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Pros and Cons of Student Loan Consolidation

Since students must reapply for student loans every year, many have multiple student loans when they graduate. This can make managing loan payments cumbersome and time-consuming. One possible solution is loan consolidation. Here's an introduction to loan consolidation—what it is, how it works, and the potential benefits and drawbacks.

What is loan consolidation?

Loan consolidation means combining student loans from one or many lenders into one new loan from a single lender. Loan consolidation won't reduce your overall debt, but it may make your current monthly payment more manageable. You can even use a consolidation loan for just one student loan.

What are the potential advantages?

- Consolidating your student loans can simplify your bill paying. You gain the convenience of making a single monthly payment to a single lender.
- You may lower your current monthly payment by extending the repayment term of your original loans. This can free up cash for other uses.
- You have just one loan to monitor and manage. You have one lender to contact if you have questions.
- With some lenders, you can both manage and repay your loan online.
- Some lenders offer an interest rate reduction when you make automatic payments from a checking or savings account.

Are there any potential drawbacks?

- You may pay more over the life of the loan. If you extend the repayment term of your original loan you'll add to its total cost, since you'll be paying more in interest.
- Your consolidation loan may offer different benefits than your original loans. You may lose eligibility for certain benefits you qualified for on the original loans if they are consolidated.
- After consolidating your loans, you cannot reverse the process. Your original loans are paid in full and you cannot reinstate them.

Pros and cons of student loan consolidation (continued)

May I consolidate both federal and private student loans?

You can consolidate both types of student loans. *However*, many financial experts strongly recommend that you consolidate your federal loans and private loans separately. Consider the following about federal and private student loan consolidation:

Federal Student Loan Consolidation

- Any borrower who has at least one eligible federal loan, either through the Direct Loan program or Federal Family Education Loan Program, is eligible for a Federal Consolidation Loan.
- When you consolidate federal student loans, the interest rate on your new loan will be based on the weighted average of the interest rates on loans you are consolidating, rounded to the nearest higher one-eighth of one percent, not to exceed 8.25 percent. This rate is fixed and will not change over the life of the loan.
- Borrowers who took out Federal Stafford Loans before July 1, 2006 have loans with a variable interest rate. Consolidating those loans will give them a fixed interest rate loan.
- When you choose which loans to include in your Federal Consolidation Loan, consider any benefits you may lose on other loans. For example, some lenders offer an interest rate reduction after a borrower makes a certain number of on-time payments. Borrowers may not receive that same benefit with a Federal Consolidation Loan.
- If you consolidate through the Federal Direct Loan program, you may be eligible for a public service loan-forgiveness program.
- For more information about the Federal Loan Consolidation Program, visit **www.loanconsolidation.ed.gov**.

Private Student Loan Consolidation

- Borrowers who have one or more private student loans can consolidate with a private consolidation loan through a private lender like a bank. Most lenders offer private consolidation loans with a variable interest rate based on the applicant's credit. This interest rate may rise or fall over the life of the loan.
- Because private consolidation loans are based on credit, you may need a cosigner for a portion or all of the loan term. Some lenders may offer an option to release the cosigner if the primary borrower meets certain guidelines.
- If you and your spouse both have private student loans, you may be able to consolidate your collective private student loan debt if your lender offers joint consolidation.

What are the minimum and maximum amounts I can consolidate?

These vary by lender. Ask your lender for details.

Pros and cons of student loan consolidation (continued)

What other factors should I consider?

- Be sure to compare your original loans with the potential consolidation loan to decide which is better for you financially. Some lenders offer online loan consolidation calculators that allow you to estimate your new payments.
- Take some time to comparison shop for your loan with several lenders.
- Ask whether your new loan will have a prepayment penalty. If not, you can choose to repay your loan faster without incurring a fee.
- Find out when you will need to begin repaying your new loan.
- Before you sign any loan agreement, be sure to read it, including the fine print. Make sure you understand the terms and the costs. It's very important to be comfortable with your lender and make sure you fully understand everything about your loan before you sign. If you're unsure, don't sign—and seek advice.

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