June 2007

Federal Consolidation Loan Information 2007*

Federal Variable Rate Loans – *from before July 1, 2006*

This message summarizes the new interest rates for federal variable-rate loans and provides advice for borrowers with regard to consolidation. The description immediately below applies only to "OLDER" LOANS THAT HAVE NOT BEEN CONSOLIDATED – not loans from the 2006-2007 school year and beyond! For additional advice on more recent loans, read further.**

Federal variable-rate loans (*originated prior to July 1, 2006*) reset their interest rates every July 1 based on the last 91-day T-Bill auction in May of each year. Based on this, the interest rates will be as follows starting on July 1, 2007:

Stafford (in-school/grace):	**6.62%**
Stafford (repayment):	**7.22%**
PLUS:	**8.02%**

These rates represent an increase of 0.08% on variable-rate loans.

(Rates on federal fixed-rate loans - those originated on or after July 1, 2006 - are not changing, and remain at 6.8% Stafford, 7.9% DL PLUS, 8.5% FFEL PLUS, not considering any discounts or rebates.)

The interest rates on federal consolidation loans are the weighted average of the rates on the loans being consolidated, rounded up to the nearest 1/8th of a point, and capped at 8.25%. The federal consolidation rate is a fixed rate.

So, with regard to consolidation of federal variable-rate loans, the equivalent consolidation rates are not changing by much. The in-school/grace period rate on a Stafford loan consolidates to 6.625% before and after July 1. Likewise, the repayment rate consolidates to 7.25%. The only change is with the PLUS loan, which consolidates to 8.0% before July 1 and 8.125% afterward.

So the main consideration this year is not the July 1 change in the interest rates, but rather the end of the grace period. Since federal loan borrowers can no longer consolidate during the in-school period, the only option for locking in the lower in-school rate is to consolidate during the six month grace period. So there is less urgency with regard to the July 1 deadline, but borrowers who have a tendency to procrastinate may still want to consolidate now, especially since many lenders will hold the consolidation application to maximize the length of the grace period.

However, keep in mind that the weighted average may shift with regard to a 1/8th of a point boundary depending on whether one includes fixed rate loans in the consolidation, and what the loan balances are.

It may be advisable for borrowers to consolidate variable rate loans separately if they have a lot of fixed rate loans, in order to minimize the amount of roundup.

Borrowers with only fixed-rate loans (including previous federal consolidation loans that locked in historically low rates) do not need to do anything special, since their loans are already fixed. But they should be aware that any previously consolidated loans do not have a grace period, so repayment on those loans will begin within 60 days of graduation.

To put things in perspective, a 1/8th of a point increase in the PLUS loan interest rate on $20,000 in debt represents an increase of $1.32 in the monthly payment on a 10 year loan and $1.56 in the monthly payment on a 20 year loan. So any change with regard to July 1 is negligible, a few hundred dollars savings in interest over the life of the loan. But the change with regard to the end of the grace period (whether one locks in the in-school interest rate rather than the higher rate that applies during repayment) is more significant. The difference between 6.625% and 7.25% is $772.37 in additional interest over the lifetime of a 10 year loan ($6.44 difference in the monthly payment), and $1,794.98 in additional interest over the lifetime of a 20 year loan ($7.48 difference in the monthly payment.)

Aside from the potential cost savings from locking in the in-school interest rate on variable rate loans, borrowers are consolidating mainly to get a single monthly payment and to reduce the size of the monthly payment by increasing the loan term. Borrowers should be aware that increasing the loan term substantially increases the interest paid over the lifetime of the loan. For example, going from a 10-year term to a 20-year term reduces the monthly payment by about a third, but more than doubles the interest paid over the lifetime of the loan. Borrowers who consolidate can choose to remain with standard ten-year repayment if they can afford the monthly installment amount, thereby reducing their interest payments of the repayment period.

Additional reasons to consolidate (and reasons to not consolidate) can be found at:
http://www.finaid.org/loans/whyconsolidate.phtml

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**For information about consolidation of fixed rate loans, see below

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Consolidation Information on Fixed Rate Loans

Federal loans from after June 30, 2006 have fixed interest rates. Stafford loans, both the subsidized and unsubsidized loans, are set at 6.8%. PLUS loans for parents as well as the Graduate PLUS loans available to graduate and professional school students have interest rates that are set at 7.9% in the Direct Loan Program and at 8.5% (although frequently discounted by lenders) in the Federal Family Education Loan Program (FFELP.)

