

Think Twice Before You Consolidate

Although federal loan consolidation is an option in managing repayment of your eligible federal student loans, it is not the right option for all borrowers, particularly for those who are simply trying to reduce their monthly loan payments. You should think twice before you consider consolidating any eligible loans. Other repayment options may better suit your needs.

Consolidation may not be right for you if:

- you have Federal Stafford and Federal PLUS Loans with fixed interest rates;
- you are eligible to extend repayment on your federal loans to 25 years without consolidating them; and/or
- you might qualify for any payment incentives on your Stafford and PLUS loans.

You may be able to save money in terms of your monthly loan payment and/or in the total amount you pay if you do **not** consolidate at least those federal student loans that have **FIXED** interest rates.

Here are answers to some questions that should be considered before you decide if federal loan consolidation is right for you.

Q.1 Should I consolidate?

A.1 There are a number of issues to consider before you decide if consolidating your eligible federal student loans is the right course of action (*and remember that loans must be in grace or in repayment to be eligible for federal loan consolidation*):

- **Do you qualify for the Extended Repayment Plan on your Federal Stafford and/or Federal PLUS Loans?**

Many borrowers qualify for the Extended Repayment Plan on their Federal Stafford and Federal PLUS Loans. That option provides a 25-year repayment period if you have more than \$30,000 in Federal Family Education Loan Program (FFELP) federal student loan debt, and you first borrowed a FFELP loan on or after October 7, 1998 or currently have no outstanding balance on FFELP loans that you may have borrowed prior to October 7, 1998. It allows you to reduce your monthly loan payment by extending the length of repayment without having to consolidate the loan(s).

For example, the monthly payment on \$50,000 in Federal Stafford Loan debt with an interest rate of 6.8% would be \$575 using the Standard Repayment Plan (fixed monthly payments) with a 10-year repayment period. Conversely, the monthly payment would be \$374, a reduction of \$201 per month, with Extended Repayment over 25 years.

Extending repayment on your current loan(s) rather than consolidating the debt also can save you money in the long run. This is because you will pay the debt off sooner and therefore pay less in total interest over the life of repayment with the maximum repayment period of 25 years using Extended Repayment compared to the maximum repayment period of 30 years with consolidation.

- **Do you qualify for any payment incentives on your Federal Stafford and/or Federal PLUS Loans?**

Lender payment incentives on Federal Stafford and Federal PLUS Loans may be more generous than those typically offered on Federal Consolidation Loans. These loan benefits, however, are usually lost if you consolidate the loans. For example, Access Group offers interest rate reductions on Federal Stafford and Federal PLUS Loans first disbursed on or after July 1, 2006 but before November 1, 2007, once borrowers have made their first scheduled payment as required that will be lost if the loans are consolidated. As a result, borrowers who expect to qualify for payment incentives on their Federal Stafford and/or Federal PLUS Loans likely are better off financially (both in terms of the monthly minimum payment amount and the total amount repaid) if they do not consolidate loans that qualify for these improved benefits.

- **Do you have Federal Stafford Loans with VARIABLE interest rates (those are Stafford loans that were first disbursed prior to July 1, 2006)?**

- If YES, consolidating your variable rate Federal Stafford Loans allows you to fix the interest rate on this federal student loan debt for the life of the loan. This could save you money if variable rates increase in the future over the current rate. There is no way of predicting how rates will change over time, so you must decide what is best for you. If you do decide to consolidate your loans that have variable interest rates so that you can lock in the rate for the life of repayment, you should consider when would be the right time to do so.

If market rates are trending downward as they are now, you likely would be better off waiting to see if that trend will continue so that you can lock in the lowest possible rate on your variable rate Federal Stafford Loan(s). That variable rate is equal to an index—the 91-day Treasury bill—plus a spread that depends on the status of the loan. On April 7, 2008, the 91-day Treasury bill was 1.47%. If variable rates were reset based on this value, the rate for Stafford Loans first disbursed from July 1, 1998 through June 30, 2006, would be as follows:

- Federal Stafford Loans with in-school, grace or deferment status: 3.17%
- Federal Stafford Loans in repayment or forbearance: 3.77%

In both cases, this is 3.45% less than current rates that are in effect until July 1, 2008.

Remember, interest rates for Federal Stafford Loans with a variable rate are adjusted only once each year on July 1. And we will not know the new rates until the end of May 2008. If rates fall on July 1, 2008, as we expect they may, you will have 12 months before rates change again. So, there is no need to consolidate now. You should wait at least until the end of May when the new rates will be known for the period July 1, 2008 through June 30, 2009. And if they are lower, then you have until July 1, 2009 before they are reset again. Of course, you also need to understand that if your loans are in their grace period the rate is 0.6% lower than it will be when the loans enter repayment, so you also will want to consider that when making your decision.

- If NO, the fixed interest rate structure of the Federal Consolidation Loan provides no advantage to you and so there is no need to consolidate.

Q.2 How do I put my loan(s) on the Extended Repayment Plan?

A.2 You should contact the current holder/servicer of your Federal Stafford/Federal PLUS loan(s) and request the Extended Repayment Plan. Remember, your loan(s) need to be in repayment or nearing the start of repayment, and you must be eligible for the Extended Repayment Plan (as described above). Note that you are permitted by current federal regulations to switch to the Extended Repayment Plan (provided you qualify for it) even if you are already on a different repayment plan.

Q.3 What if I decide I still want to consolidate my eligible federal student loan(s) but my current loan holder does not offer Federal Consolidation Loans?

A.3 If you still feel you need to consolidate your eligible federal student loans at this time, we suggest that you contact the Federal Direct Loan program. You can do so at their consolidation Web site: www.loanconsolidation.ed.gov.