



EdFed

Federal Lender Code 834241

America's Top Student Loan Consolidator

175 South Lake Ave, Suite 200, Pasadena, California 91101

Tel: (800) 821.5659

Fax: (213) 895.7306

www.Edfed.com

Should You Roll All Your Loans into One?

Some college grads with enormous college debt see loan consolidation as a panacea. While it's true that loan consolidation can significantly lower your monthly payments, you also need to be smart about deciding whether consolidation is really right for you.

Loan consolidation is the process by which an entity such as a bank pays off your existing student loan debts, and rolls all those loans into one bigger loan. In most cases, you have the option of stretching your payments out over many years, indeed across many decades, and the result is that the monthly amount you have to shell out is greatly reduced. Beyond those basics, however, there are lots of intricacies governing loan consolidation.

One extremely important fact you should know at the outset is that as of July 1, 2006, a rash of changes went into effect that, in various ways, affected all federal student loans. And sure enough, consolidated federal student loans were among those impacted by the new rules. For instance, before that date, married couples could combine their student loans into one big loan and repay that debt jointly. Now married couples can no longer obtain a direct consolidation loan as joint borrowers. (This is for the best, in my opinion. Consider what happens if you should divorce from your spouse. If you had a consolidated loan, you and your ex would be individually and jointly on the hook for each other's debts – regardless of who racked up those student loans!)

Another big change in the law, as of July 1, 2006, is that federal student loans switched from variable rate loans to loans with fixed interest rates. Just a year or two ago you may have been able to consolidate a federal student loan and lock in an extremely low interest rate of 3 or 4 percent. This is no longer the case. With the new law, any Stafford loan first disbursed on or after July 1, 2006, carries a fixed interest rate of 6.8 percent. The new rate on Parent Loans to University Students (PLUS loans) rose to 8.5 percent. Also, as of July 1, 2006, the interest rate on most new consolidated student loans is 7.14 percent, or 6.54 percent for borrowers in a grace period. Consolidated PLUS loans carry a 7.94 percent interest rate. Stafford loans first disbursed before July 1, 2006, still have variable rates. The interest rate is adjusted annually every July 1, and is capped at 8.25 percent.

Still, this interest rate scenario may or may not stay in force for a while. Democrats in Congress are promising to make student loan reform a key component of their social and economic agenda. And student loans. In fact, Democrats have introduced a measure to lower interest rates on Stafford loans by half – to 3.4 percent from 6.8 percent over a five-year period. If approved, and once it is fully phased in, the Democrats' measure would save the average college grad with \$20,000 in student loans \$4,420 over the life of his or her loans, according to estimates from the U.S. Public Interest Research Group Higher Education Project.

continued on back



EdFed

Federal Lender Code 834241

America's Top Student Loan Consolidator

175 South Lake Ave, Suite 200, Pasadena, California 91101

Tel: (800) 821.5659

Fax: (213) 895.7306

www.Edfed.com

The Democrats' proposal to lower student loan interest rates passed in the House in early 2007 and, as of this writing, was slated to be voted upon in the Senate. While it remains to be seen what will happen on the legislative front with student loans, there are some things that we know have already changed.

Students from the class of 2006 will be the first crop of graduates who can shop around for lenders. This is a big advantage because in years past, college grads were stuck with whomever their original lender was. Now, each successive graduating class will be able to refinance their student loans with whatever lender they choose. This will give them the flexibility and power to seek out lenders that provide added benefits, such as cash rebates, lower rates for automatic deductions, or other sweeteners for making a specific number of on-time payments.