

# Thinking about consolidating your student loans?

Thursday, 20 November 2008

Now until June 30, 2009 may be a good time to consolidate your student loans; that is if the loans were dispersed before 2006. During this time consolidation rates will be 3.61 percent for those in school during a grace period and those students out of college will pay 4.21 percent, cutting the previous rate nearly in half. For those with more recent loans, the loans do not need to be consolidated as they are already at fixed rates of 6.8%.

The variable rates on federal student and parent loans are adjusted based on the last Treasury bill auction in May.

Members of the Class of 2008 who have taken out variable interest rate federal student loans will have the opportunity to refinance those loans and lock in a low fixed rate. That's about 3 percentage points lower than the variable rate that was set last year. This is the biggest one year drop in student loan interest rates ever, and the 4th lowest interest rate in the 15 year history of the student loan consolidation program.

However, in yet another signal that the credit crisis continues to take its toll, more than 100 lenders and counting have currently stopped offering federal loan consolidation, including nine of the top 10 student loan consolidators. Many lenders have abandoned the consolidation business, citing the credit crunch and cuts in federal subsidies. Though some lenders still offer consolidation loans, the market has definitely stiffened. Sallie Mae, the nation's largest student loan lender, said it will stop offering federal consolidation loans and cease paying loan origination fees on Stafford loans.

This is mainly the effect of new laws and regulations on the student loan industry that pretty much eliminate any profit private lenders can pull off of consolidating student loans, so those looking to consolidate may not have to worry about getting "ripped off" as much as before from private lenders.

## Other Reasons to Consolidate

If you're considering a career in public service, there's another reason to consolidate: Under the College Cost Reduction and Access Act enacted last year, borrowers who work at least 10 years in public service and make standard or income-contingent payments on their loans during that time will be eligible to have the balance of their federal loans forgiven.

## Conclusion

Consolidating makes sense only if you have variable rate student loans that were issued before July 1, 2006. If you have variable rate loans, you should consolidate them now to lock in the current rates, which are at close to historic lows. Talk to your lender and see if they offer consolidation, and if not, check out the government's Direct Loan program at [loanconsolidation.ed.gov](http://loanconsolidation.ed.gov). Also, if you wanted, you could wait until July 1, 2009 (when the new variable rate becomes available) to consolidate and if the economy is still in trouble, lock in interest rates that should be even lower. (Projected rate as of November 2008: 1.85% for in-school/grace period, and 2.45% for those in their repayment period).

If you have student loans that were dispersed after July 1, 2006, those loans do not need to be consolidated as they are already at fixed rates.

The current rates are effective through June 30, 2009.

## Date Disbursed

Type  
In-School Rate  
Repayment Rate  
7/2006-6/2012Stafford6.80%6.80%PLUS8.50%8.50%7/1998-6/2006Stafford3.61%4.21%PLUS5.01%5.01%7/1995-6/1998Stafford4.41%5.00%PLUS5.67%5.67%7/1994-6/1995Stafford5.01%5.01%PLUS5.67%5.67%10/1992-6/1994Stafford5.01%5.01%PLUS5.67%5.67%