



FFELP

Federal Loan Consolidation

An Option for Managing
Federal Student Loan
Repayment

What You Need to Know

- § **Why should I consolidate?**
- § **What is consolidation?**
- § **When should I consolidate?**
- § **How do I consolidate?**
- § **Which loans can I consolidate?**
- § **What lender should I choose?**
- § **What if I've already consolidated before?**

Reasons to Consolidate

§ **To reduce monthly loan payment**

q **Increases monthly cash flow**

§ **To have single statement billing**

q **Increases convenience**

§ **To take advantage of fixed interest rate structure**

q **Can reduce long-term cost**



What is consolidation?

Consolidation is . . .

- § **Paying off one or more eligible federal education loans by borrowing a new federal education loan**
- § **All federal student loans except the Primary Care Loan (PCL) are eligible for consolidation**
- § **Not loan serialization**

Costs of Consolidation

Fees and Interest Rates

§ **No fees**

§ **Interest rate:**

q **FIXED rate**

q **Weighted average of rates on loans being consolidated**

q **Rounded up to nearest 1/8th percent**

q **Capped @ 8.25%**

§ **Lender may offer payment incentives**

General Repayment Terms

- § **No grace period**
- § **No prepayment penalty**
- § **Up to 30 year repayment period**
- § **4 repayment options**
- § **Deferments and forbearance available**
- § **Discharge provisions**



How is the maximum loan
repayment term determined?

Length of Repayment

<u>Total student loan balance in grace or repayment</u>	<u>Max. term*</u>
§ Less than \$7,500	10 years
§ \$7,500 - \$9,999	12 years
§ \$10,000 - \$19,999	15 years
§ \$20,000 - \$39,999**	20 years
§ \$40,000 - \$59,999	25 years
§ \$60,000 or more	30 years

*Amount of other student loans used in calculating the total sum cannot exceed the loan amount you are consolidating [§682.209(h)]

**Term may be extended for qualified borrowers using the Extended Repayment Plan

You are allowed to choose a SHORTER term



To Maximize Repayment Term:

- § **Consolidate all eligible federal student loans together**
- § **Include prior consolidation loan(s) in new consolidation loan**
- § **Consolidate at least \$30,000**

Cost of Consolidation

\$100,000 Loan

<u>Term</u>	<u>Payment</u>	<u>Payoff</u>
§ 10 Year	\$ 1,048	\$ 125,817
§ 15 Year	\$ 778	\$ 140,010
§ 20 Year	\$ 646	\$ 155,094
§ 25 Year	\$ 570	\$ 171,035
§ 30 Year	\$ 522	\$ 187,793

Assumptions:

- q \$100,000 Consolidated
- q 4.750% fixed rate (*In-grace rate for 2005-06*)
- q Standard payment plan; no payment incentives



When should you
consolidate?

When to Consolidate

- § **Loans must be in grace or repayment, but NO deadline for consolidating**
- § **Be aware of trends in the 91-day T-bill used to set the variable interest rate**
 - q **If increasing, consolidate before rate changes**
 - q **If decreasing, consolidate after rate changes**
- § **Consolidate in grace or deferment to take advantage of lower interest rate spread**
- § **Can request processing be delayed until near end of grace period**
 - q **Must provide Grace Period End Date on application (Q.26)**



What You'll Need to Apply

- § **Balances and interest rates of your current student loans**
- § **Name(s) and address(es) of the companies that hold or service your federal student loans**
- § **Names and addresses of two personal references *(must be U.S. addresses)***



Which loans can
you consolidate?

Eligible Loans


- § **Federal Stafford Loan (GSL) (*FFELP or Direct*)**
- § **Federal Supplemental Loan for Students (SLS)**
- § **Federal Perkins Loan (NDSL)**
- § **Parent Loan for Undergraduate Students (PLUS)**
- § **Health Professions Student Loan (HPSL)**
- § **Loan for Disadvantaged Students (LDS)**
- § **Nursing Student Loan (NSL)**
- § **Health Education Assistance Loan (HEAL)**
- § **Prior consolidation loans (*FFELP or Direct*)**

Primary Care Loan (PCL) is only federal student loan that cannot be consolidated

Is it wise to consolidate Federal Perkins Loans?

Probably not:

- § **Loan already has a fixed interest rate of 5%**
- § **Interest subsidy during deferments lost in FFELP consolidation**
- § **Loan cancellation privileges lost**



Which lender should
you choose?

Choosing a Lender

§ **Start by contacting current holder(s)/ servicers of Federal Stafford/Direct Loans**

q **Beware of FFELP “Single Holder Rule” (SHR)**

§ **Consider:**

q **Do you have private loans with lender?**

q **Do you already have a Federal Consolidation Loan with the lender?**

q **Does lender offer payment incentives?**

q **What is quality of customer service?**

q **Does lender offer online customer services?**

§ **Ask financial aid administrator for advice**



What if I've already
consolidated before?



Question:

Can I consolidate again?

Answer:

YES, if you:

- § **Have eligible federal student loans to consolidate that have not already been consolidated, AND**
- § **Loans you want to consolidate are in grace or repayment (including deferment or forbearance)**

Consolidating Newly Disbursed Loans

Options For Borrowers With An Existing FCL

- § Option A: **Add new loans to existing FCL within 180 days**
- § Option B: **Borrow additional FCL for new loans; retain existing FCL as separate loan**
- § Option C: **Borrow new FCL, consolidating both new loans and existing FCL together**

Consolidating Newly Disbursed Loans

What option is best?

