

# Financial Aid

## *Student Loan Consolidation & Refinancing*

*You or your child are out of school, the 6 month grace period has come and gone, but not the student loan payments. Student loan debt can be overwhelming, particularly if you have multiple lenders and both private and federal loans. Consolidation may allow you to combine all your loans into a single loan, with one monthly payment to a single lender. But first you need to understand the advantages and disadvantages of consolidating your student loan debt. You should also thoroughly research the interest rates for your existing loans as well as any forgiveness or deferment benefits attached to your existing loans before consolidating loans.*

### Advantages

Making payments on multiple loans can be confusing and time consuming; consolidating may change that to a convenient single monthly payment. There are two types of loan consolidation:

- Combining multiple loans into one to make the loan more manageable with only one student loan payment.
- Refinancing, where you take out a new loan with a lower interest rate and payoff your existing higher rate loan(s). This may also help lower your monthly payments. Generally, recent college graduates don't qualify for refinancing. But, refinancing and consolidation are often good options for graduates with older debt or parents of student graduates.

Consolidation *may* lower your interest rates, but you need to be aware of the different types. Federal student loans are fixed-rate, private loans can be either fixed-rate or variable.

- **Fixed rate** gives you a chance to keep the same low rate for the life of the loan. While fixed rates are usually higher than variable rates, they provide the security of a consistent payment amount that remains the same during the life of the loan.
- **Variable rate** is an interest rate that starts out low, and then adjusts according to pre-determined criteria. The rate may increase or decrease in the future. As a borrower, you must understand the range of possible future interest rates for your loan before accepting a variable rate loan.

Flexible payment options may be available through your new lender, such as:

- Income-sensitive payments allow you to adjust your payment amount if/when you experience financial difficulties so as to be more budget friendly. Once your finances improve, you then resume repaying the normal amount or choose another option.
- Graduated payments start at a lower level and slowly increase over time. Graduated payments typically extend out to 10 years.
- Extended payments are similar to graduated payments, but eligible borrowers may extend up to 25 years.
- A Federal Consolidated Loan is eligible for a number of repayment plans, providing you with more flexibility.
- A Federal Consolidated Loan is a new loan, which restarts the clock on deferment and forbearance for up to three years.
- Some companies provide a payment discount if you select an auto systematic payment from your bank account.



## Student Loan Consolidation, *continued.*

### Disadvantages

- One and done with Federal Loan Consolidation: You can only consolidate your federal student loans once. If interest rates fall after your consolidation, you will not be able to renegotiate the loan.
- Federal and Private student loans cannot be combined for the Federal Consolidation loan program. Although federal student loans can be refinanced with a private lender, you'll no longer be able to enroll in one of the government's income-driven repayment plans, or qualify for loan forgiveness. Federal loans also tend to come with more lenient deferment and forbearance options than private loans.
- Loan and Lender Benefits may disappear: Some Federal loans have cancellation benefits that will not carry over to a consolidated loan. In addition, if original lender gave you a reduced rate or principal reduction, these benefits may also be lost.
- Consolidation can actually cost you more in the long run, so make sure you understand the cost over the life of the loan. If you extend your repayment terms from 10 years to 20 years in order to get a lower monthly payment, you will ultimately pay more interest over that longer time period, which can add up to tens of thousands of dollars.
- Some lenders assess an origination fee which can add anywhere up to 2 percent onto your loan balance. For, example, if you refinance \$50,000 in student loans and you are charged a 1 percent origination fee, you will have an additional \$500 added to your loan balance.

### Do your homework

Sometimes loan consolidation is a good idea, but for others it may not be. If you're struggling to make ends meet and make your student loan payments right now, a consolidation loan may be a short term solution.

Bottom line: Do your homework. Look for a lender that doesn't charge an origination fee and that provides you with the flexibility you need to get on a strong financial foot.

ConsumerAdvocate.org ranks the 10 Best Student Loan Refinance companies for 2017. Click [HERE](#) to view.

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