Federal Student Loan Consolidation

Under the legislation recently passed by Congress, interest rates on all federal student loans have risen. As of July 1, 2006, all new federal Stafford loans will be disbursed with a 6.8-percent interest rate, up from 4.7 percent the year before. Interest rates for student loans have not been this high for six years.

This significant difference in interest rates amounts to thousands of dollars in additional interest payments over the life of your loan. For example, even a student with only $50,000 in loans will pay more than $6,000 in additional interest because of the rate increase. Naturally, given the much greater debt burden of law students, the change will cost the average law student substantially more in additional interest payments.

However, by taking advantage of the federal student loan consolidation program, a J.D.s can beat the new rates and avoid paying thousands in unnecessary interest payments. The program allows borrowers to lock in a rate 1.25 percent lower than their current rates, which are currently capped at 8.25 percent.

The federal student loan consolidation program is authorized by the same legislation that provides for your current federal student loans: the Higher Education Act of 1965 (HEA). Most federal consolidation loans are provided by private sector lenders (banks and credit unions, for example) but are guaranteed by the government pursuant to the HEA.

With federal consolidation, your existing federal student loans are paid off and replaced with one new federal loan. Rather than multiple lenders and multiple monthly payments, you end up with one lender and one monthly payment.

That might already sound like a good thing, but the most valuable benefit of consolidation is the savings. Once you consolidate, you have the option to reduce your interest rate through borrower-benefits packages. Securing this lowered rate on your consolidation will save you thousands of dollars in interest and reduce your monthly payment amounts, as well.

When you consolidate your federal student loans, the interest rate you receive for your consolidation will be based on the weighted average of the current interest rates of your loans. Additionally, as discussed above, the interest rate has risen to 6.8 percent for new loans, and most existing loans will be capped at 8.25 percent. Until Congress passes other legislation to reduce student-loan interest rates, borrower-benefits packages are the only way to lower these rates.

Your base interest rate will be the same regardless of what lender you use to consolidate your loans. All lenders will use the weighted-average method to calculate your interest rate on your

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consolidation. However, there are still differences between lenders. You should consider the customer service and payment incentives, also called borrower benefits, that each lender offers before determining which lender to use for your consolidation. Most lenders will offer some type of payment incentive to help you reduce your interest rate even further. You should carefully compare and consider each lender's incentive program. Very of ten, the borrower benefits alone will save you tens of thousands of dollars over the life of your loan.

Another advantage to consolidating your federal loans is that you can stretch out the payments on a federal consolidation loan for as long as 30 years. That means that your monthly payment will be significantly lower when compared to the monthly payment on your current federal loans (which have a 10-year repayment term). Most lenders offer different types of "graduated" repayment plans that will reduce your monthly payments in the early years of your loan and then gradually increase your payments later on.

Best of all, there are no strings attached for federal student loan consolidations. There are no fees, no credit checks, and no prepayment penalties! To qualify, you only need to have more than $7,500 in eligible student loan debt and be in good standing with your lenders on these loans.

The application process is relatively painless. Most lenders offer an online application; the application asks for general information such as references, personal information, and loan information. The lender you choose should be able to access your specific loan information for your application through the National Student Loan Database.

Remember, you can reduce your recently increased rates only by using a borrower-benefits package. Consolidate now with the lender who offers the best options for your consolidation.