Loan Consolidation—Questions and Answers
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Stafford loan consolidation is a method of refinancing federal educational loans. In a loan consolidation, the loans included in consolidation are repaid in full with a new loan that has a fixed interest rate. The new consolidated loan is then payable according to the terms of the new loan, sometimes with the option of a longer repayment period. Current Stafford loans (before consolidation) have a variable interest rate which changes every July 1st. The 05-06 interest rate for Stafford loans in an in-school or deferment status is 4.7 % (for loans borrowed after July 1998). The 05-06 interest rate for Stafford loans in repayment or forbearance status is 5.3% (again for loans borrowed after July 1998).

Stafford loans are borrowed either through the Federal Direct Stafford Loan Program or through the Family Federal Education Loan Program (FFELP). The University of Washington participates in the Direct Stafford Loan Program and students borrow their Stafford loans directly from the Department of Education. FFELP participants are borrowing through a bank or other lending institution. University of Washington students are eligible to consolidate with the Direct Loan Servicer. Consolidating with a bank or other loan servicer is FFELP Consolidation. Most of the information below relates to Direct Loan Consolidation.

The type of consolidation you are eligible for may depend on the type of Stafford loans you have - Direct or FFELP. If you have loans from both a FFELP lender and the Direct Loan program, you can choose either for loan consolidation. If you want to consolidate with a FFELP lender-and not use Direct Loan consolidation, please be aware that some of the borrower benefits you qualify for under the Direct Loan program may not be available to you under FFELP consolidation. Students who are currently enrolled may apply for an in-school Direct Loan Consolidation and retain their grace period. After you cease to be a student at the UW and you have FFELP loans from only one lender, you may need to consolidate with that lender. Please see the questions and answers below for more information.

Here are some commonly asked questions about loan consolidation:

1. **Which federal student loans can be included in a consolidation loan?** Loans eligible for consolidation include Stafford/GSL and FISL Loans, HEAL Loan, Perkins/NDSL Loan, Nursing Loans, SLS and ALAS Loans, HPSL Loans, LDS Loans, PLUS Loans (students and parents consolidate separately) and Consolidation Loans.

2. **What are the advantages to consolidation loans?** Students consolidate their loans to reduce their monthly payment by paying over a longer period of time, to have one payment instead of several for students with more than one lender, and/or to lock in a

lower, fixed interest rate. You will have the option of keeping a 10 year repayment plan or selecting a longer repayment plan depending on the amount of your loan. Selecting a longer repayment plan decreases your monthly payment, but will significantly increase the amount of interest you pay and the overall cost of your loan.

3. **What are the drawbacks to consolidation?** Once you consolidate your variable interest rate Stafford loans into a consolidation loan, you have fixed the interest rate and cannot benefit from further interest reductions. For some of the loans, you may lose your grace period and some deferment and cancellation provisions when you consolidate. For example if you have a Perkins Loan, part of your loan can be canceled if you teach in a designated economic hardship area—if you consolidate your Perkins Loan; then you lose this benefit and have to repay the whole loan. It is important to talk with a financial aid counselor or a counselor at Direct Loan Consolidation before you consolidate your loans so you receive information based on your particular loan portfolio.

4. **What interest rate will I be charged?** You will be charged the weighted average of all loans included in consolidation rounded up one-eighth per cent and capped at 8.25% (capped at 9% for PLUS loans). Stafford loans taken out after July 1998 that are in an in-school or deferment status and have not been consolidated are currently at 4.7% interest and the consolidation rate would be 4.75%.

5. **What types of repayment plans are possible?** You can get repayment plans based on the standard plan (repay over 10 years), extended (up to 30 years depending on the amount of your debt), graduated (payments go up over time assuming your income goes up as well), and income contingent (the payment amount is based on your current income if you are considered lower income). Generally, you can switch between these plans at any time.

6. **Do I lose my grace period when I consolidate?** If you are not enrolled at least half time or if you are in your grace period when you consolidate, you will lose the grace period on the consolidation loan. However, if you are a continuing student and you apply for an in-school Direct consolidation loan while you are still enrolled, you retain your grace period but you must apply by June 30, 2006. If Spring is your last quarter you should consolidate by June 9. If you consolidate after June 9, you will have only 60 days (to allow for the processing of the consolidation loan) and no additional grace period after that.

7. **I am married, should I consolidate my loans with my spouse's student loans? No.** It is not recommended that you consolidate your loans together. If you do, then both borrowers have to meet conditions required for deferment—for example, both borrowers need to be in school. It is best to keep your loans separate.