With respect to these Stafford fixed-rate loans and others, including Perkins, Health Professions Student Loans (HPSL), and Nursing Student Loans (NSL), and Loans for Disadvantaged Students (LDS), inclusion in a federal consolidation loan usually does <u>not</u> result in an economic advantage <u>unless</u> –

1. **you cannot afford the monthly installment amount <u>and</u> a consolidation repayment plan will offer a smaller monthly obligation that you can manage to pay (including income contingent repayment as part of a Direct Loan Consolidation); <u>or</u>**
2. **you want the convenience of a single loan with a single payment and can afford the higher cost.**

SOME DOWNSIDES OF CONSOLIDATION

Consolidating already-fixed rate loans, including combining a consolidation loan with a fixed rate loan of any sort, could have drawbacks, including:

1. **It will cost more over the life of the loan, as the term is longer and the rounding of the weighted average of the underlying loans will increase the interest rate.**
2. **You could lose all or some of a grace period to which you are entitled.**
3. **You have reduced flexibility to consolidate the loans in the future, perhaps to obtain improved service or to capture some lender benefits that are not available today, for example.**
4. **You may lose cancellation benefits associated with your underlying, non-consolidated loans, particularly if you become a teacher.**
5. **With large balance loans, you may be able to get most of the longer repayment term without consolidating; in such cases, consolidation offers only a slightly smaller total monthly repayment obligation at higher interest rates. For a brief period of reduced ability to pay, you may request a full or partial forbearance of repayment of principal and interest or of principal only, which may prove a less costly option than consolidation.**
6. **With respect to Perkins, HPSL, NSL, and LDS, if you include them in a consolidation loan and then return to school, you will have lost your interest subsidy while you are in school, in grace, and in deferments of various sorts.**

Federal Consolidation Loans Involving both Variable-rate and Fixed-rate federal loans

Most borrowers leaving school in 2007 will have loans from both before and after July 1, 2006. The general advice is to consolidate any remaining variable-rate loans during the grace period and <u>NOT</u> to then combine fixed-rate higher interest rate loans with the consolidation loan <u>unless</u> –

1. you cannot afford the monthly installment amount <u>and</u> a consolidation repayment plan will offer a smaller monthly obligation that you can manage to pay; <u>or</u>
2. you want the convenience of a single loan with a single payment and can afford the higher cost.

If graduating borrowers have already consolidated their federal variable – rate loans from prior to July 1, 2006, there may be <u>no</u> economic advantage to further consolidating their loans by including their newer, fixed-rate loans in the consolidation, as both their consolidation loans and their subsequent federal loans have fixed interest rates. In such cases, borrowers with fixed-rate consolidation loans as well as one or more fixed- rate non-consolidated loan(s) should consider strategies for paying down their highest rate loans as quickly as possible and then paying down their lowest-interest loans – the latter may in such a case be the consolidation loan.

If graduating borrowers have not already consolidated their federal variable-rate loans from prior to July 1, 2006, they may want to consider doing so DURING THEIR GRACE PERIOD this summer (2007) in order to lock down the 6.625% interest rate before it rises to 7.25% once the loan enters repayment later this fall. Many lenders will postpone putting through the consolidation till near the end of the grace period for borrowers who commit to consolidating now, so there is no down side to taking care of this transaction prior to leaving school. The critical deadline for consolidation this season is the end of the borrower's grace period rather than July 1st this year.

Stafford Loans, both subsidized and unsubsidized in the Direct Loan Program and the FFEL Programs:

Interest rates (%) as of 7-1-07	Stafford loans from before 7-1-06 (variable-rate) in grace	Stafford loans from before 7-1-06 (variable-rate) in repayment	Stafford loans on or after 7-1-06 (fixed-rate) in grace	Stafford loans on or after 7-1-06 (fixed-rate) in repayment
Before rebates, discounts, or any repayment benefits are applied	6.54%	7.14%	6.62%	7.22%

PLUS LOANS, including both parent PLUS and Graduate PLUS loans in the Direct Loan Program and the FFEL Program:

Interest rates (%) as of 7-1-07	Direct PLUS loans from before 7-1-06	FFELP PLUS loans from before 7-1-06	Direct PLUS loans on/after 7-1-06	FFELP PLUS loans on/after 7-1-06
Before rebates, discounts, or any repayment benefits are applied	8.02%	8.02%	7.9%	8.5%

Some TIPS on Comparing LOAN Offers

1. **Benefits conferred EARLIER rather than later are generally more valuable – choose benefits that occur at the point the loan is disbursed, for example, rather than during repayment. Or choose rewards that are conferred after only one payment instead of after 12 payments.**
2. **Interest rate reductions are generally more valuable than reductions in principal, which are called many different things, e.g., “rebates,” “cash back,” “cancellations,” etc.**

The percentages are not easy to compare; smaller interest rate reductions, particularly if they occur sooner, are often more valuable than larger percents associated with reductions in principal.

