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The Benefits of Federal Loan Consolidation

By Carleen Trapp

Each year, millions of students use federal student loans to finance their education. Federal loan consolidation is a program providing many benefits to borrowers. It is authorized by the Higher Education Act of 1965, which is the same act that allows for federal student loans. Also, like federal student loans, federal consolidations are guaranteed by the government, and they generally carry the same protections and benefits as your federal student loans. You do not need to consolidate your loans through the government, however. Private sector lenders do the majority of federal loan consolidations.

Perhaps the best reason to consolidate federal student loans is to receive a fixed interest rate. Many graduates do not realize that their federal Stafford and PLUS loans that were borrowed before June 30, 2006 will have variable interest rates until they consolidate. The interest rate for these loans is adjusted each year on July 1. Consolidating your loans ensures you will receive the lowest possible fixed interest rate for the life of your loan. Your loans will not be affected by yearly interest rate increases.

The fixed interest rate for a consolidation loan is based on the weighted average of the interest rates of the loans being consolidated, rounded up to the nearest one-eighth of a percentage point, not to exceed 8.25%. Your loan counselor can easily provide an estimate of what your consolidated interest rate will be. Locking in a low fixed interest rate helps to ensure the monthly payments will be as low as possible. Also, unconsolidated student loans typically have a loan term of 10 years. When you consolidate, this term is often extended to as long as 30 years, based on your total amount of student debt. By extending the repayment term, you will reduce the amount of your monthly payments. You will, of course, pay more in interest by using a longer time period to pay back your loan, but a federal consolidation loan has no prepayment penalty. You may pay off your loan at any time.

Another great reason to consolidate is that there are no credit checks, no fees, and no income verifications. A federal consolidation loan is very easy to qualify for. The application process is simple and may be done online in many cases. You must, however, be in good standing (not in default) on your federal loans at the time you consolidate.

If you are considering consolidating your federal loans, contact a loan professional for more information about this program. You will, most likely, be surprised by how simple and beneficial the process is.