managing your student loan portfolio

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Managing Your Student Loan Portfolio

Today's student borrower may have Direct, FFEL Program, Perkins, or private student loans in addition to consumer loans such as auto or mortgage. Successfully managing your loan portfolio depends on the type of student loans you have, when you took out your loans, their interest rates and amounts. You should also consider the type of payment that fits your current financial situation and your savings goals during repayment.

You may prefer to lower your monthly payment due to budget concerns, pay off higher-interest debt first or shift payments to pay off other loan types (such as private). Loan consolidation is only one of your options. Eligible loans for loan consolidation include Stafford, PLUS, Perkins, federally guaranteed Consolidation, and health professions loans.

STEP 1

Consider Your Payment Options

Depending on what you plan to accomplish, there may be a repayment option to help you meet your financial goals. Let's take a closer look.

Need a lower monthly payment?
Your current lender may offer repayment options that can meet your needs.

Temporarily struggling to keep up with your loan payments?
Consider a deferment or forbearance that allows you to postpone or reduce your monthly payment.

Juggling too many payments with one lender?
Ask about loan combination or "serialization." If all your loans are with one lender, they may be combined to simplify repayment. Not only will you receive a single statement each month, but your payment is likely to be lower than if you were paying each loan separately.

Simply juggling too many loans?
Ask your lender to purchase the loans you have with other lenders so that you can take advantage of loan serialization.

What are my repayment options?
There are five repayment plans for paying back your loan: standard, graduated, income-based, income-sensitive and extended. You may change your plan at least once a year by contacting your lender. Typically, you'll be provided the standard repayment plan unless you request otherwise.

The **standard** plan allows you to pay the same amount each month—at least $50 or the interest that has accrued—with up to 10 years to repay.

Example:
A subsidized Stafford loan repaid at 6.8 percent interest, assuming a standard repayment plan of 10 years, or 120 payments.

Loan Amount	Monthly Payment	**Total Paid** (Loan + Interest)
$10,000	$115	$13,812
$50,000	$575	$69,060

The **graduated** plan calls for your payments to start out low and increase over time, with up to 10 years to pay. There are two options. Under the first, your payments are interest only the first two years, followed by larger payments in years three through 10. The second option allows four years of interest-only payments, followed by larger payments in years five through 10.

Example:
A subsidized Stafford loan repaid at 6.8 percent interest, assuming a two-year graduated repayment plan of 10 years.

Loan Amount	Beginning Monthly Payment Years 1-2	Ending Monthly Payment Years 3-10	Total Paid (Loan + Interest)
$10,000	$57	$135	$14,350
$50,000	$283	$677	$71,748

The **income-based** plan is a new option beginning July 1, 2009. Payments are 15 percent of your discretionary income (your taxable income minus 150 percent of the poverty level). Payments can be as low as $0 and unpaid interest may be subsidized by the government for up to three years. Any remaining debt after 25 years of qualifying payments will be forgiven and considered taxable income.

Example:
A subsidized Stafford loan repaid at 6.8 percent interest, assuming one dependent.

Loan Amount	1st Year AGI	1st Year Monthly Payment	2nd Year AGI	2nd Year Monthly Payment
$10,000	$28,000	$77	$35,000	$164
$50,000	$28,000	$77	$35,000	$164

To determine your monthly payment, visit **www.edfund.org/calculators/IBR**.

The **income-sensitive** plan bases your payments on a percentage of your gross monthly income and the amount you borrowed, but they must cover at least the interest due. Repayment terms will vary based on the percentage you request, your income and the loan amount.

Example:
A subsidized Stafford loan repaid at 6.8 percent interest, assuming you requested the monthly payment be based on 4 percent of your gross monthly income.

Loan Amount	Gross Monthly Income	Monthly Payment		Total Paid (Loan + Interest)
		First five years interest only	Remaining 10 years	
$10,000	$1,250	$57	$115	$17,214
$50,000	$4,000	$283	$575	$86,070

The **extended** plan is for new borrowers (those who had no outstanding FFEL loans as of October 7, 1998, or those who had no outstanding FFEL loans when they acquired new FFEL loans after October 7, 1998) who have more than $30,000 in outstanding loans. The payments can be fixed or graduated, with a repayment term of up to 25 years.

