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Student Loan Consolidation--What Attorneys and Law School Students Need to Know

As you well know, law school is insanely expensive--just one year at a private law school in a major city can run $50,000. Not surprising then that the average law student now graduates with almost $80,000 in student loans. Pretty scary stuff--kind of like taking on a mortgage but without the house!

Here's the good news:

1. As far as debt goes, student loan debt is pretty good debt to have. The interest rates are generally low, the repayment terms are long, and it's relatively flexible debt in that your lender will often provide payment deferments or forbearances should you run into financial trouble down the line.

2. There are highly effective programs available to make your law school debt significantly more manageable, something to consider as you embark on your career.

One such program that gets quite a bit of press these days is student loan consolidation .

It's very important for you to realize that there are two vastly different types of student loan consolidation programs: one for federal student loans and one for private student loans. An overview of each follows below.

Federal Student Loan Consolidation

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.

Basically, 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 pretty good thing, but there's more. Until you consolidate, your federal student loans have a variable interest rate. This rate is adjusted each year on July 1.

Once you consolidate, however, you lock in a fixed rate for the entire life of your new loan. Securing a low fixed rate on your consolidation will help you save thousands of dollars in interest.

In fac t, this is such a profound benefit that the government is debating whether to stop providing fixed-rate consolidations altogether out of a concern that continuing to do so may cost taxpayers billions of dollars as interest rates rise in the coming years.

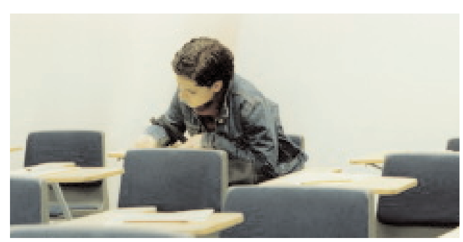
It was only last year that the federal government began allowing students to consolidate their loans while they are in school. Before that, students had to wait until they graduated before they could consolidate. Students now have more flexibility and may choose to consolidate at any time in order to take advantage of the lowest interest rates.

For example, the current interest rate on a federal Stafford loan. Only four short years ago, the rate on a Stafford loan was at the maximum of 8.25%. 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.

This may seem confusing, but if you just graduated and have only taken out loans your Stafford loans will all be at variable.

If you consolidate your loans now, the interest rate on your consolidation will be fixed (the interest rate on a consolidation is rounded up to the nearest 1/8%). It is ve ry important to consolidate either while you are in your grace period. Once your grace period ends and you enter repayment, the interest rate on your federal student loans increases. You definitely want to consolidate while your loans are at the lowest possible point.

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 consolidation. However, there are still differences between lenders. You should consider the customer service that each lender offers before determining which lender to use for your consolidation. Most lenders will . You should carefully compare and consider each lender's.



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, and the application basically asks for general information, such as references, personal information, and loan information. Your lender should be able to provide you with your specific loan information for your application.

One word of caution. Generally, you are not allowed to reconsolidate or transfer your loan once you have consolidated your federal student loans. This is why it is imperative to consolidate at the lowest interest rate possible and to find a lender who offers the best options for the life of your consolidation. You should contact a professional to discuss your particular situati on prior to consolidating.

Private Loan Consolidation

Private loan consolidation, like private education loans, has nothing to do with the federal government. In reality, private consolidation loans are just another form of consumer lending--like credit cards. Because of this, private loan consolidations are different from federal loan consolidations.

The main similarity between private loan consolidations and federal loan consolidations is that a lender will pay off your existing private education loans and replace them with one new private loan, such that you end up with one lender and one monthly payment.

Unlike federal consolidation, eligibility for private consolidation is credit based. With private consolidation, everything (whether you are eligible at all, the size of loan you are eligible for, the interest rate, and fees on the loan--literally everything!) hinges on your credit rating or FICO score--a numerical rating ranging from 0-850 that purports to be a quantitative representation of your future credit risk.

To give you an idea, the average FICO score in the U.S. is around 670. How your score is calculated is a very closely guarded secret, but some things that affect your score negatively are not having a credit history, being late with payments,and having too many credit cards or other debt. To get more info on FICO scores, go to http://wwwmyfico.com/CreditEducati on.

The keepers of your credit rating are the three credit bureaus: Equifax (www.equifax.com), Trans Union (www.tuc.com), and Experian (www.experian.com). Get your credit report from them, read it, and start to watch it like a hawk from now on. If it's wrong, get them to fix it. The power these three companies have over your life is truly frightening; how they calculate your credit rating will in very large part determine your ability to make the large purchases in your life (lease a car, buy a house, etc.).

Each lender is different, but if your credit rating is greater than 700, you should be in pretty good shape in terms of being approved for a private consolidation loan at a reasonable interest rate. If it's not, lenders will allow you to apply with a cosigner and will base their decision on your cosigner's credit.

In contrast to federal consolidation, the terms (including interest rate, fees, repayment term) of a private consolidation loan may vary significantly from lender to lender.

The interest rates on then add a "margin" determined by your credit evaluation. The better your credit, the lower the margin. For example, if the and a 2% margin, your interest rate would for your private consolidation. This rate would go up or down depending on changes in the can pre-approve you over the phone for a private consolidation loan in about 10 minutes and will advise you of the proposed terms of the loan at the same

time. Just like with credit cards, it pays to shop around; and if you are an attr active borrower, there may be room for you to negotiate the terms of your private consolidation loan with your chosen lender.

An additional word of caution. Although you may use the same lender for your private consolidation and federal consolidation, you may not combine the two types of loans into one loan. You will always have a separate payment for each type of consolidation.

Reducing your monthly student loan payments can improve your peace of mind and financial stability, whether you are still in school or have graduated. Managing your loans now will increase your options as you enter the working world and launch your career. You may be very surprised by how manageable, flexible, and affordable your student loan payments will be after consolidating.