

Debt Planning Worksheet for Borrowers from Federal PLUS and Private Loan Programs

Many parents and students borrow from the federal Parent Loan for Undergraduate Students (PLUS) Program and from private student loan programs in order to supplement federal student financial aid. Most of these programs make loans on the basis of the applicant's credit history and debt-to-income ratio. The criteria for determining whether an applicant is creditworthy are more stringent in private loan programs than in the Federal PLUS program.

This worksheet explains the credit history review process and will help you determine your debt-to-income ratio.

Your Credit History

In preparing to pay for college, you should maintain a good credit history which complies with industry standards. Check your credit history periodically to ensure that your records are accurate and up-to-date. Errors and inconsistencies can occur, particularly when a person's name or address changes. Resolve any problems as soon as you identify them. You may wish to check with your lender before you submit an application to determine whether there are any particular criteria (beyond the industry standards) that you will need to meet.

Some lenders also allow you to get a preliminary approval for a loan. This means that the lender will check your credit history and let you know if you are eligible for the loan. You then submit an application to complete the loan process.

Your Debt-to-Income Ratio

Calculating your debt-to-income ratio is one way that a lender determines how much additional debt you can handle, based on your current income and obligations. The worksheet on the back explains how to compute your own debt-to-income ratio. The industry standard, as reflected in the worksheet, is 38 percent. However, some lenders maintain higher or lower ratios.

WORKSHEET

To compute your current debt-to-income ratio:

Step 1

	Current monthly gross income		_____
x	.38 industry standard for manageable debt	x	.38
=	Portion of monthly gross available for debt payments	=	_____

Step 2

	Monthly rent or mortgage payment		_____
+	Monthly car payment		_____
+	Minimum monthly payment on installment loan(s)		_____
+	Minimum monthly payment on all credit cards		_____
=	Total monthly payments	=	_____

Step 3

	38 percent of monthly gross (result from Step 1)		_____
-	Total monthly payments (result from Step 2)	-	_____
=	Available for additional monthly debt payment	=	_____

Ask your lender how much your minimum monthly payment will be for the supplemental loan you are considering. If that amount is larger than the amount remaining at the end of Step 3, you and your lender may have reason to be concerned about your ability to manage the added debt.