

Consolidation Basics

Consolidation allows you to combine all of your prior Federal Direct, Federal Stafford, and/or Federal Perkins loans into one new loan called a consolidation loan. The idea is to make your educational loan debt more manageable so you are less likely to default.

- Consolidation simplifies loan repayment because you only make one monthly payment on the entire amount of consolidated loans. Prior to consolidation, it is possible that you would have to make multiple payments to multiple lenders each month.
- Your monthly payment may be drastically reduced.
- The amount of time you have to repay your loan may be extended.
- The interest rate of your consolidation loan is a weighted average of all of the loans that are combined. Your overall interest is fixed and may be significantly less than the rates on your individual loans.
- Private bank loans cannot be consolidated in a Federal Consolidation loan!

The Process

1. **Choose a lender.** While this sounds simple, practically any bank in the country can consolidate your Federal loans for you. Chances are you already have been flooded with information on consolidation if you are reading this guide. Keep in mind that banks make money on loans by charging fees and interest. You want to make sure you are getting the best deal possible when you consolidate. Many banks will make their consolidation loans seem very attractive by promising interest rate reductions for on-time payments or electronic automatic payments. **Read the fine print!** Those same banks may also have the right, if you are late on one payment, to increase your interest rate. Two lenders that we recommend are listed below. Keep in mind that another lender may be better suited for you.

The Department of Education – While the Department of Education may not have the best consolidation deals out there, they are only interested in seeing their money returned to them (with interest) in a timely manner. They do not want you to default on their loans. The Department of Education allows a student to consolidate their loans even if they are still in-school to lock in a good interest rate. You will want to wait until your loans for the current year are fully paid out before you consolidate, however. Anyone can apply with the Department of Ed to consolidate if they have at least one Direct loan or have tried to consolidate with their FFELP lender and were denied. If you are interested in a Department of Education loan, follow the link below.

<http://loanconsolidation.ed.gov/> click “Borrower Services”

The Department of Education also publishes a “Repaying your Student Loans” booklet to help you navigate the repayment path. Please visit <http://www.du.edu/finaid/forms/RepayingYourStudentLoans.pdf> to download a copy.

College Invest – CollegeInvest is a not-for-profit organization and a division of the Colorado Commission on Higher Education. CollegeInvest's goal is to help students manage their debt in a more cost-effective way. Borrowers are eligible for a .25% interest reduction if they use the auto-debit option and will get a 1% interest reduction after 24 months of on-time payments. CollegeInvest's contact information is listed below.

College Invest
1801 Broadway, Suite 1300
Denver, CO 80202
800.448.2424
Fax: 303.296.4811
<http://www.collegeinvest.org/>

2. **Visit the National Student Loan Database.** Visit <http://www.nslds.ed.gov> and click on “Financial Aid Review”. You will need your FAFSA PIN to access this site. Please visit <http://www.pin.ed.gov> if need to apply for a PIN or cannot find yours. This site will make your consolidation application very simple. It will give you all of your lender contact information, loan amounts, and interest rates for any Federal loan you have taken out throughout your college career.
3. **Complete the necessary paperwork.** You will be required to complete a Promissory Note with the lender that you choose. You may be required to complete other paperwork. Follow the lender’s instructions. Be sure to ask if your consolidation loan can be processed after your grace period if you need more time before you start repayment. Once your loans are consolidated, there’s no turning back! In most cases, payment begins immediately and you forgo your grace period. Ask your lender if there any deferment options available to you.
4. **Follow-up with your lender.** Consolidation takes time. The lender that you choose will contact your individual lenders and confirm the amounts of the loans you listed. Once the amounts are accurate, they will cut checks to each of these lenders to buy out your loans. You will be notified once this happens, but it is always a good idea to keep in contact with your consolidation lender to make sure everything is running smoothly.
5. **Begin repayment on your consolidation loan.** Make sure you have budgeted wisely and can make on-time payments. If you find that the repayment plan you are on does not meet your needs, contact your lender and see if they can help you to lower your payments.

Things to Remember

- Once your loans are consolidated, you may begin repayment immediately regardless of any grace periods remaining on your individual loans. Keep this in mind when applying.
- Some lenders offer deferment options for your consolidation loan.
- Shop around. No one lender is right for everyone. Look at your options and put in the time to make sure your loan is right for you. You will be paying on it for 10-30 years!
- Once you have consolidated, you cannot re-consolidate to lower your interest rate. If interest rates are good, it probably makes sense to do it now. If not, wait to consolidate until you are getting the best deal. Remember: you will need to pay on your individual loans until you consolidate!
- Ask questions. Chances are you will have a lender and a guarantor on your loan. They may be completely separate companies! You will need to direct certain questions to each agency, so ask who your lender who else you may need to speak with.

- If you would like to consolidate now but think you may take out more loans in the future, ask your lender if it is possible to add loans to a consolidation loan you take out after it has been created and you start paying it off.