Example:
A subsidized Stafford loan repaid at 6.8 percent interest, assuming an extended repayment plan of 25 years, or 300 fixed monthly payments.

Loan Amount	Monthly Payment	Years in Payment	Total Paid (Loan + Interest)
$50,000	$347	25	$104,100

STEP 2

Ask Yourself: Is Loan Consolidation Right for Me?

Consolidation loans are not for everyone. Advantages and disadvantages depend on the type of loan, the loan amount, interest rates, disbursement dates and repayment incentives. You'll also need to consider the various loan provisions, including interest subsidy, deferment, forbearance, forgiveness and cancellation. Use the handy chart on page 13 to help you weigh the pros and cons.

Who is eligible for loan consolidation?
To be eligible for loan consolidation under the FFEL Program, you must already be in repayment on each loan you have chosen to consolidate. When you sign your Consolidation loan application, you'll be agreeing to new terms and conditions. If you're in default, you must have made satisfactory repayment arrangements or have agreed to repay the consolidating lender under an income-sensitive repayment plan. Also, you cannot be enrolled in college, or if you are, only less than half time.

If I have a Direct loan, can I apply for a FFEL Consolidation loan?
Most lenders allow Direct loans to be combined with FFEL loans. Typically, the lender requires that you have at least one FFEL loan with them, although there are some lenders who may consolidate your Direct loans even if you have no FFEL loans.

Is there a minimum amount to consolidate?
Lenders may require a minimum loan amount to create a new Consolidation loan; this amount will vary by lender.

STEP **3**

Determine What Loans Are In Your Portfolio

Most federal loans are eligible for FFEL Program consolidation, including:

- Subsidized Stafford Loans
- Unsubsidized Stafford Loans
- Consolidation Loans
- PLUS Loans
- Perkins Loans
- Health Professions Student Loans
- Health Education Assistance Loans (HEAL)
- Loans for Disadvantaged Students
- William D. Ford Federal Direct Loans

Private loans from banks, colleges or family members cannot be consolidated. Alternative loan consolidation options are available through private lenders but may not include the same benefits or repayment options as federal Consolidation loans. (If you have HEAL loans, you may wish to consider refinancing rather than consolidating them. To learn more, visit the U.S. Department of Health and Human Services' Web site at **www.hrsa.gov.**)

What if I'm in default?

Even delinquent and defaulted loans can be consolidated. To qualify, you must be in repayment on your defaulted loan (typically, with three consecutive, voluntary, on-time, full monthly payments already made), or agree to repay your new Consolidation loan under the income-sensitive repayment plan. If you have a court judgment on your federal student loan debt, you cannot consolidate your loans.

How do I find out which loans I can consolidate?

To help you determine which of your loans are eligible for consolidation and what your monthly payment and interest rate would be, simply complete **Worksheet 1** on page 6.

If you need information on your loans, you can access the National Student Loan Data System, the U.S Department of Education's central database for all federal student aid records. (Keep in mind that any private loans will not be listed here, nor will HEAL and other Health Professions loans, but you will still want to include them on the worksheet under ineligible loans.)

Here's how to access your federal loan information:

1. Apply for a personal identification number, or PIN, from the U.S. Department of Education, if you don't already have one. Go to **www.pin.ed.gov**. You'll receive your pin in a matter of days.
2. Go to **www.nslds.ed.gov** after receiving your PIN and click on the Financial Aid Review button. You'll need to provide your Social Security number, the first two letters of your last name, your date of birth and your PIN.
3. Review your student loan information. You'll see a listing of your federal student loans with the amounts, dates of origination and outstanding balances. To view detailed information about each loan, including the interest rate, click on the number next to each loan.

Will I only have one Consolidation loan?

