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

<table>
<thead>
<tr>
<th>Amount</th>
<th>Interest Rate</th>
<th>Payment</th>
</tr>
</thead>
<tbody>
<tr>
<td>$38,500</td>
<td>4.75%</td>
<td>$479</td>
</tr>
<tr>
<td>$38,500</td>
<td>6.80%</td>
<td>$201</td>
</tr>
<tr>
<td>TOTAL:</td>
<td></td>
<td>$680</td>
</tr>
</tbody>
</table>

If combined:

<table>
<thead>
<tr>
<th>Amount</th>
<th>Interest Rate</th>
<th>Payment</th>
</tr>
</thead>
<tbody>
<tr>
<td>$77,000</td>
<td>5.875%</td>
<td>$455</td>
</tr>
</tbody>
</table>
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 1/8th amount
INTEREST RATE CALCULATE (1/8 OF A %)

- 1/8 = 0.125
- 2/8 = 0.250
- 3/8 = 0.375
- 4/8 = 0.500
- 5/8 = 0.625
- 6/8 = 0.750
- 7/8 = 0.875
- 8/8 = 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 x 6.80% = $74,800
  - $5,000 x 5.00% = $25,000
  - $6,125 x 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
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

<table>
<thead>
<tr>
<th>TOTAL BALANCE</th>
<th>TERM (YEARS)</th>
</tr>
</thead>
<tbody>
<tr>
<td>$9,999 or less</td>
<td>12</td>
</tr>
<tr>
<td>$10,000- $19,999</td>
<td>15</td>
</tr>
<tr>
<td>$20,000- $39,999</td>
<td>20</td>
</tr>
<tr>
<td>$40,000- $59,999</td>
<td>25</td>
</tr>
<tr>
<td>$60,000 or more</td>
<td>30</td>
</tr>
</tbody>
</table>

*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
<table>
<thead>
<tr>
<th></th>
<th>STANDARD</th>
<th>GRADUATED REPAYMENT OPTION 1</th>
<th>GRADUATED REPAYMENT OPTION 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>PAYMENT:</td>
<td>$248</td>
<td>$122: 2 YEARS</td>
<td>$122: 2 YEARS</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$292: 8 YEARS</td>
<td>$207: 3 YEARS</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>$359: 5 YEARS</td>
</tr>
<tr>
<td>PAYOFF:</td>
<td>$29,810</td>
<td>$30,983</td>
<td>$31,925</td>
</tr>
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</table>

***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 1/8\textsuperscript{th} 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