

# Consolidation "Tips"

A quick outline to help students understand some of the issues of student loan consolidation before July 1, 2006

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## Purpose

This document is intended to provide a “high level” outline of information on the student loan consolidation program during the months prior to the activation of the Deficit Reduction Act of 2005. The information herein is valid through June 30, 2006.

*Note: many marketing companies with no legitimate student loan holdings or student interests have entered the consolidation arena to broker consolidation loans that will be sold to the highest bidder. These loans may be stripped of any “benefits” promised and leave the borrower with poor long-term financial consequences. Borrowers should contact their current lender to receive information, specific to the borrower’s situation, which will allow good consolidation decisions to be made.*

### Consolidation “Snap Shots”

- Student loan consolidation:
  - Reduces monthly payments, sometimes as much as 50%
  - Extends the term or the number of months or years the loan will be in repayment
  - Increases the total cost of the consolidated loans because of the extended term
  - Establishes a “fixed” interest rate
    - Good for the borrower in an increasing rate environment
    - Bad for the borrower in a falling rate environment
- When used with the understanding that extended repayment terms could mean more overall student loan cost, borrowers have the potential to gain significant savings through early payment of the loan balance.
- The following strategies could provide additional benefits of the consolidation program
  - Repayment Incentives offered by “legitimate” consolidators
  - One payment for all loans consolidated
- The chart below outlines the repayment terms available when consolidating student loans

Loan Balance	Extended Repayment Term
Less than \$7,500	10 years
\$7,500 to \$10,000	12 years
\$10,000 to \$20,000	15 years
\$20,000 to \$40,000	20 years
\$40,000 to \$60,000	25 years
\$60,000 or more	30 years

- The following elements could increase the total cost of the consolidation loan program:
  - Loss of original student loan repayment benefits
  - Loss of grace period for in-school consolidations
  - Fixed interest rate could mean increased cost in a falling interest rate environment; no one really can see the future with respect to interest rate changes
- The interest rate on consolidation loans
  - Weighted average of the interest rates on the loans being consolidated
  - Rounded up to the nearest 1/8 %
  - Capped at 8.25%
  - A legitimate consolidating lender will provide accurate interest rate information

- Borrowers can consolidate multiple times
  - New consolidation loan must include at least one unconsolidated loan
  - Reconsolidation does not allow one to “relock” the interest rates on an existing consolidation loan
  - Once the interest rate on a consolidation loan is fixed, it does not change
- Repayment on a consolidation loan will begin within 60 days of disbursement of the loan, unless the borrower qualifies for a deferment or forbearance.
  - Lenders normally provide deferments to currently enrolled students
  - Allows payments to be delayed until graduation
- Who Can Consolidate?
  - Students in repayment or during the loan grace period
  - Students currently enrolled in school but not in repayment or “grace” may consolidate if the consolidation is completed before July 1, 2006
- More on “in school” consolidation
  - Students must request and be granted early repayment status from their present lenders
  - Consolidation causes the loss of the grace period
  - Payments start sixty days after consolidation
  - Students must qualify for a deferment of payments or begin immediately repaying their loans
  - Students should contact their lenders to receive information on the most advantageous manner in which to utilize the “in school” consolidation process
  - Consolidation during grace does not affect the grace period. Graduating students should seek counsel with their lenders before consolidating... and the earlier the better to ensure the receipt of all applicable benefits
    - Financial benefit could be gained through lender specific programs for graduating students
    - The student’s lender is the most knowledgeable entity in these respects and should be contacted for specific strategies before the June 30 “sunset” provision removes the in school consolidation program

## Notice

- Consolidation of student loans can be confusing and detailed and consultation with a “respected” lender is important.
- As a general rule, lenders will only consolidate loans for students with loan balances of at least \$7,500 or greater. However, the USDE, Direct Loan program will consolidate loans with less than the \$7,500 minimum.
- For additional information or questions of a specific nature students should call the Ole Miss Financial Services Help Line representatives at 1-800-891-4596.

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