

Frequently Asked Questions about Federal Loan Consolidation

What is the Federal Consolidation Loan?

The Federal Consolidation Loan allows borrowers to combine all of their federal loans into one new fixed rate loan. Interest rates are still very low, and borrowers who consolidate before July 1, 2006 will be able to lock in a fixed interest rate that may be as low as 4.75%

Why should I consolidate my loans?

Student loan consolidation allows you to:

- Lower your monthly payments by as much as half
- Lock in rates as low as 4.75% for the life of the loan
- Extend your repayment period up to as long as 30 years
- Have a convenient single source of student loan repayment

What are some reasons I shouldn't consolidate my student loans?

There are a few potential drawbacks. You will lose any payment incentives that your lender offers on non-consolidated loans. If you pay the minimum monthly payment on a consolidation loan you may pay more interest over the life of the loan than if you repaid over ten years. And you may only consolidate once, even if rates drop.

What happens if I consolidate after July 1, 2006?

On July 1, 2006 the rates on all student loans will change and will most likely increase significantly. Consolidating before July 1, 2006 locks in this year's low interest rates.

What will the different in my payment be if I wait?

The example below illustrates the difference between consolidating before July 1, 2006 and waiting. Our hypothetical borrower has a \$15,000 loan balance. (6.875% is the anticipated rate for 2006-07)

Interest rate	4.75%	6.875%
Monthly Payment	\$117	\$134
Total amount repaid	\$21,001	\$24,080

(The amounts above reflect no borrower incentives for on time payments. Payment amounts are based on a standard 15-year schedule.)

Is there a deadline to consolidate my loans?

No, you can consolidate your loans anytime. Keep in mind that if you consolidate after July 1, 2006 it is likely that your interest rate will be higher than it would be if you consolidated prior to that date. The choice is yours.

How do I pick a lender? I'm getting a lot of mail and phone calls.

If you have all of your federal loans with the same lender, you must consolidate with that lender. If your current lender does not offer a consolidation loan or an income sensitive option, you are free to choose any lender.

If multiple lenders hold your loans, you can consolidate with any lender. **However, you should never feel pressured to consolidate.** Since the federal government sets the rate formula, lenders can only compete on repayment incentives. Choose the lender that offers you the best service along with incentives. Remember, you are forming a relationship that may last as long as 30 years and **cannot be undone.** Choose carefully.

How much does it cost to consolidate my loans?

There are no fees for borrowers who wish to consolidate their loans.

Can I change my mind after my loans are consolidated?

Once your loans are consolidated, the process cannot be reversed or be reconsolidated, even if rates drop.

If my loans are in repayment, do I have to pay while the loans are being consolidated?

It is important that you continue to make all of your regular payments on the loans that you are consolidating until you receive your new loan repayment schedule in the mail.

How do you determine my new interest rate?

You will receive a fixed interest rate on your loan, based on the weighted average of the interest rates of the loans you are consolidating. To estimate your new interest rate, please visit www.uconsolidate.org.

ELIGIBILITY

Your loan balance must meet the lender's minimum (varies by lender) and be in the grace period, in repayment, deferment or forbearance, and cannot be in default. Students in school can waive their grace periods to consolidate prior to graduation. You can consolidate almost all federal loans. Visit www.uconsolidate.org for a complete listing.

What if I have already consolidated my loans?

You may add new loans to an existing federal consolidation loan. If you are just interested in obtaining a new fixed interest rate, you are not able to consolidate.

What if my loans are in a grace period?

You can apply for consolidation during your grace period. HOWEVER, repayment begins as soon as the loan is consolidated (which may take 30 – 45 days). The benefit of consolidating in your grace period is that your interest rate is 0.6% lower than it will be in repayment. You may request that the lender hold your application until the end of your grace period. You may need to make payments until you receive a notice that your loan has been consolidated.

Can I consolidate my private and federal loans together?

No, because they are two different types of loans. Generally speaking, rates remain variable on private loan consolidation, so there is no significant reduction in monthly payments.

How do I add a loan to my consolidation that I forgot to add?

You can add new federal loans to your consolidation loan within 180 days by contacting your consolidation lender.

REPAYMENT PLANS

What are my repayment plan options?

The repayment terms are 10-30 years depending on the amount of your student loan debt.

- Standard: The same payment amount for the length of repayment.
- Graduated: Interest-only payments for the first two years, then principal and interest for the remainder of the loan (amounts change every two years).
- Income Sensitive: The amount of your repayments will be adjusted annually between 4% and 25% of your total of your expected total monthly gross income. Contact your consolidating lender for more details.
- Extended Repayment: If you have loans totaling in excess of \$30,000, you may repay over a 25-year period on a fixed or graduated payment plan. To qualify, you must have borrowed your first federal loan on or after October 7, 1998.

When does repayment begin?

Repayment starts within 30 days of the consolidation loan's funding date. Once your loan has been funded, you will receive a repayment schedule from your loan servicer. You may lose part of your grace period if you consolidate early in your grace period.

Are there are penalties for paying off loans early?

There are absolutely no penalties for paying off your loan early. You will only be charged the interest that has accrued to date.

DEFERMENT & FORBEARANCE

What if I need to defer my Federal Consolidation Loan?

You may defer or forebear your Federal Consolidation Loan if you meet the eligibility requirements. Please contact your loan servicer to discuss your options and obtain the forms.

This information was prepared for you by MEFA at the request of Bentley Financial Aid Office. To learn if you are eligible for consolidation through MEFA, please call 800-449-MEFA or visit www.uconsolidate.org