If you wish to consolidate both subsidized and unsubsidized education loans, your lender will create two new Consolidation loans in your name—one for each type of loan. Lenders are required to track these loans separately, but will combine both loans for billing purposes; therefore, you will only make one monthly payment.

If I already have a Consolidation loan, can I re-consolidate?

In limited circumstances. You may re-consolidate your Consolidation loan under the FFEL Program if you have at least one other eligible loan in repayment to consolidate. It may be a new loan or a loan that was not included in your first consolidation.

What Is In My Portfolio?

For a more accurate estimate of your repayment term length, you must list all of your student loans regardless of whether you plan to consolidate them. (This includes loans that are not eligible for consolidation.)

Eligible Loans	Loan Type	Lender Name	Outstanding Balance	Interest Rate	Consolidate? Yes/No	Benefits**
Loan 1	Sub	MyLender, One Hundred, CA	$2,625	7.25	Yes	DF
Loan 2						
Loan 3						
Loan 4						
Loan 5						
Loan 6						
Loan 7						
Loan 8						
Loan 9						
Loan 10						
Loan 11						
Loan 12						
Loan 13						
Loan 14						
Loan 15						
Ineligible Loans*						
Loan 1						
Loan 2						
Loan 3						
Loan 4						
Loan 5						
Loan 6						
Loan 7						
Loan 8						
Loan 9						
Loan 10						
PLUS Loans						
Loan 1						
Loan 2						
Loan 3						
Loan 4						
Loan 5						

* Be sure to include private and other non-federally guaranteed education loans.
** Deferment (DA), forbearance (FB), interest rate reduction and others.
Keep this worksheet for your records.

STEP **4**

Estimate Your New Monthly Payment

When you consolidate your loans, your new payment will depend on the amount being consolidated, the length of the repayment term, the interest rate of the Consolidation loan and the repayment plan you select.

What repayment plan options will I have?
Under FFEL Program consolidation, you will have the same repayment plan options you did before consolidating: standard, graduated, income-based, income-sensitive and extended.

How long will I have to repay my loan?
Your repayment term is based on your total student loan debt. You'll need to count both your eligible loans and your ineligible ones in this equation. (The total amount of all your ineligible loans cannot be higher than the total amount of all your eligible loans.) Remember that your monthly payments and the overall cost of the Consolidation loan depend on the length of repayment—the longer the repayment term, the lower the monthly payment, but the more you'll pay in interest over the life of the loan. Use **Worksheet 2** below.

• WORKSHEET 2 •

To determine your maximum repayment length, fill in these blanks from your completed Worksheet 1.

1. Total dollar amount of eligible loans: ____

2. Total dollar amount of ineligible loans: ____

3. Is your ineligible total greater than your eligible total?

If yes, multiply your eligible amount by two. Write the number here: ______________________

If no, add the ineligible and eligible loan amounts. Write the total here: ____________________

4. In the box below, place a check mark in the "My Eligibility" column next to your total loan amount.

My Eligibility	Loan Amounts	Maximum Term Lengths
	Less than $7,500	10 years
	$7,500 – $9,999	12 years
	$10,000 – $19,999	15 years
	$20,000 – $39,999	20 years
	$40,000 – $59,999	25 years
	$60,000 and higher	30 years

The row you have checked indicates the number of years you're allowed to spend repaying your eligible loans, although you may request a shorter repayment term.

How do I calculate my new interest rate?

Your Consolidation loan's new interest rate is the weighted average of the interest rates on all the loans being consolidated, rounded up to the nearest one-eighth of 1 percent. The new interest rate cannot exceed 8.25 percent and is fixed for the life of the loan.

Use **Worksheet 3** on page 9 to calculate the weighted average of your loans and estimate your new interest rate. You'll need to know the interest rate and current balance of each of your eligible loans. (Refer to your completed **Worksheet 1** on page 6.) You may also ask your consolidation lender to estimate your new interest rate.

What will my new monthly payment be?

Now that you know your maximum repayment term, you can estimate your monthly payment. The following chart shows the monthly payments and total repayment amounts for various loan amounts under the standard repayment plan.

