



## Benefits of Consolidation



There are many benefits of student loan consolidation. When you consolidate your student loans, you can lock in low interest rates, reduce your monthly payments, simplify your life, and improve your credit score. In the coming weeks, we will be looking at each of the benefits in more depth.

### **Improve Your Credit Score**

As you probably know, credit scores play a major role in determining whether or not you get an apartment, house, car, cellular phone - the list goes on indefinitely. It's your way of showing companies that you are trustworthy and reliable enough to make consistent and timely payments on acquisitions that are more expensive. Having a bad credit score taints you, jeopardizing your chances of being approved by creditors.

Credit scores are negatively affected by late payments, incomplete or partial payments, defaults, and judgments and liens. The score can be broken down into several components: 35 percent of your score depends on your payment history; 30 percent, on your outstanding debt; 15 percent, the length of your credit history; 10 percent, recent inquiries on your credit report; and 10 percent, the types of credit your currently use.

Because a student loan is money owed, it adversely affects your payment history and your outstanding debt, which comprises 65 percent of your total credit score. This, of course, may be debilitating to your credit.

Stafford loans, which are the most common type of student loans, are often issued in subsidized and unsubsidized portions. An undergraduate student could graduate with as many as four subsidized Stafford loans and four unsubsidized Stafford Loans, totaling eight separate loans. Furthermore, most students don't make payments on their loans until after they graduate.

In summation, undergraduate students may have eight loans in four years without a single payment.

Graduate students who use loans to finance their educations leave school with advanced degrees and even more unconsolidated debt.

Obviously, there are extenuating circumstances. How can you, as a student, be expected to pay off your debts? You've been concentrating on schoolwork. How can a full-time student work full-time? Lenders recognize this and often offer grace periods, which exempt students from repayment for a few months after graduation.



Unfortunately, computers are responsible for calculating credit reports. For calculating machines, numbers are numbers, regardless of how compelling your story may be. Eight loans, four years, and no payments make a horrible combination.

A lesser-known benefit of consolidation is the fact that it improves your credit score. When you consolidate, your new lender pays off all of your eight loans, and then opens up one new consolidation loan. When a computer calculates your credit score, it will see this: eight loans paid in full. You will look like a responsible and trustworthy borrower.

Consolidation increases your credit score because it pays off all your old loans and reduces your number of open accounts.