



# Consolidation

Federal Family Education Loan

An Option for Managing  
Federal Student Loan  
Repayment

# What You Need to Know

- **What is consolidation?**
- **Why should I consolidate?**
- **When should I consolidate?**
- **Which loans can I consolidate?**
- **What lender should I choose?**
- **How do I consolidate?**
- **What if I've already consolidated before?**



# What is consolidation?

## Consolidation is . . .

- **Paying off one or more eligible federal education loans by borrowing a new federal education loan**
- **All federal student loans except the Primary Care Loan (PCL) are eligible for consolidation**
- **Not loan serialization**

# Stafford vs. Consolidation

*What are the differences?*

## **FFELP Consolidation Loan differs from FFELP Stafford Loan in 3 primary ways**

- Consolidation loan has fixed rather than variable interest rate on Federal Stafford/Federal Direct Loans borrowed prior to 7/1/06**
- Consolidation loan has NO grace period**
- Consolidation loan has potential for longer repayment term**

**Everything else is the same, e.g., deferments (including subsidy), forbearance options, repayment options, no prepayment penalty, discharge provisions**



Why should you  
consolidate?

# Reasons to Consolidate

- **To reduce monthly loan payment**
  - ❑ **Increases monthly cash flow**
- **To have single statement billing**
  - ❑ **Increases convenience**
- **To take advantage of fixed interest rate structure**
  - ❑ **Can reduce long-term cost**