“Best” option depends on what’s most important to you . . .

- § **Convenience**
- § **Retaining the grace period**
- § **Maximum repayment term**
- § **Ability to target prepayment(s)**
- § **Least cost**

Scenario #1

Graduating borrower has the following loan balances:

- § **\$37,000 in-school Federal Consolidation Loan**
- § **\$18,500 newly disbursed Federal student loans to be consolidated**
- § **Eligible for 25 year repayment term on FCL (*requires Extended Repayment Plan)**

B

Loan Amounts	Interest Rate	Monthly Payment	Total Payout
\$37,000	2.875%	\$173.06	\$51,918.63
\$18,500	4.750%	\$105.47*	\$31,641.51*
TOTALS		\$278.53	\$83,560.14
Loan Amount	Interest Rate	Monthly Payment	Total Payout
\$55,500	3.375%	\$277.85	\$83,353.82

A/C



Timing of Consolidation for Spring 2006 Graduates

Another Way to Save Money

Spring 2006 Graduates

§ **You may be able to save a bit more:**

q **If you have new federal student loans you borrowed this year that you want to consolidate, AND**

q **You think you will qualify for an Economic Hardship Deferment on your Federal Consolidation Loan(s) when you graduate**

§ **You will need to consolidate these new loans before you graduate, rather than waiting until after you graduate or until the end of your Grace Period to consolidate them**

§ **Let's see why**

Why will I save money?

- § Interest that accrues on the unsubsidized portion of your FCL(s) will accrue at the fixed rate of your FCL rather than the higher VARIABLE rate that is likely to take effect on July 1, 2006 on the Federal Stafford/Direct Loans you want to consolidate
- § Said another way:
 - q If you wait to consolidate the Federal Stafford/Direct Loans you borrowed this year until near the end of their Grace Period (for example, because you request that processing be delayed until the end of the grace period by answering Q. 26 on the FCL application)
 - q Interest will be accruing on the unsubsidized portion of your Federal Stafford/Direct Loans at the higher VARIABLE rate that is likely to take effect on July 1, 2006

Economic Hardship Deferment

Will I qualify?

§ Who might qualify for an Economic Hardship Deferment?

- q Anyone who is not earning income, but not eligible for the Unemployment Deferment, e.g., law graduates studying for the Bar Exam
- q Anyone who is earning income, but who has high monthly federal student loan payments relative to that income

§ How can I determine if I will qualify?

- q Contact your loan holder(s)/servicer(s)
- q Check out the Economic Hardship Deferment Request form (HRD) that is available at *FederalConsolidation.Org*

What do I need to do?

Spring 2006 Graduates

STEP 1 -- Put your new eligible federal student loans into early repayment now—before you graduate

- q **Call your loan holder/servicer and request early loan repayment for these loans**
- q **Also request that these loans be put into an In-School Deferment once they're in repayment so that you don't have to start repaying the loans while you're still in school**

STEP 2 -- Then, consolidate these loans (Option A, B, or C)

STEP 3 -- Just before you graduate, submit Economic Hardship Deferment Request (HRD) for your FCL(s) to postpone repayment for the first six months after you graduate

When Retaining the GRACE Period Is Most Important

Graduating Borrower

§ **Either Option B or C**

§ **Must enter grace period end date on Question #26 of new FCL application**

§ **Still can retain pre-July 1, 2006 rate if application received by lender prior to July 1, 2006**

§ **Does not affect the FCL that already exists; that loan does not have a grace period**

When Maximum Repayment TERM Is Most Important

Graduating Borrower

- § **Either Option A or C**
- § **Both options result in one FCL**
- § **Combining loan balances into one FCL allows maximum amount of borrower's eligible debt to be considered in calculating maximum term**

When Targeting PREPAYMENTS Is Most Important

Graduating Borrower

§ Option B

§ Prepayments should be targeted at loan with highest interest rate to maximize savings in future interest expense

- FCL with lower rate (e.g., 2.875%) can be kept separate from new FCL with higher fixed rate (e.g., 4.75%) in Option B
- Prepayments then can be targeted at FCL with higher rate; if there is only one FCL, there is no way to target prepayments

Consolidation Tips

- § **Weigh benefits and costs**
- § **Consolidate during grace or deferment period**
 - q **Variable interest rate spread is 0.6% lower during grace and deferment**
- § **Try not to consolidate Federal Perkins Loan(s)**
 - q **Lose interest subsidy during deferment periods**
 - q **Lose potential cancellation provisions**

For More Information

§ **For the latest news about the Federal Consolidation Loan program go to Access Group's special Federal Consolidation Web site:**

q FederalConsolidation.Org

§ **For an educational tutorial that covers the basic terms of a Federal Consolidation Loan, go to Access Group's WiseBorrower[®] Curriculum at:**

q AccessGroup.Org/WiseBorrower

Access Group

Federal Loan Payment Incentives

Access OnTime

- § 2% *interest rate reduction* after first 48 consecutive monthly on-time payments on Federal Stafford Loan
- § 1% *interest rate reduction* after first 36 consecutive monthly on-time payments on Federal Consolidation Loan

Access Automatic

- § 0.25% *interest rate reduction* when loan payments made through Automatic Payment Transfer (ACH) on all Access Group loans



We're here to help you!

Access Group

800-282-1550

AccessGroup.Org

FederalConsolidation.Org





Good Luck!