FFEL Consolidation Loan Repayment Chart

6.8 percent interest rate with a standard repayment plan

Loan Balance	No. of Payments	Term Length	Monthly Payment	Total Interest	Total Paid (Loan + Interest)
$10,000	120	10 years	$115	$3,812	$13,812
	180	15 years	89	5,978	15,978
$15,000	120	10 years	172	5,718	20,718
	180	15 years	133	8,967	23,967
$20,000	120	10 years	230	7,624	27,600
	180	15 years	178	11,957	31,957
	240	20 years	153	16,690	36,640
$30,000	120	10 years	345	11,429	41,429
	180	15 years	266	17,935	47,935
	240	20 years	229	24,960	54,960
$40,000	120	10 years	460	15,239	55,239
	180	15 years	355	29,913	69,913
	240	20 years	305	33,281	73,281
	300	25 years	278	43,289	83,289
$60,000	120	10 years	690	22,858	82,858
	180	15 years	533	35,870	95,870
	240	20 years	458	49,921	109,921
	300	25 years	416	64,933	124,933
	360	30 years	391	80,816	140,816
$100,000	120	10 years	1,151	38,120	138,120
	180	15 years	880	59,783	159,783
	240	20 years	763	83,201	183,201
	300	25 years	694	108,222	208,222
	360	30 years	652	134,693	234,693
$138,500	120	10 years	1,594	52,736	191,280
	180	15 years	1,229	82,800	221,800
	240	20 years	1,057	115,234	253,734
	300	25 years	961	149,887	288,387
	360	30 years	903	186,550	325,050
$224,000	120	10 years	2,578	85,336	309,336
	180	15 years	1,988	133,914	357,914
	240	20 years	1,710	186,371	410,371
	300	25 years	1,555	242,416	466,416
	360	30 years	1,460	301,712	525,712

Calculating My Interest Rate

This worksheet will help you estimate the interest rate on your new Consolidation loan.

Step 1. Multiply each eligible loan's interest rate (in decimal format) by its respective balance.
(Do not include HEAL loans in this list.)

Eligible Loan Type	Interest Rate (Percentage)	Decimal Rate (Interest Rate Divided by 100)	×	Loan Balance (Payoff)	=	Loan Weight (Decimal Rate x Balance)
Subsidized Stafford	8.25 %	0.0825		$5,500		453.75
	Total Loan Balance and Total Loan Weight			$		

Step 2. Divide the total loan weight by the total balance.
(*Round the weighted average interest rate to the nearest higher one-eighth of 1 percent.)

Total Loan Weight	×	Total Loan Balance	=	Weighted Average Interest Rate
				%*

STEP **5**

Find Out the Terms of Your New Consolidation Loan

Your new Consolidation loan will have its own terms and benefits. For a FFEL Consolidation loan, you must agree:

- To notify your lender within 10 days of any change to your address, telephone number or name;
- To pay principal and interest as scheduled, including any late fees;
- To new deferment eligibility and criteria;
- To have the interest capitalized if you fail to make the required payments of interest during periods of authorized deferment and forbearance;
- That you understand your monthly payments may be less but, generally, you'll pay more over the life of the loan due to the extended repayment term; and
- That you understand your lender or guarantor will report the repayment, delinquency or default status of your loan to credit bureaus.

Will I still have deferment and forbearance options?

Yes. Both deferment and forbearance options are built into your Consolidation loan to assist you in certain situations.

Deferments allow you to temporarily postpone payments. Deferments are not automatic; you must meet eligibility criteria, apply and receive approval from your lender. During periods of deferment on subsidized Consolidation loans, the principal payments are postponed and interest is paid by the federal government. When unsubsidized Consolidation loans are deferred, only the principal payments are postponed—you're responsible for all the interest that accrues.

The three most common reasons for deferment are returning to school at least half time, unemployment, economic hardship and military service.