# Federal Stafford Loan

## *Fees and Costs*

### 2005-2006 interest rate (*variable*)

- In-school, grace, deferment

$$91\text{-day T-Bill (3.00\%)} + 1.7\% = 4.70\%$$

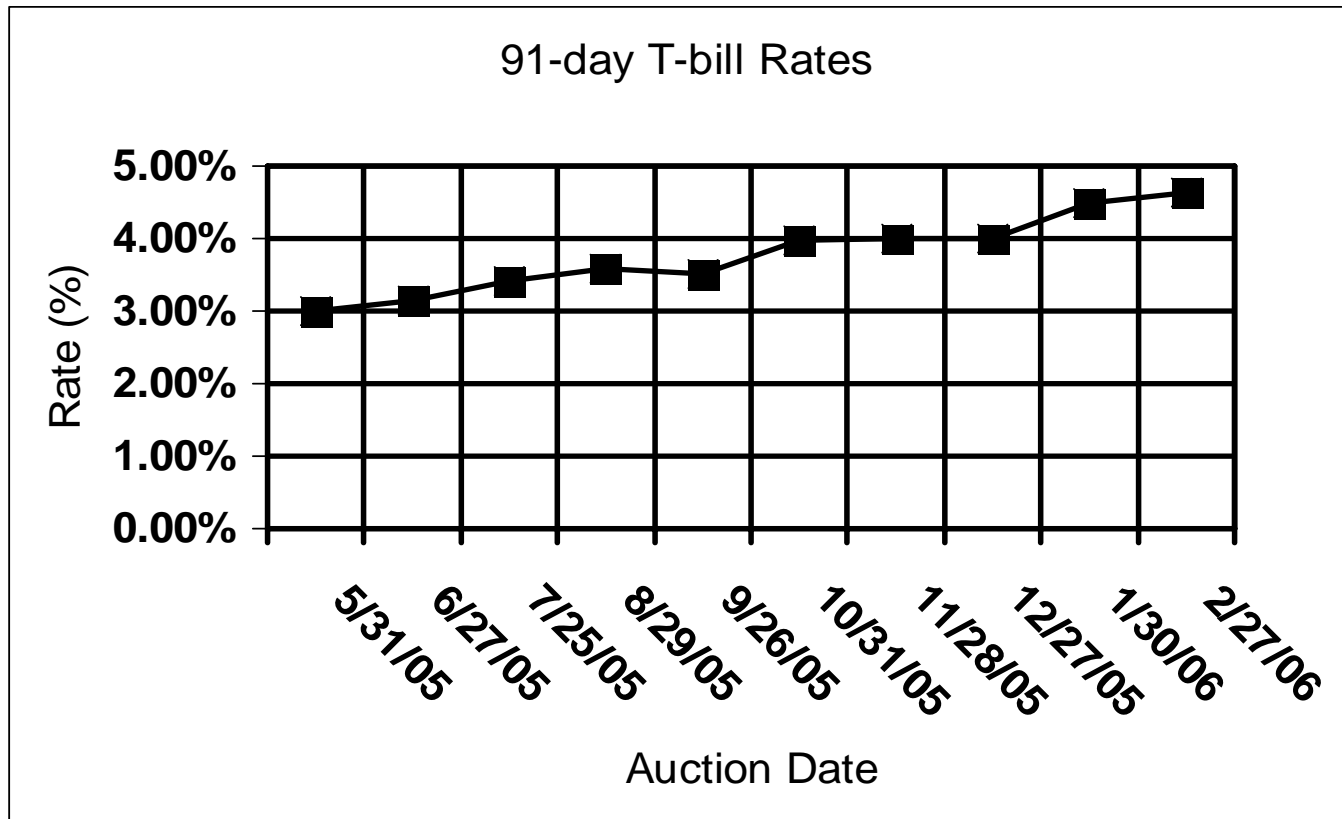
- In-repayment, forbearance

$$91\text{-day T-Bill (3.00\%)} + 2.3\% = 5.30\%$$

- Maximum rate = 8.25%



# Recent 91-day T-bill Rate Trends



**Source:** “Treasury Security Auction Results.” U.S. Department of the Treasury, Bureau of the Public Debt, Washington, DC.

What would be the 2006-2007 interest rates if set as of 2/27/06?

**Assuming 91-day T-bill = 4.62%**

- **Stafford variable in-school rate = 6.32%**
  - ❑ **Consolidation fixed rate = 6.375%**
- **Stafford variable repayment rate = 6.92%**
  - ❑ **Consolidation fixed rate = 7.00%**

**1.625% increase over 2005-2006 fixed rates**

# Costs of Consolidation

## *Fees and Interest Rates*

- **No fees**
- **Interest rate:**
  - ❑ **FIXED rate**
  - ❑ **Weighted average of rates on loans being consolidated**
  - ❑ **Rounded up to nearest 1/8th percent**
  - ❑ **Capped @ 8.25%**
- **Lender may offer payment incentives**

# Sample Interest Rate Calculation

## Existing loans:

<b>Subsidized Stafford =</b>	<b>\$ 8,500 @ 4.70%</b>
<b>Unsubsidized Stafford =</b>	<b>\$10,000 @ 4.70%</b>
<b>Federal Perkins =</b>	<b>\$ 6,000 @ 5.00%</b>

Step 1:  $8,500 * 4.70 = 39,950$

$10,000 * 4.70 = 47,000$

$6,000 * 5.00 = 30,000$

Step 2:  $39,950 + 47,000 + 30,000 = 116,950$

Step 3:  $8,500 + 10,000 + 6,000 = 24,500$

Step 4:  $116,950 / 24,500 = 4.773$

Step 5: 4.875%

# General Repayment Terms

- **No grace period**
- **No prepayment penalty**
- **Up to 30 year repayment period**
- **4 repayment options**
- **Deferments and forbearance available**
- **Discharge provisions**



How is the maximum loan  
repayment term determined?

