borrowing. As stated before, a federal student loan may provide the student with more beneficial terms and conditions than private loans, including a fixed, lower annual percentage rate, lower fees, and more favorable repayment options. Princeton strongly recommends you speak with an aid counselor before applying for an alternative loan.

Additional information on all of the loans mentioned in this publication is available in the Undergraduate Financial Aid Office.

## **Undergraduate Financial Aid**

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**Table 3. Student Loans**

| <i>Student loan type</i>            | <i>Description</i>  | <i>Interest rates</i>   | <i>Costs</i>                                 | <i>Borrowing limits</i>  | <i>Repayment period</i>  |
|-------------------------------------|---|---|--|--|--|
| <b>Need-Based:</b>                  |   |   |  |  |  |
| Federal Perkins Loan                | Federally subsidized need-based student loan                                  | Fixed: 5% charged during repayment  | No fees                                      | \$5,500 annually<br>Total undergraduate: \$27,500  | Begins 9 months after borrower leaves school, maximum 10-year repayment term           |
| Direct Subsidized Stafford Loan     | Federally subsidized need-based student loan                                  | Fixed: 3.4% charged after enrollment ceases   | 1% origination fee at disbursement           | 1st yr: \$3,500<br>2nd yr: \$4,500<br>3rd yr: \$5,500<br>4th yr: \$5,500<br>Total undergraduate: \$23,000  | Begins 6 months after borrower leaves school, maximum 10-year repayment term           |
| Princeton Subsidized Student Loan   | University subsidized need-based student loan                                 | Fixed: 5% charged during repayment  | No fees                                      | Determined by financial aid office   | Begins 9 months after borrower leaves school, maximum 10-year repayment term           |
| <b>Non-Need-Based:</b>              |   |   |  |  |  |
| Direct Unsubsidized Stafford Loan   | Federal student loan not based on need, no in-school subsidy                  | Fixed: 6.8%   | 1% origination fee at disbursement           | 1st yr: \$5,500*<br>2nd yr: \$6,500<br>3rd yr: \$7,500<br>4th yr: \$7,500<br>Total undergraduate: \$31,000 | Begins 6 months after borrower leaves school, maximum 10-year repayment term           |
| Princeton Unsubsidized Student Loan | University student loan not based on need, no in-school subsidy               | Fixed: 7% charged annually  | No fees                                      | \$5,500 annually   | Begins 9 months after borrower leaves school, maximum 10-year repayment term           |
| Alternative Loans                   | Credit-based, private loans for students. No in-school subsidy or needs test. | Variable: tied to a market index (Prime, Libor, etc.) plus up to 10 points. Typical range is 4% to 18%. | Fees range from 0–11% of the loan principal. | Cost of education minus student aid  | Typically begins 6 months after borrower leaves school, maximum 10-year repayment term |

\*Unsubsidized Stafford limits are reduced by any subsidized Stafford. The maximums reflect the total annual Stafford — both subsidized and unsubsidized. The terms described above are informational only. Rates and terms may change.

**Table 4. Parent Loans**

| <i>Parent loan type</i>        | <i>Description</i>   | <i>Interest rates</i>  | <i>Costs</i>                       | <i>Borrowing limits</i>             | <i>Repayment period</i>                                   |
|--------------------------------|--|--|------------------------------------|-------------------------------------|---|
| Princeton Parent Loan          | University parent loan. Apply online: princeton.edu/parentloans                  | In 2011-12: 4.9% fixed rate or 1.61% variable rate. Interest rates for 2012-13 will be determined in July, 2012. | No fees                            | Cost of education minus student aid | Begins during enrollment, maximum 14-year repayment term  |
| Direct PLUS Loan               | Federal parent loan. Apply online: studentloans.gov                              | Fixed: 7.9%  | 4% origination fee at disbursement | Cost of education minus student aid | Begins during enrollment, maximum 10-year repayment term  |
| Princeton Monthly Payment Plan | University installment payment loan. Apply online: princeton.edu/studentaccounts | Fixed: 2.25%   | No fees                            | Cost of education minus student aid | Begins during enrollment, maximum 12-month repayment term |

\*The terms described above are informational only. Rates and terms may change.