If you don't qualify for a deferment but are having difficulty repaying your loans, you may be eligible for a forbearance. Forbearance is a temporary postponement or reduction in your monthly payment. During forbearance, interest accrues and you're billed quarterly for the interest by the lender. You have the option of paying the interest or allowing the lender to capitalize the interest at the end of the forbearance period. If you decide to capitalize the interest that accrues, your monthly payment amount will increase, along with your total repayment amount. Circumstances in which a lender might grant forbearance include financial hardship and/or illness. Forbearance is allowed at the discretion of the lender.

Will my new loan come with repayment incentives?

Lenders may offer repayment incentives, usually in the form of lower interest rates, for on-time payments. Interest rates also may be reduced if you agree to "direct pay" and have your monthly payments automatically withdrawn. Ask lenders for details before consolidating.

tip

Compare the consolidation terms to those of your existing loans. You may find that a simple change in repayment plans on your existing loans will meet your needs.

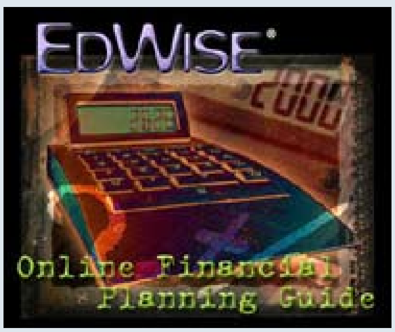
STEP 6

Complete the Paperwork

The consolidating lender will give you an application packet that includes the **Federal Consolidation Loan Application and Promissory Note** and instructions. Be sure to read everything carefully. Once you have signed and submitted your application, you've committed yourself to the terms of the new loan.

Also, keep in mind that the interest rates on variable interest federal loans change each year on July 1. Consider the financial trends when applying near this date—it may be to your benefit to wait until the new interest rates are announced.

When is the right time to apply?
First, each loan you wish to consolidate must be in repayment status. Stafford loans disbursed after July 1, 1995, have two interest rates attached to them: one for in-school, grace and deferment periods and the other for repayment. Stafford loans disbursed on or after July 1, 2006, will have a fixed interest rate of 6.8 percent, except subsidized Stafford loans for undergraduate students. See table below.



Before you decide to consolidate your loans, take some time to see if you would benefit. Check out EdWise®, the online financial planning guide at **www.edfund.org/Edwise**, to evaluate your repayment options. Ask the lender about the benefits of a Consolidation loan:

- What would your new interest rate, monthly payment and terms be?
- Would you still have the same deferment and forbearance options?

As always, pay careful attention to all the terms and conditions of the new loan.

Be aware that, although most federal student loans have a six-month grace period before entering repayment, Consolidation loans do not. Once your Consolidation loan is approved, your monthly payments will begin within 60 days. If you need the grace period to look for employment, you may consider waiting until some of your grace period elapses before applying for consolidation.

Can I consolidate my loans during my grace period?
Yes. Effective July 1, 2006, you must be in your grace period or already in repayment on each loan you wish to consolidate.

If you choose to consolidate during your grace period, you will loose that benefit.

Are there any fees?
There are no origination fees or any other kind of charges for obtaining a Consolidation loan. There are also no penalties for prepaying or paying off the loan earlier than scheduled.

Legislation has lowered interest rates for a five-year period for undergraduate subsidized Stafford loans for both the FFEL and Direct Loan Programs.

	Interest Rate
On or after July 1, 2008, and before July 1, 2009	6.0%
On or after July 1, 2009, and before July 1, 2010	5.6%
On or after July 1, 2010, and before July 1, 2011	4.5%
On or after July 1, 2011, and before July 1, 2012	3.4%
On or after July 1, 2012, and before July 1, 2013	6.8%

How do I apply?

The first step is to contact participating lenders.

On the Federal Consolidation Loan Application and Promissory Note, you'll need to complete:

- **Section A** – Borrower Information
- **Section B** – Reference Information
- **Section C** – Promissory Note. Read all materials carefully before signing. If you don't understand any part of the packet, or have questions, contact the lender immediately.
- **Section D** – Education Loan Indebtedness. You can use the list you created on Worksheet 1. Be sure to refer to the instructions when listing your loans. Look for the names of the loans rather than the loan types. Follow these helpful steps:

  1. Contact each lender to obtain the account number for each loan, unless you have recent statements or other correspondence that includes it.

