

Successful Start and the Office of Student Services Present:

MANAGING YOUR STUDENT LOAN CONSOLIDATION

AGENDA

- ✖ Planning for repayment
- ✖ How consolidation works
- ✖ Consolidation Pros and Cons
- ✖ Consolidation process
- ✖ Additional resources

WHEN TO CONSOLIDATE

- ✖ NO DEADLINE FOR CONSOLIDATION- can apply at any time
- ✖ Consider applying during grace or deferment periods, variable rate loans are lower
- ✖ Borrowers with existing consolidation loans can create a second consolidation loan or add new loans to their existing consolidation loan
- ✖ Can request consolidation at the end of grace period

CONSOLIDATE CONSOLIDATION LOANS?

- ✗ Borrower has \$38,500 consolidated at 4.75% and has a new loan for \$38,500. What is the difference in monthly payments?

Amount	Interest Rate	Payment
\$38,500	4.75%	\$479
\$38,500	6.80%	\$201
TOTAL:		\$680

- ✗ If combined:

Amount	Interest Rate	Payment
\$77,000	5.875%	\$455

WEIGHTED INTEREST RATE CALCULATION STEPS

- ✖ Step 1: Multiply each loan amount by its interest rate
- ✖ Step 2: Add the multiplies sums together
- ✖ Step 3: Add the loan amounts together
- ✖ Step 4: Divide sum from Step 2 by sum from Step 3
- ✖ Step 5: Round up result from Step 4 to nearest $1/8^{\text{th}}$ amount

INTEREST RATE CALCULATE (1/8 OF A %)

× $1/8 = .125$

× $2/8 = .250$

× $3/8 = .375$

× $4/8 = .500$

× $5/8 = .625$

× $6/8 = .750$

× $7/8 = .875$

× $8/8 = \text{next full percent}$

SAMPLE INTEREST RATE CALCULATION

- ✖ Existing Loans:
 - + Subsidized Stafford: \$11,000 @ 6.80%
 - + Perkins Loan: \$5,000 @ 5.00%
 - + Previous consolidation: \$6,125 @ 4.88%
- ✖ Step 1:
 - + $\$11,000 \times 6.80\% = \$74,800$
 - + $\$5,000 \times 5.00\% = \$25,000$
 - + $\$6,125 \times 4.88\% = \$29,890$
- ✖ Step 2: $\$74,800 + \$25,000 + \$29,890 = \$129,690$
- ✖ Step 3: $\$11,000 + \$5,000 + \$6,125 = \$22,125$
- ✖ Step 4: $\$129,690 / \$22,125 = 5.862$
- ✖ Step 5: 5.875% is weighted average

US DEPT. OF EDUCATION NSLDS

- ✖ NSLDS= National Student Loan Data System
- ✖ Information about your Title IV federal loan(s) is stored in the NSLDS
- ✖ Toll-free telephone: 800-4FED-AID
- ✖ Website: nslds.ed.gov

CONSOLIDATION CHANGES

- ✕ Effective July 1, 2006:
 - + No more in-school consolidation
 - ✕ Borrowers must either be in grace period, deferment, or forbearance
 - + Single holder rule is eliminated
 - ✕ Borrowers are now able to shop around to all lenders and choose the incentives that best suit their needs

CONSOLIDATION REPAYMENT SCHEDULE

TOTAL BALANCE	TERM (YEARS)
\$9,999 or less	12
\$10,000- \$19,999	15
\$20,000- \$39,999	20
\$40,000- \$59,999	25
\$60,000 or more	30

*These are maximum repayment time frames; borrowers may choose a shorter schedule.

THE CONSOLIDATION PROCESS

- ✖ Borrower completes the consolidation application, listing all loans to be consolidated
 - + Information is at nslds.ed.gov
- ✖ Consolidation lender sends Loan Verification Certificates (LVCs) to loan holders to verify loan amounts
- ✖ Simultaneously, lender confirms borrower information on application

WHY CONSOLIDATE?