# Length of Repayment

<u>Total student loan balance in grace or repayment</u>	<u>Max. term*</u>
▪ Less than \$7,500	10 years
▪ \$7,500 - \$9,999	12 years
▪ \$10,000 - \$19,999	15 years
▪ \$20,000 - \$39,999**	20 years
▪ \$40,000 - \$59,999	25 years
▪ \$60,000 or more	30 years

\*Amount of other student loans used in calculating the total sum cannot exceed the loan amount you are consolidating [§682.209(h)]

\*\*Term may be extended for qualified borrowers using the Extended Repayment Plan

You are allowed to choose a SHORTER term



# Example #1

*What is the maximum term?*

**Suppose borrower has following:**

- \$20,000 federal loans to be consolidated**
- \$40,000 other loans not being consolidated**

**25 years**

**Borrower has \$60,000 total debt which you might think would allow for 30 year term, BUT:**

- Eligible “other debt” is only \$20,000**
- Total qualifying debt is  $\$20,000 + \$20,000 = \$40,000$**

## Example #2

*What is the maximum term?*

**Suppose borrower has following:**

- \$30,000 federal loans to be consolidated**
- \$40,000 other loans not being consolidated**

**30 years**

**Borrower has \$70,000 total debt, but:**

- Eligible “other debt” now is \$30,000**
- Total qualifying debt is  $\$30,000 + \$30,000 = \$60,000$**

# Cost of Consolidation

## *\$37,000 Loan*

<u>Term</u>	<u>Payment</u>	<u>Payoff</u>
▪ 10 Year	\$ 388	\$ 46,552
▪ 15 Year	\$ 288	\$ 51,803
▪ 20 Year	\$ 239	\$ 57,385
▪ 25 Year	\$ 211	\$ 63,284
▪ 30 Year	\$ 193	\$ 69,483

### Assumptions:

- ❑ \$37,000 Consolidated
- ❑ 4.750% fixed rate (*In-grace rate for 2005-06*)
- ❑ Standard payment plan; no payment incentives



When should you  
consolidate?

# When to Consolidate

- Loans must be in grace or repayment, but **NO** deadline for consolidating
- Be aware of trends in the 91-day T-bill used to set the variable interest rate
  - ❑ If increasing, consolidate before rate changes
  - ❑ If decreasing, consolidate after rate changes
- Consolidate in grace or deferment to take advantage of lower interest rate spread
- Can request processing be delayed until near end of grace period
  - ❑ **Must provide *Grace Period End Date* on application (Q.26)**

# Timing of Consolidation

## *Impact on Cost -- \$37,000 Loan*

***FCL app rec'd before 7/1/06***

In Grace

**\$60,000 debt**

**T-bill = 3.00% (2005-2006)**

**T-bill + 1.7% = 4.70%**

**Weighted fixed rate = 4.750%**

**Repayment term = 20 years**

**Monthly payment = \$239**

**Total repaid = \$57,385**

***FCL app rec'd after 7/1/06***

In Repayment:

**\$60,000 debt**

**T-bill = 4.62% (as of 2/27/06)**

**T-bill + 2.3% = 6.92%**

**Weighted fixed rate = 7.00%**

**Repayment term = 20 years**

**Monthly payment = \$287**

**Total repaid = \$68,847**

**Difference: \$48 per month**

**\$11,462 in total repaid**

# Consolidating While in School

There are two options until 7/1/06:

- **Can consolidate in FFELP, but borrowers must request that loans they are consolidating be placed in early repayment so that they are eligible for consolidation**

*OR*

- **Consolidate in Federal Direct Program, if eligible**

# In-School FFELP Consolidation

- **Request all loans with in-school status be placed in repayment**
  - ❑ **GRACE period is waived on loans**
  - ❑ **Once in repayment, request In-School Deferment**
- **Once in repayment (and deferment), Federal Consolidation Loan application can be processed**
  - ❑ **New FCL will be put in in-school deferment**

# Should you consolidate while in-school?

Consider the following:

- **FFELP Consolidation**
  - ❑ Lose grace period on loans being consolidated
  - ❑ May not qualify for full 30-year repayment term to inadequate loan levels
- **Direct Consolidation**
  - ❑ Not eligible for payment incentives offered by some FFELP lenders



Which loans can  
you consolidate?