8. **Is there anything I should know about consolidating my Perkins Loan?** Perkins Loans **remain interest-free during deferment if you consolidate with the Direct Loan Consolidation program**. If you consolidate with a FFELP **consolidator you lose**

the interest-free status during deferment. For both Direct Loan or FFELP consolidation, you lose the cancellation provisions for teaching, public or military service. If you had hoped to use these cancellation provisions and repay less Perkins loan, then you may want to consolidate your other loans but keep your Perkins Loan debt separate.

9. **I'm in the Health Professions program, what about my HPL loans?** Any of the HEAL, HPSL or LDS loans lose their interest free status when consolidated—even in deferment for periods of enrollment or residency. You should consider carefully when and if you should add these loans to your consolidation loan.

10. **I am sent advertisements from FFELP loan consolidation companies. Should I choose one of these companies to consolidate my loans?** As a Direct Loan borrower, you lose some borrower's benefits if you consolidate with a FFELP loan company instead of the government's Direct Loan Consolidation. This means that you may lose interest-free deferments on Perkins loans (see #10) and you will have a 1.5% fee for each Direct Loan added back on to your principal loans outstanding. When you received each of your Direct Loans, you were allowed to receive this extra 1.5% as an up-front payment assuming you would make your first twelve payments on-time. If you leave the Direct Loan program, then these funds will be added back on to the amount you owe. It is also possible that you may lose some additional deferment provisions available through Direct Loan consolidation, such as deferments for Peace Corp service, NOAA active duty, etc.; if you borrowed loans before 7/1/93, check the terms of the deferments carefully before consolidating your loans. If you are currently enrolled and you want to do a FFELP consolidation you must first put your loans into repayment status and then request an in-school deferment.

11. **Some of the FFELP consolidation companies offer lower interest rates for on-time payment. Will I save money if I consolidate with them instead of Direct Loans?** Consider using the loan repayment calculator at www.loanconsolidation.ed.gov to determine the total amount you would repay factoring in the 1.5% loss per loan disbursed (see #12 above) and the number of months you will be at the reduced interest rate advertised by the private loan consolidation company. If it looks like you will save money over time, then you may want to consolidate with that company. Keep in mind that most companies require two to three years of on-time payments before the lower interest rate is used. We understand that generally, less that 20% of borrowers meet the criteria to qualify for the lower interest rate. However, if you are diligent about making on-time payments and you are not concerned about the loss of benefits in #12, you may be able to save using a FFELP loan consolidation company. Be sure to check with several to compare the different deals they offer.

12. **How do I get started?** Competition among loan consolidation companies is intense and they may not provide the objective information you need to make the best choice for your loans. The University of Washington does not endorse any one company for loan consolidation: instead we want you to understand your loan consolidation options and choose the best deal for your individual situation. We recommend you start your

research with the Direct Loan Consolidation counselors at 1-800-557-7392 or www.loanconsolidation.ed.gov for advice on how consolidation would affect your current loan portfolio and then check carefully the terms and conditions offered by other consolidation companies you are interested in. After you have selected who you want to consolidate your loan, follow the loan application instructions for that lender. Please let our counselors know if you have questions as well.

I consolidated last year to take advantage of even lower rates. Should I reconsolidate those loans with my loans from this year? Remember that when you consolidate, you are charged the weighted average of the interest rates on your loans rounded up to the nearest 1/8 percent. If you include the loans you consolidated last year with your 2005-06 Stafford loans the weighted average of the two interest rates may make your payments slightly higher than the two payments separately due to the rounding up to the nearest 1/8% interest rate. Stafford Loans taken out in 2005-06 consolidated before June 30 will have a consolidation interest rate of 4.75%. You can go to the www.loanconsolidation.ed.gov web site and use the on line calculator to see the difference in interest you will owe if you consolidate separately or reconsolidate all of your loans together. One benefit to keeping the loans separate is that if you wish to pre-pay any of your loan you can choose the loan with the higher interest rate. One benefit to combining the loans is a possible longer repayment option (which increases the amount of interest you will pay).

13. **I've decided I want to consolidate with Federal Direct Loan Consolidation.** How do I apply? You can apply on the www.loanconsolidation.ed.gov website or if you have direct loans only you can call 1-800-557-7392 to apply. You can also complete a paper application by calling the number above to request the application.

14. **To meet the June 30 deadline, when do I have to start the consolidation application process?** You must have a complete application (either paper, via phone or on-line application) on file with direct loan consolidation before June 30 to meet the deadline. Don't wait until the last minute to file as their system can get bogged down as we get closer to June 30. If Spring Quarter is your last quarter of enrollment, you should submit your consolidation loan application prior to June 9 to preserve your grace period.