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Studying the numbers

This is the time for student loan consolidation, before rates jump July 1

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Thinking about consolidating your student loans? There's no better time to do it than now.

That's because rates for variable loans are about to climb dramatically. These loans have interest rates that are reset every July 1 based on the 91-day Treasury bill auction.

You can avoid a steep rate increase by consolidating your variable-rate loans. But you'll need to get the paperwork started as soon as possible. The deadline is June 30.

Consolidation loans allow borrowers to group together multiple variable-rate federal student or parent loans at a single fixed rate. That rate is determined by taking the weighted average of the interest rates of your original student loans and rounding up to the nearest one-eighth percent.

Borrowers with a Stafford loan already in repayment are eligible to lock in a consolidation loan at a rate as low as 5.3 percent before the July 1 deadline. Borrowers still in school or in their grace period can claim the lower 4.7 percent rate, but only by first requesting their loans be put into repayment status by the lender. While the student can request deferment to delay payments until after graduation, the grace period will disappear.

"This is the last hurrah for in-school borrowers," says Eric Solomon, a spokesman for education finance company Nelnet of Lincoln, Neb.

Those who consolidate over the next few weeks stand to save big. According to Nelnet, student loan borrowers in their grace period or in-school deferment with a \$20,000 balance and 20-year consolidation term can save more than \$5,000 in interest over the life of their loan by filing a consolidation application before July 1.

Loan consolidation is one way to help manage your debt and potentially lower your payments.

Once you consolidate, you can send your new lender one monthly payment. The standard 10-year repayment period can be stretched out anywhere from 12 to 30 years, which helps lower your monthly payments, but also adds to the overall interest you'll pay.

Borrowers who can afford to make their payments without stretching the term should do so, says Robert Shireman, executive director of the nonprofit Project on Student Debt in Washington, D.C., and Berkeley, Calif.

"Alternative payment plans that prevent borrowers from going into default are a good thing, but in many situations, borrowers end up paying much more in total interest over a longer period of time," he says. "It's not necessarily a gift from the lender."

One final word of warning: If you hope to qualify for student loan forgiveness by pursuing certain public service careers, do not consolidate your Perkins loan. Only the portion of your Perkins loan that remains unconsolidated is eligible for forgiveness.