# Eligible Loans

- **Federal Stafford Loan (GSL) (*FFELP or Direct*)**
- **Federal Supplemental Loan for Students (SLS)**
- **Federal Perkins Loan (NDSL)**
- **Parent Loan for Undergraduate Students (PLUS)**
- **Health Professions Student Loan (HPSL)**
- **Loan for Disadvantaged Students (LDS)**
- **Nursing Student Loan (NSL)**
- **Health Education Assistance Loan (HEAL)**
- **Prior consolidation loans (*FFELP or Direct*)**

**Primary Care Loan (PCL) is only federal student loan that cannot be consolidated**

# Is Consolidation Possible?

- **FFELP and Direct loans can be consolidated together into a single consolidation loan**
- **Private and institutional education loans CANNOT be included in a Federal Consolidation Loan**

# Is it wise to consolidate Federal Perkins Loans?

*Probably not:*

- **Loan already has a fixed interest rate of 5%**
- **Interest subsidy during deferments *lost* in FFELP consolidation**
- **Loan cancellation privileges *lost***



Which lender should  
you choose?

# Choosing a Lender

- **Start by contacting current holder(s)/ servicers of Federal Stafford/Direct Loans**
  - ❑ Beware of FFELP “Single Holder Rule” (SHR)
- **Consider:**
  - ❑ Do you have private loans with lender?
  - ❑ Do you already have a Federal Consolidation Loan with the lender?
  - ❑ Does lender offer payment incentives?
  - ❑ What is quality of customer service?
  - ❑ Does lender offer online customer services?
- **Ask financial aid administrator for advice**

# What is the Single Holder Rule?

- Rule applies to borrowers who want to consolidate FFELP loans
- If all FFELP loans are held by single lender/holder, borrower must first contact that holder to apply for Consolidation loan
- Borrower can only apply to a different lender if:
  - ❑ He/she tried, but was unable, to obtain a Consolidation loan from the current single lender/holder of FFELP loans
  - OR
  - ❑ Current single lender/holder declined to provide a Consolidation loan income sensitive repayment schedule
- Other federally guaranteed loans (e.g., Perkins) don't impact rule
- Refer to §682.201(c) in Code of Federal Regulations (CFR) for regulatory language
- Does NOT currently impact borrowers who want to consolidate in Federal Direct Loan Program



How do you  
consolidate?

# To Consolidate . . .

- **Choose a lender**
- **Obtain and complete necessary Federal Consolidation Loan application materials**
- **Make any required payments on loans being consolidated until consolidation is completed;**  
*process usually can take up to 60 days*

**Apply online for a Federal Consolidation Loan  
from Access Group at:  
*FederalConsolidation.Org***

## What You'll Need to Apply

- **Balances and interest rates of your current student loans**
- **Name(s) and address(es) of the companies that hold or service your federal student loans**
- **Names and addresses of two personal references *(must be U.S. addresses)***

# U.S. Department of Education

## *National Student Loan Data System (NSLDS)*

**Go to the NSLDS if you need information about your federal student loans to complete you Consolidation application**

- **Toll-free telephone**
  - ❑ **800-4-FED-AID**
- **Web site**
  - ❑ ***[www.nsls.ed.gov](http://www.nsls.ed.gov)***



What if I've already  
consolidated before?



Question:

**Can I consolidate again?**

Answer:

**YES, if you:**

- Have eligible federal student loans to consolidate that have not already been consolidated, AND**
- Loans you want to consolidate are in grace or repayment (including deferment or forbearance)**

## Question:

**What options exist following graduation to postpone repayment of an in-school Federal Consolidation Loan (FCL)?**

## Answer:

- Deferments . . .**
  - **Economic Hardship**
  - **Unemployment**
  - **Graduate Fellowship**
- Forbearance**

## Consolidating Newly Disbursed Loans *Options For Borrowers With An Existing FCL*

- ***Option A:* Add new loans to existing FCL within 180 days**
- ***Option B:* Borrow additional FCL for new loans; retain existing FCL as separate loan**
- ***Option C:* Borrow new FCL, consolidating both new loans and existing FCL together**

