



Frequently Asked Questions about Loan Consolidation

Consolidating your loans is a good strategy to lock in the current interest rate. Federal Stafford Loans are currently at a variable rate which is expected to go up on July 1, 2006. By consolidating before July 1, you can change your loan(s) to a fixed rate loan and avoid future interest rate hikes. See the following website for details and an online application: <http://www.salliemae.com/apply/borrowing/smartloan/consolinfo.html> or call 1-800-448-3533

Q: Do I need to be graduating to consolidate?

A: No. In fact, with the current low interest rates, **it makes sense to consolidate while you are in school.** Many students think they must be graduating to consolidate, but you can consolidate while in school at a lower interest rate (currently 4.75% while in school) and keep most of your loan benefits (i.e., make no payments while in school and maintain your deferment, forbearance, and cancellation provisions). Recent changes in legislation will eliminate in-school loan consolidation after June 30, 2006. If you do not consolidate before then, you risk losing the ability to lock-in the current low interest rates to potentially save hundreds of dollars in the future.

Q: Will I enter repayment right away if I consolidate while in school?

A: No, you will not have to make payments while you are still in school. You are eligible for in-school deferment.

Q: Will I lose my grace period if I consolidate?

A: Yes, if you consolidate while you are still in school, you **will lose** your grace period (the 6 month period after you graduate). If you consolidate during your grace period, you will lose the remainder of your grace period and enter repayment right away. Your lender may offer a “grace-hold” consolidation option to allow graduates to retain your grace period. Contact your lender for details. Whether you are still in school or graduating, it is important to apply for consolidation before June 30, 2006.

Q: Can I consolidate in the future?

A: Recent changes in legislation will no longer allow for in-school consolidation after June 30, 2006. You will be able to consolidate your variable rate loans during your grace or repayment period after this date, but current projections indicate that interest rates may continue to rise so your greatest savings can be achieved by consolidating now. Loans that will be disbursed on or after July 1, 2006, will be fixed rate loans. You may consolidate fixed rate loans to lengthen the repayment period or obtain a single payment; however, because the interest rate on these loans will be fixed, you will not be able to take advantage of lower interest rates should interest rates fall in the future.

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Q: I already consolidated last year at a low rate; should I consolidate again and if so, should I combine all my consolidated loans together or can I consolidate my new loans separately?

A: You can have more than one consolidated loan. If you consolidated before, you may be able to consolidate your newer loans separately from your prior consolidation loan. Federal regulations place restrictions on your options for having more than one consolidation loan. Remember, the consolidation is the weighted average of the loans you combine, therefore, it may not make a huge difference in your overall rate to combine them, but it may be more convenient. It is up to the individual borrower. You may contact your lender for an analysis of your loan portfolio to determine the best option for you.

Q: What will the new rates be?

A: Currently, the variable loan interest rates (for loans with disbursement dates between July 1, 1998 and June 30, 2006) are:

- 4.7% while in school, grace period or deferment
- 5.3% while in repayment or forbearance
- 6.1% for PLUS Loans

The interest rate on any loans disbursed prior to July 1, 2006 will remain variable and will change July 1 each year. As of July 1, 2006, variable interest rates (for loans with disbursement dates between July 1, 1998 and June 30, 2006) will be:

- 6.54% while in school, grace period or deferment
- 7.14% while in repayment or forbearance
- 7.94% for PLUS Loans

Recent federal legislation will change the interest rate structure on Federal Stafford Loans and PLUS Loans from a variable interest rate to a fixed interest rate for new loans received on or after July 1, 2006. The new fixed interest rates will be:

- 6.8% Subsidized & Unsubsidized Federal Stafford Loans
- 8.5% Federal PLUS Loans

Q: Can I and should I also consolidate my Perkins Loans?

A: If you are borrowing fixed rate loans such as Perkins Loans, you will lose the cancellation provisions of these loans. Perkins loans also carry a 9-month grace period and Government interest subsidy - both would be lost through consolidation. This could be disadvantageous for certain students, such as those who plan to serve in the Armed Services, Peace Corps, etc. Loans left out of your consolidation loan can always be added in at a later date.