

# Basics of Consolidation

In this section we will cover some of the basics of consolidation. For more detailed information you could check out the Direct Loan Consolidation website at [www.loanconsolidation.ed.gov](http://www.loanconsolidation.ed.gov) or the AAMC website at [www.aamc.org](http://www.aamc.org). Remember consolidation is not for everyone.

## Current Issues/Concerns

What is loan consolidation?

Advantages & disadvantages

FFELP vs. Direct Loan

Consolidated Loan Interest Rate

Issues to consider before consolidating

## Current Issues/Concerns

We realize that some of you have been receiving information on loan consolidation in the mail from various sources. Unfortunately, we cannot advise, suggest or recommend you to consolidate or not, however you may want to do some research into consolidation.

It appears that some of you have received notices indicating a deadline date to lock in a low interest rate, however the interest rate on loans borrowed after 07/01/98 is 2.77% (for loans that are in grace period, in an in-school, or deferment status) and is good until June 30, 2005. Once again, please be advised that the interest rate on all loans taken after July 01, 1998 is 2.77% (for loans that are in grace period, in an in-school, or deferment status). These rates are good until June 30, 2005. The interest rate on loans borrowed prior to this date may vary.

If you are considering consolidating, you may want to wait until May 24<sup>th</sup> when the T-bill will be auctioned off again to determine what the new interest rates will be. If the T-bill is auctioned off at 2.77% or higher you will need to be prepared to complete and send in your consolidation application right away to take advantage of the current interest rate. If the T-bill is auctioned off at 2.77% or lower you may want to consider consolidating after July 01, 2005 when the new rate takes effect.

## What is loan consolidation?

Loan consolidation is when you take at least two federal loans and combine them into one new loan. It simply means paying off or refinancing multiple loans with one new loan.

## Advantages & Disadvantages

There are **six advantages** to consolidation:

- Fixed interest rate—rate is lower for student in an in-school, grace or deferment status.
- One lender and one monthly payment
- No fees or min./max. amounts to be eligible (this only applies to Direct Lending)
- Retention of subsidy
- Additional deferment options

- Flexible repayment options

### **Disadvantages**

- Fixed interest rate-You cannot later take advantage of a lower interest rate; you are locked in.
- May lose benefits associated with individual loans-incentives or discharges
- May lose deferment and forbearance provisions associated with individual loans

### **FFELP vs. Direct Loan Consolidation**

- FFELP is offered through “traditional lenders”-FFELP consolidation lenders compete against each other for the borrowers business

The federal government offers direct loan consolidation

- Direct loan competes with the FFELP lenders

### **FFELP Consolidation**

- Available to all Stafford borrowers, it doesn't matter if the loans are with FFELP or Direct Lending.
- Available only after school (during grace, deferment, forbearance, and “active” repayment)

### **Direct Loan Consolidation**

- Available for all Direct loan borrowers
- Available to FFELP borrowers out of school who either cannot obtain a consolidation loan with their FFELP lender or cannot obtain acceptable income sensitive repayment terms with their FFELP lender

### **Consolidation Loan Interest Rate**

The interest rate on a new consolidated loan is determined by taking the weighted average of the interest rates for loans being consolidated and round up to the next one-eighth of a percent. The new rate will be a fixed rate and will not exceed 8.25%.

### **Questions to Consider Before You Consolidate**

- Why do you want to consolidate?
- How long does your internship/residency take to complete?
- What benefits will I lose if I consolidate my individual loans into one bigger loan?
- What are the deferment options on the consolidated loan?