# Consolidating Newly Disbursed Loans

*What option is best?*

**"Best" option depends on what's most important to you . . .**

- **Convenience**
- **Retaining the grace period**
- **Maximum repayment term**
- **Ability to target prepayment(s)**
- **Least cost**

# When CONVENIENCE Is Most Important

In-School Borrower

- **Either Option A or C**

Graduating Borrower

- **Either Option A or C**

- **Both options result in one FCL**
- **One FCL means:**
  - **one billing statement**
  - **one monthly payment**

# When Retaining the GRACE Period Is Most Important

## In-School Borrower

- **Neither option—should NOT consolidate**
- **Borrower must put loan(s) in early repayment to consolidate**
- **Early repayment requires that grace period be waived**

## Graduating Borrower

- **Either Option B or C**
- **Must enter grace period end date on Question 26 of new FCL application**
- **Still can retain pre-July 1 rate if application received prior to 7/1/06**
- **Does not affect the FCL that already exists because that loan does not have a grace period**

# When Maximum Repayment TERM Is Most Important

## In-School Borrower

- **Either Option A or C**

## Graduating Borrower

- **Either Option A or C**

- **Both options result in one FCL**
- **Combining loan balances into one FCL allows maximum amount of borrower's eligible debt to be considered in calculating maximum term**

# When Targeting PREPAYMENTS Is Most Important

In-School Borrower

- **Option B**

Graduating Borrower

- **Option B**

- **Prepayments should be targeted at loan with highest interest rate to maximize savings in future interest expense**
- **FCL with lower rate (e.g., 2.875%) can be kept separate from new FCL with higher fixed rate (e.g., 4.75%) in Option B**
- **Prepayments then can be targeted at FCL with higher rate; if there is only one FCL, there is no way to target prepayments**

# When LEAST COST Is Most Important

## In-School Borrower

- **Option B**
  - **Minimizes capitalization of accrued interest on existing FCL**

## Graduating Borrower

- **Very little difference among 3 options in:**
  - **total monthly loan payment**
  - **total amount paid over life of repayment**
- **Mathematics of weighted averages is the reason**

# Scenario

Graduating borrower has the following loan balances:

- **\$37,000 in-school Federal Consolidation Loan**
- **\$18,500 newly disbursed Federal student loans to be consolidated**
- **Eligible for 25 year repayment term on FCL (\*requires Extended Repayment Plan)**

**B**

Loan Amounts	Interest Rate	Monthly Payment	Total Payout
<b>\$37,000</b>	<b>2.875%</b>	<b>\$173.06</b>	<b>\$51,918.63</b>
<b>\$18,500</b>	<b>4.750%</b>	<b>\$105.47*</b>	<b>\$31,641.51*</b>
<b>TOTALS</b>		<b>\$278.53</b>	<b>\$83,560.14</b>
Loan Amount	Interest Rate	Monthly Payment	Total Payout
<b>\$55,500</b>	<b>3.375%</b>	<b>\$277.85</b>	<b>\$83,353.82</b>

**A/C**

# Access Group

## *Federal Loan Payment Incentives*

### Access OnTime

- 2% *interest rate reduction* after first 48 consecutive monthly on-time payments on Federal Stafford Loan
- 1% *interest rate reduction* after first 36 consecutive monthly on-time payments on Federal Consolidation Loan

### Access Automatic

- 0.25% *interest rate reduction* when loan payments made through Automatic Payment Transfer (ACH) on all Access Group loans

## For More Information

- **For the latest news about the Federal Consolidation Loan program go to Access Group's special Federal Consolidation Web site:**

❑ *[FederalConsolidation.Org](http://FederalConsolidation.Org)*

- **For an educational tutorial that covers the basic terms of a Federal Consolidation Loan, go to Access Group's WiseBorrower® Curriculum at:**

❑ *[AccessGroup.Org/WiseBorrower](http://AccessGroup.Org/WiseBorrower)*

*We're here to help you!*

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