  2. Begin by listing all your eligible loans.

  3. If you wish to extend your repayment term, list your ineligible loans in section D 2. By including your ineligible loans, your lender will calculate your repayment term length based on your total education loan debt.

- **Section E** – Repayment Plan Selection. Choose a repayment plan for your Consolidation loan: standard, graduated, income-base, income-sensitive or extended.
- **Section F** – Borrower Certification and Authorization.

Be sure to retain a copy of everything for your records.

What happens next?

It usually takes 30 to 90 days for an application to be processed. If your application is approved, the consolidating lender will pay off the full amount of the original loans and send you a disclosure statement and repayment schedule for your new Consolidation loan. This packet will include a listing of your total debt, the new interest rate and terms. Until your new Consolidation loan is in repayment status, you must continue to make regular loan payments on each of your current loans. You'll begin repaying your Consolidation loan within 60 days of the time your consolidating lender pays off your underlying loans.

Where do I go for more information?

Here is a Web site to help you learn more about loan consolidation and decide if it's right for you. Your lender can also give you more information and answer your questions.

Federal Direct Consolidation Loan Information Center
www.loanconsolidation.ed.gov
Browse the federal government's Web site for details on Direct loan consolidation and to compare Direct and FFEL loan consolidation.

tip

You can always save money by repaying your loan early (there are no prepayment penalties) or paying a little extra each month toward the principal to shorten the repayment period.

Advantages And Considerations Of Student Loan Consolidation

This chart lists the features of loan consolidation, along with some considerations to help you decide if consolidation is the right option for you.

FEATURES	ADVANTAGES	CONSIDERATIONS
One lender holds the loan.	You'll always know whom to contact. You receive only one bill.	Other lenders may offer better deals, repayment incentives and other benefits.
A fixed interest rate.	If you consolidate variable interest rate loans, you'll lock in a low interest rate. If rates rise, you'll save money.	If interest rates fall in the future, you'll be locked into a higher rate.
Separate federal student loans are combined into one loan.	Only one payment to make every month. Subsidized FFEL and Direct loans retain their interest subsidy benefits during deferment.	Non-federal loans, such as college or private alternative loans, cannot be included. Possible loss or change in benefits. Previous loans will be combined into one new loan with a new set of benefits that may include different deferment and forbearance options. Check with your lender and compare.
No fees, credit check or prepayment penalties.	As long as you meet the lender's requirements for consolidation, you'll be approved. You can pay off the loan at any time without penalty.	Some lenders require a minimum loan balance to apply.
An extended repayment period from 10 to 30 years, depending on your total debt.	Usually, a lower monthly payment.	Typically, a significantly higher payback. An extended repayment period means paying more interest over the life of the loan.
Five repayment plan options: standard, graduated, income-based, income-sensitive or extended.	You can choose the repayment plan that best fits into your financial situation or future plans. Same repayment plans as those offered under the FFEL Program, but with the option of an extended repayment term.	Minimal reduction in the principal amount owed. Increase in total loan costs.
Federal Perkins (NDSL) loans can be included in a Consolidation loan.	Combining your Perkins loan in your Consolidation loan means one less bill to remember to pay each month. The Perkins loan's low interest rate (5%) will be included in the weighted average interest rate calculation and may influence the Consolidation loan interest rate.	You'll lose the interest subsidy benefit on your Perkins loan as these loans consolidate as unsubsidized loans. You'll lose the Perkins deferment options. Perkins loans that are consolidated are no longer eligible for cancellation benefits, including those for teaching, public or military service.
Delinquent or defaulted borrowers are allowed to re-enter repayment.	Rebuild negative credit history and re-establish Title IV aid eligibility. May continue to take out new loans.	Borrowers who wish to consolidate are required to make three consecutive, voluntary, on-time, full monthly payments or agree to repay their new Consolidation loan under the income-sensitive repayment plan.

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