

Federal Consolidation Loans

FAQ's for 2008 Graduates

1. What is a Federal Consolidation loan?

A Federal Consolidation Loan (FCL) offers eligible borrowers the opportunity to refinance all or some of their outstanding Federal educational loans into a single new loan.

2. Which Federal Loans can I consolidate? (Private loans should not be combined with Federal loans as you may lose subsidies, deferments, grace periods, and other benefits.)

- Subsidized and Unsubsidized Federal Stafford Loans
- Federal Parent PLUS Loans
- Federal Perkins Loans
- Federal Consolidation Loans
- Federal Graduate PLUS Loans
- Contact your lender for more information if you have other Federal loans.

3. Should I consolidate my [Michigan Students First Program Loans](#)?

Federal Stafford or Grad PLUS Loans in the Michigan Students First program will revert to zero interest rate after 36 on-time payments. If you consolidate these loans, you will lose the zero percent interest benefit. Be aware that the current statutory interest rate, and not the zero interest rate, will be used to calculate the consolidation loan interest rate. Michigan Advantage Consolidation offers a one percent (1%) reduction in interest rate after 36 on-time payments for a minimum consolidation loan of \$7500.

4. Should I consolidate my Federal Perkins Loans?

Probably not. The Federal Perkins Loan already has a fixed interest rate of 5.0 percent, there is no benefit gained from the fixed interest rate structure of the Federal Consolidation Loan (FCL). Furthermore, if you consolidate your Federal Perkins Loan, the interest subsidy on those loans would be lost during any approved deferment period on the resulting FCL. In addition, there are a number of loan cancellation/discharge benefits related to service and employment that would be lost if the Federal Perkins Loan is consolidated.

5. If I don't consolidate can I still lower my payments by extending my loan term?

For extended and graduated repayment, the following chart shows how the maximum loan term depends on the amount borrowed. Contact your lender for your repayment plan options.

Loan Balance	Maximum Loan Term	Loan Balance	Maximum Loan Term
Less than \$7,500	10 years	\$20,000 to \$39,999	20 years
\$7,500 to \$10,000	12 years	\$40,000 to \$59,999	25 years
\$10,000 to \$19,999	15 years	\$60,000 or more	30 years

6. What will be my interest rate?

The Federal Consolidation loan interest rate is a fixed rate equal to the weighted-average of the interest rates of the consolidated loans rounded up to the nearest eighth of a percent, but not exceeding 8.25%.

7. When can I consolidate?

You can consolidate in your grace period or in repayment. If you consolidate while in your grace period, your lender will put you into repayment status immediately. Some lenders will hold your application until your grace period is over, if you ask them to. If you are in repayment, you must continue to make monthly payments to your current loan holder(s) until these loans have been paid in full by the consolidating lender. If you are unable to make payments during this process, contact your loan holders for alternative arrangements.

8. When should I apply for a Federal Consolidation Loan?

If you have borrowed Federal Stafford Loans before 7/1/06, these loans have variable interest rates that will change every July 1st. Depending on the rate; it may be beneficial to consolidate before or after this change.

9. How long does it take to get a consolidation loan?

The typical processing time for a consolidation loan is four to eight weeks. Until your loan is processed, you must continue to make payments on your existing loans if you are not in deferment, forbearance, or the post-school grace period. The first payment on your consolidation loan is due within 60 days of disbursement.

- 10. What are my options if I want to consolidate the Federal Stafford/Federal Direct Loans I have borrowed this past year, but already have at least one Federal Consolidation Loan (FCL)?**
Keep in mind that the consolidation interest rate is a weighted average and will be affected by the loans you consolidate. There are three options:
- You can add a new, fully disbursed federal loan to an existing FCL within 180 days of the date the FCL.
 - You can borrow an additional FCL to consolidate your new, fully disbursed federal student loans, and retain your existing FCL as a separate loan at its current interest rate.
 - You can borrow a new FCL and consolidate both your new, fully disbursed federal student loans and your existing FCL together into a new, single Federal Consolidation Loan with a new interest rate.
- 11. Can I apply for a Consolidation loan with more than one lender and wait to see who responds first?**
No, federal regulations prohibit you from applying with more than one lender at a time.
- 12. What about the mail and phone calls I get from lenders promising lower rates?**
You may be the target of marketing efforts by many student loan consolidation companies. Some may inaccurately portray themselves as the only lenders to offer consolidation loans or make promises that seem too good to be true. Read the fine print and consolidate with a lender you know and trust.
- 13. What about Loan Forgiveness for public service employment?**
Loan forgiveness is an option if you will be employed in **public service** for at least 10 years as described in section 201(C)(3) of the [Internal Revenue Code](#). Remaining loan principal and interest will be forgiven after 120 monthly payments made on a Federal Direct Loan as part of an income-based or standard repayment plan. All 120 payments must be made while employed in public service. Only Federal Direct Loans through the US Dept. of Education will qualify and WSU students must consolidate with the Federal Direct Loan Program to utilize this benefit: <http://www.loanconsolidation.ed.gov/> 1-800-557-7395. Currently there are restrictions to consolidate into the Federal Direct program, which will become more lenient on 7/1/08.
- 14. What are my repayment options?**
Your lender offers a choice of repayment plans including a standard plan and three different graduated income sensitive repayment plans. Contact your lender for specific details regarding the repayment plans they offer.
- 15. Why should I consider consolidating my loans?**
- **You are struggling to make ends meet:** Consolidation can reduce your monthly payment depending on your loan balance, the length of the payback period, and the interest rate on your consolidation loan.
 - **You have loans with many different lenders or loan servicers:** With consolidation, you have the convenience of one monthly payment.
- 16. Are there any disadvantages to loan consolidation?**
- **Loan repayment benefits on your current loans may change** with consolidation. For example, the Michigan Students First benefit of zero interest after 36 on-time payments will be lost in consolidation.
 - **Consolidation can significantly increase your total interest costs**, because you will be making smaller installments over a longer time.
- 17. What deferments are available on a Federal Consolidation loan?**
A Federal Consolidation loan borrower may defer payment of principal and interest during certain periods. Generally, deferments can be authorized for the following situations: economic hardship, unemployment, military deployment, enrollment in school, internship, national service. You are entitled to deferment if you qualify, but you must submit the necessary paperwork to your lender or loan servicer. In some instances, you may sacrifice some deferment benefits if you consolidate. Your lender or loan servicer can help you review the impact of consolidation on your deferment benefits.
- 18. Can I get forbearance for a consolidation loan?**
Yes. Federal Consolidation loan borrowers remain eligible for forbearance. In granting forbearance, a lender may permit a temporary cessation of payments, temporarily reduce the amount of the monthly payments, or extend the repayment period. Keep in mind that the interest will continue to accrue.
- 19. Where can I get more information on loan consolidation?**

US Dept of Education: www.loanconsolidation.ed.gov (For Public Service Loan Forgiveness)

Mapping-Your-Future: <http://mappingyourfuture.org/money/studentdebt.htm>