Why Lower Monthly Payments Can Benefit You in the Long Run

Student loan consolidation is more beneficial than you might think. First of all, you will get a fixed rate and protect your loans from rate changes that can go as high as 8.25% on federal student loans. You'll have one lender and one monthly payment, streamlining your repayment obligations and giving you less of a headache. You'll also be able to extend your loan up to 30 years, which in effect will dramatically lower your monthly payment and save you hundreds of dollars each month. But the benefits of student loan consolidation continue. Have you ever thought about what you can do with all that money you'll be saving each month? Why not save and invest it? Rather than spending that extra money each month, make that extra money work for you. Below you will find just some of the ways you can put that extra money to good use.

Emergency Fund

The money you save each month should first go into an emergency fund. Job loss, a natural disaster, an injury, or any other life crisis requires cold hard cash. Unexpected emergencies can be expensive and, if you are unprepared, can be detrimental to your financial plans. The money in your emergency fund should only be available when there is no other way to pay for something that is a necessity. You should save enough cash to cover three to six months of expenses. Your emergency fund should be kept separate from other investments or savings. Most important, an emergency fund must be available at a moment's notice, so think liquidity and safety. And remember, your emergency fund should only be used for real emergencies!

Bank and Credit Union Savings Accounts

While a savings account has a low interest rate, it is your safest bet, as the federal government insures savings accounts and certificates of deposit. The drawback is your money will grow slowly. Nevertheless, bank and credit union savings accounts are good places to store your emergency fund because they are liquid accounts and you can access the funds quickly. You can also use these types of accounts for short-term goals, such as money for a vacation or a down payment for a car.

Mutual Funds

A mutual fund pools your money with that of other investors to buy shares of stocks and/or bonds of many different companies. If the stock market goes down, the value of the mutual fund also may go down. On the flip side, your mutual fund will earn money when the stock market goes up. Mutual funds are not insured by the federal government; thus, this type of savings does have its risks. However, mutual funds have higher return rates than regular savings accounts; so you will make more in a shorter amount of time. Mutual funds are a good way to save up for a college fund for your kids, for example.

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Individual Stocks and Bonds
Stocks and bonds are higher risk investments, but also yield higher profits. When you buy a stock, you become part-owner of a company. Your investment will rise or fall according to how well the company does. Companies distribute a portion of their profits to shareholders as dividends. When you own a bond, you have made a loan to a company or government unit. In return, the borrower will pay back the principal borrowed plus interest. If you are thinking about this type of investment, it is best to seek out the help of a financial advisor before committing your money to one venture or another.

Student loan consolidation is the first step towards a secure and prosperous financial future. Use the money you save each month on your loan payments to save and invest.