3. **Benefits that are granted to <u>all</u> borrowers are generally more valuable than those which rely on borrowers "earning" benefits over time – fewer than one in four borrowers typically get such "earned" benefits ever. The odds are against your success with regard to these discounts. Discounts involving long periods of "on-time" repayment are earned by fewer than on in eight borrowers… some lenders will consider "on-time" to be no more than one day past the "due date" while others will consider "on time" to be as many as 15 days past the due date. Find out! Pay electronically on the same day of the month to improve your odds!**
4. **Benefits that involve a written commitment from lender – a commitment that extends the obligation to provide the benefit to all future holders of the loan are more likely to be enforceable if the loan should be sold to another party. GET PROMISES IN WRITING!**
5. **Before consolidating loans, check to see if you will lose any benefits that you've already gotten with respect to the underlying loans. For example, if you consolidate Direct Loans into an FFELP consolidation loan before you make twelve consecutive on-time payments on the Direct Loans, you will lose the 1.5% rebate that you were granted when the Direct Loan**

was disbursed to you. You'd need to be sure that whatever discounts you were getting from the consolidation lender would more than offset the 1.5% penalty that you'll be paying by consolidating your Direct Loans prior to making the first twelve payments on time.

There is an on-line advisory service and also a variety of on-line tools to help you compare such offers:

http://www.graduateleverage.com/ (this is a free advisory service to borrowers, not a calculator- this is good source for information that reflects the impact of consolidation loan discounts and benefits - you are not obligated to take Graduate Leverage's loan advice or use their loans, even if you use their on-line, confidential advisory service)

http://www.simpletuition.com/consolidation/quick_form (this is a lender-financed tool that compares many discount features of consolidation loans as depicted by lenders, but it is not primarily designed to compare the cost of consolidating with the cost of not consolidating particular loans; use of this tool will help you determine if the repayment options will meet your particular needs in terms of monthly repayment installment amounts and comparing overall costs of competing loan offers.)

http://www.salliemae.com/content/tools/calculators/consolidation/index.html (a consolidation calculator to be used in conjunction with the non-consolidation loan calculator below. These tools come with marketing elements for Sallie Mae – you are not obligated to take one of their loans if you use the Sallie Mae consolidation repayment calculator, although your must register with them in order to access this tool.)

http://www.salliemae.com/content/tools/calculators/repayment/index.html (a loan repayment calculator to be used in conjunction with the consolidation loan calculator above. These tools come with marketing elements for Sallie Mae – you are not obligated to take one of their loans if you use the consolidation or the regular loan repayment calculators – these tools have been available to users without providing any personal information to Sallie Mae.)

https://loanconsolidation.ed.gov/loancalc/servlet/common.mvc.Controller?controller_task=startCalculator (this is the Direct Loan Program's on-line consolidation calculator, but can be used to compare the relative cost of consolidation of loans and repayment options that do not have complicated benefits or discounts. To compare the benefits or drawbacks of consolidation vs. not consolidating during repayment, use this calculator in conjunction with the regular Direct Loan repayment calculator at: https://loanconsolidation.ed.gov/loancalc/servlet

/common.mvc.Controller?controller_task=startCalculator

http://www.finaid.org/calculators/loanpayments.phtml **(an on-line calculator requiring you to input the details of the various loan offerings; the output will reveal monthly repayment amounts and the monthly income needed to afford such repayments)**

SPECIAL NOTE TO DIRECT LOAN BORROWERS:

Consolidation of your Direct Loans into an FFELP consolidation may save you money if:

1. you have already made your first twelve Direct Loan payments on time, OR
2. if you find an FFELP consolidator that will provide a sure (all borrowers) and sufficient discount that will compensate you for the loss of the 1.5% rebate that you enjoyed at the point your Direct Loans were disbursed to you – such lenders are out there. Check out lender websites for this benefit. One such lender this season is: www.graduateleverage.com , or
3. the discounts being offered by the FFELP consolidation lender FOR WHICH YOU WILL QUALIFY WITHOUT FAIL would more than compensate you for the loss of the 1.5% rebate that the Direct Loan program will tack onto your principal balance if you consolidate your loans before you make the

first 12 payments on time on your Direct Loans.

<u>**Remember,**</u> **unless the FFELP lender discount applies to ALL borrowers, your odds of "earning" the discount are not good. The reason that the FFELP lenders can afford to offer such generous discounts is, in part, because so few borrowers actually earn them. The discount offers do not materialize for MOST borrowers, and so don't make a huge dent in lender return on investment! Beware.**