



Thinking of Bankruptcy? Consolidation Can Ease Your Debt

If you are having trouble making ends meet and are considering filing for bankruptcy, you may want to consolidate your federal education loans. Consolidation usually substantially lowers your monthly payments, which will free up more of your money and may help you get on top of your finances.

Federal loan consolidation saves you money in two major ways: by transforming your variable interest rate into a fixed interest rate and by extending your payment term. You may not realize that your federal Stafford loans have a variable interest rate until you consolidate. The interest rate for student loans is adjusted each year on July 1. When interest rates go up, your monthly payments also increase, and the total amount you pay on your loan is considerably more. Consolidating your loans now ensures you will receive a low fixed interest rate for the life of your loan. Your loans will not be affected by yearly interest rate adjustments.

The fixed interest rate for a consolidation loan is based on the weighted average of the interest rates of the loans being consolidated, rounded up to the nearest one-eighth of a percentage point, not to exceed 8.25%. Current consolidation rates are as low as 5.375%. A loan specialist can easily provide an estimate of what your consolidated interest rate will be.

The other main way that consolidation helps you keep more money in your pocket is by lowering your monthly payments through extending your payment term. Unconsolidated student loans typically have loan terms of 10 years. When you consolidate, this term is often extended to as long as 30 years, based on the total amount of student debt. By extending the repayment term, you will reduce your monthly payment amounts. You will, of course, pay more in interest by using a longer time period to pay back your loans, but federal consolidation loans have no prepayment penalty. You may pay off your loans early at any time.

Federal loan consolidation lenders also offer a variety of flexible repayment plans. You may choose a graduated repayment plan, which allows you to pay interest only for the first few years and then increase your payments until you are paying principal and interest. Some lenders may offer an income-sensitive plan based on your income. Federal consolidations also have built-in benefits to help protect you during times of financial difficulty. You may have up to two years of forbearance on federal loans. During periods of forbearance, you will not need to make your monthly payments, although interest will continue to accrue.

If you are experiencing financial difficulty, you may be worried that you will not qualify for a federal loan consolidation. However, there are no credit checks, no fees, and no income verifications. As long as you have at least \$7,500 in federal education debt and you are in good standing with your federal education loan lenders, you are eligible for a federal consolidation. It is important to act quickly, though, because if you go into default on your federal loans, you will not be able to consolidate.



Federal loan consolidation may provide you with a way to reduce your monthly education loan payments and free up more of your money for other expenses. Act now, before you fall behind, to take advantage of the benefits offered to you through federal loan consolidation. It is a quick and easy way to begin saving money and help you prevent bankruptcy.