- ✖ To take advantage of fixed interest rate schedule on loans that are variable
- ✖ To reduce monthly loan payment and better manage monthly cash flow
- ✖ To have single-statement billing
- ✖ To become eligible for borrower benefits not offered by current lender, i.e. on-time payment incentives, auto-debit

CONSOLIDATIONS CONS

- ✖ Potential for increased cost over life of loan through extended repayment schedule
- ✖ Loss of current payment incentives
- ✖ Inability to reconsolidate if interest rates in future period are even lower than in current period
- ✖ Cannot (and should not) combine private loans with federal loans

REPAYMENT TIMELINES

- ✖ Repayment period begins following 6 month grace period on Stafford loans
- ✖ Standard repayment term is 10 years
 - + Longer plans are available
- ✖ Private loans have a 6 to 9 month grace period and a 15 to 30 year repayment period
- ✖ No prepayment penalty on student loans

CONSOLIDATION PROS

- ✖ Lower monthly payment, improving cash flow
- ✖ Minimize risk of missing a payment- all loans in one place
- ✖ End interest rate fluctuation and risk of interest rates increasing during repayment period
- ✖ Potential to reduce rate even further through repayment incentives
- ✖ Does NOT negatively impact credit score

PAYMENT PLAN COMPARISON

	STANDARD	GRADUATED REPAYMENT OPTION 1	GRADUATED REPAYMENT OPTION 2
PAYMENT:	\$248	\$122: 2 YEARS \$292: 8 YEARS	\$122: 2 YEARS \$207: 3 YEARS \$359: 5 YEARS
PAYOFF:	\$29,810	\$30,983	\$31,925

***ASSUMES \$20,000 BEGINNING BALANCE, UNSUBSIDIZED STAFFORD LOAN,
10-YEAR TERM, 6.80% INTEREST RATE

FEDERAL CONSOLIDATION LOAN

- ✖ Consolidate all or some federal loans
- ✖ Minimums (if any) determined by lender
- ✖ Up to 30-year repayment period
- ✖ No origination or guarantee fees
- ✖ Fixed interest rate for variable rate loans
 - + Weighted average rounded up to next 1/8th percent
 - + Rate cannot exceed 8.250%

THE CONSOLIDATION PROCESS

- ✖ Old loans are paid off, one new loan is created
- ✖ Subsidized and unsubsidized loans are separate
- ✖ Borrower receives an email once process is complete
- ✖ Repayment begins approximately 30 days after consolidation loan is complete

LOANS ELIGIBLE FOR FEDERAL CONSOLIDATION

- ✖ Federal Stafford Loan
- ✖ Federal Supplemental Loan for Students
- ✖ Federal Perkins Loan
- ✖ Parent PLUS Loan
- ✖ Health Professions Student Loan
- ✖ Loan for Disadvantaged Students
- ✖ Nursing Student Loan
- ✖ Health Education Assistance Loan
- ✖ Prior consolidation loans

PRIVATE LOAN CONSOLIDATION

- ✖ Generally NOT a good idea
- ✖ Loans already have an extended repayment schedule
- ✖ You will likely be charged origination fees again, adding to the balance of your loan
- ✖ Most programs do not have fixed interest rates
- ✖ Bottom line: DO NOT pay for the privilege of extending repayment on your private loans and **FOCUS ON PAYING DOWN PRIVATE LOANS FIRST!**

SELECTING A PAYMENT PLAN

- ✕ Standard (fixed) repayment
- ✕ Graduated repayment
- ✕ Income-sensitive repayment

***You're allowed to change your repayment plan!

CONSOLIDATION MARKETING CAMPAIGNS

- ✖ Very aggressive
- ✖ There are NO DEADLINES to consolidate, but keep in mind that interest rates change
- ✖ You are forming a long-term relationship that CANNOT be reversed- use a reputable consolidation company that gives you OUTSTANDING service
 - + DO NOT use a company that makes you feel pressured

QUESTIONS?

- ✕ www.bc.edu/successfulstart
- ✕ successfulstart@bc.edu