

**Plain English Explanation of CONSOLIDATION LOANS**

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HOW CONSOLIDATION WORKS

Student loan CONSOLIDATION LOANS have rec'd a great deal of attention over the last few years because Stafford loans disbursed prior to 7/1/06 were variable interest rate loans, the rates went quite low (see attached "History of Student Loan Interest Rates"), and the only way to lock a low rate was through consolidation. Stafford loans disbursed on and after 7/1/06 have a locked rate of 6.8%, so fewer people are using consolidation loans to lock a low rate. However, CONSOLIDATION LOANS are still of interest because they can bring all of one's student loans into one loan and, depending upon the level of debt, the CONSOLIDATION LOAN may allow additional years of repayment.

| Total Indebtedness       | Repayment Length |
|--------------------------|------------------|
| Up to \$7,499.99         | 10 years         |
| \$7,500 to \$9,999.99    | 12 years         |
| \$10,000 to \$19,999.99  | 15 years         |
| \$20, 000 to \$39,999.99 | 20 years         |
| \$40,000 to \$59,999.99  | 25 years         |
| \$60,000 and above       | 30 years         |

There is no application fee when you consolidate, no credit check, no prepayment penalties and you retain your deferment and forbearance options. The subsidized dollars remain subsidized and the unsubsidized dollars remain unsubsidized.

When you consolidate you are refinancing your student loans and you are taking out a new loan called a CONSOLIDATION LOAN. Only federal student loans (including Perkins and PLUS for GRAD) can be included, **private student loans and other debts cannot be included.** The interest rate on the CONSOLIDATION LOAN will be the weighted average of the student loans included, rounded up to the nearest .125%. You choose the student loans you want to include.

To calculate what the monthly payment and total interest would be on a CONSOLIDATION LOAN go to:

➔ [www.csif.com/ConsolidationCalculator.htm](http://www.csif.com/ConsolidationCalculator.htm) ⬅

CONSIDER THE TOTAL AMOUNT OF INTEREST YOU WILL PAY

When you extend the number of years over which you repay you increase your overall interest costs. Lenders don't advertise it, but you can request a shorter repayment term. The mortgage loan calculator at [www.loan-calculators.com](http://www.loan-calculators.com) can show you the total amount of interest you will pay over different lengths of time.

## WHEN TO CONSOLIDATE

When a CONSOLIDATION LOAN is made you **lose your grace period**. Repayment (or a deferment if you apply for one) begins immediately.

If you include variable rate Stafford loans in the CONSOLIDATION remember that rates change on July 1 and time the CONSOLIDATION accordingly (see attached “History of Student Loan Interest Rates” for an explanation of how the rates are calculated). Also remember that the rate on variable rate loans goes up a little bit when they come out of grace.

Leave school in December – grace period ends in June.

Leave school in May – grace period ends in November.

## YOU CAN ONLY LOCK ONCE

If you include variable rate Stafford loans in a CONSOLIDATION and interest rates go down later you can't consolidate again in order to get a lower rate.

You can apply for another CONSOLIDATION LOAN if you go back to school and acquire more student loans. The second consolidation can include the prior CONSOLIDATION (and the interest rate will be the weighted average) or can just be made for the new loans.

## WHO SHOULD I CONSOLIDATE WITH?

Advertisements for CONSOLIDATION LOANS can be misleading. The interest rate, number of years to repay, and deferment options will be the same *no matter what lender you use* because the basic terms of the loan are set by Congress.

The only “items” to “shop” for are repayment incentives or loan discounts given by some lenders. For instance, a lender may offer a small reduction of your principal balance for making your CONSOLIDATION loan with them, or may offer .25% interest rate reduction for setting up automatic electronic payments. Ask if there is a minimum balance required to obtain these discounts. Also try to get a feel for the lender's customer service – this is a company you will be doing business with for years to come.

For a list of CONSOLIDATION lenders that offer incentives or discounts please see [www.finaid.org/loans/consolidationloandiscounts.phtml](http://www.finaid.org/loans/consolidationloandiscounts.phtml).

You can choose any lender for your consolidation.

## DISCLAIMER

This handout is meant only as a guide. As you consolidate your student loans, if you learn of information that other Naropa University students should be aware of, please pass it along to Karen Leinberger, financial aid counselor, at 303/546-3563, or [karenl@naropa.edu](mailto:karenl@naropa.edu).

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