

Life after the Diploma: *How to Consolidate Your Federal Graduate School Loans*

You just spent thousands of hours and thousands of *dollars* investing in your graduate school education. Now that you have your degree in hand, you deserve a pat on the back. Also, because you may be newly entering the “real world,” you will need to get up to speed very quickly on managing your income—and your debt. Here’s the scoop: If you took out student loans, the first step in taking control of your financial future and managing your student loan debt is to **consolidate your education debt into one, easy and convenient loan**. Read on to learn more about federal student loan consolidation—a free government program with many benefits.

Understanding the Major Features of the Program

Federal Student Loan Consolidation is part of the Federal Family Education Loan Program or FFEL Program. The FFEL Program is the same program that initially originates federal student loans. You might already be familiar with the program’s Subsidized and Unsubsidized Stafford loans, as well as Graduate PLUS loans. As you may know, federal student loans are low cost alternatives to funding your undergraduate and graduate school expenses. However, what you may *not* be aware of is the next step in the FFEL Program: **consolidation**.

If you are already familiar with consolidation, stay with us. You might come across a few new facts, and you’ll want to be positive that you have all the information so that you can make informed decisions about your finances, including choosing the best consolidation options for your student loans.

First, here’s what consolidation does. Federal student loan consolidation merges all your federal loans into one new loan. This assists students greatly in managing their student loans after graduation because students can make one payment for a larger loan that is consolidated over an extended period of time. If you are like many other post-baccalaureate students, you have student loans from your undergraduate years plus loans from your graduate studies. These loans most likely carry different interest rates and are probably from different lenders. Thus, your payments vary from loan to loan and from lender to lender. You may have a due date for one loan on the 3rd of each month, only to have another due date for another lender towards the end of the month. Keeping track of all these due dates and various monthly payments can be nerve-wracking. Plus, you run the risk of missing payments which can negatively affect your credit report.

Why put yourself through this hassle and confusion when you have the option to consolidate through the FFEL Program? **Consolidation will give you one monthly payment to one lender**. Simple as that. Not only will you save yourself the stress of having to make multiple payments, you will protect your current interest rate from rising rates. Federal student loan consolidation locks in your current interest rate, so you will never have to worry about fluctuating rates or payments. Currently, your rate is variable, which means it is at the mercy of the market. If the rates rise dramatically, so will your monthly payment, and the overall cost of your loans. **Consolidation will give you a fixed rate and monthly payment**. This way you will know exactly what you will be paying, and at what rate, for the entire life of the loan.

Additional Benefits

In addition to these two major points, federal consolidation carries many more benefits. Most importantly, deferment and forbearance options. As consolidation is a federal program, it is easy to post-pone payments should the need arise. Plus, during any eligible deferment period, interest does not accrue on the subsidized portion of the consolidated loan. Thus, the government is responsible for the interest on this portion during certain eligible periods—another benefit not widely known. A forbearance is a flexible option for those looking to quickly pay-off other debt first, such as high interest credit card debt. If for any reason you are not able to make payments on your federal consolidated loans, you have options to temporarily post-pone payments.

For those of you who have recently graduated, read the next benefit carefully. Upon graduation, most federal loans go into a grace period during which no payment is required and interest is subsidized on any eligible loans. Plus, and this is the kicker, the interest rate is lower than what it will be once the loans enter repayment. What does this mean for you? Consolidate during your grace period. You will benefit from a lower fixed interest rate. Plus, your grace period will carry over to the consolidated loan.

Another huge benefit of a federal consolidation loan is there is no pre-payment or early repayment penalty. If a borrower chooses to and is able to, the borrower can send in extra payments or a large lump sum to pay off the consolidation loan faster. So, if your MBA helped you land a job at a top marketing firm with excellent benefits, then that end of the year bonus can go towards paying a chunk of your federally consolidated loans. What this does is shorten your repayment term and save you interest over the life of the loan.

Speaking of repayment, federal student loan consolidation offers various repayment plans that are flexible enough to meet your needs. If you are completing your residency and are having trouble making ends meet, then you can choose the Income Sensitive Repayment Plan. If all that's left on your horizon is defending your dissertation, then the interest-only option may be right for you. The first few years of your consolidation loan will be interest-only payments and after that, will become full-equal payments for the remainder of the loan—perfect timing for when you have segued into a higher paying position!

I'm Thinking about Consolidation...But How Do I Apply?

The application process is easy. There is no credit check required. You do not have to pay anything. As this is a federal program, there are no fees associated with consolidation. Employment is not a prerequisite to be approved and there is no income verification. All you need to do is submit an application. It's that easy. The consolidating lender takes care of the rest. First, Loan Verification Certificates will be sent to your original lenders to request pay off of your existing loans. Next, the consolidating lender will disburse payment to buy your loans. Finally, after your new lender has consolidated all of your loans, you are sent your new repayment terms, including your fixed rate, loan period, and monthly payment. Depending on the number of lenders you currently have, the entire process may take 4 to 12 weeks to complete.

Choosing a Lender

Now that you have decided that federal consolidation is a great option for you, you might be wondering how to choose the right lender to consolidate with. That is a tough one. First of all, you are probably already inundated with solicitations from various student loan companies urging you to consolidate before time runs out. You might be thinking you have a small window during which to consolidate. Not to worry. Borrowers can consolidate at any time. There is no expiration date or limited time offer. With that said, you do want to take your particular circumstances into consideration.

For instance, did you graduate or separate from your school within the last six months? If you are a graduate student working on your thesis or M.S. project and are not enrolled as a student, then technically you are no longer in school and thus possibly in your grace period. Perhaps you have only one more class to complete your coursework so you might think you are still in school. But if you are considered less than half-time, then you might be in your grace period. To make sure, it's best to check the status of your student loans. To do so, contact your school's financial aid office or check the National Student Loan Data System at www.nslds.ed.gov.

To reiterate the importance of consolidating during your grace period, there is a crucial interest rate change once repayment begins. That is, your interest will rise once you enter repayment. If this is the case, then it is important to consolidate as soon as possible. However, if you are already in repayment, then there is no rush and you can leisurely choose a lender you feel comfortable with. Also, if you are still in school, and will be for another three years before you have that Ph.D., then federal guidelines prevent you from consolidating anyway so there's no need to reply to that "urgent notice" from XYZ lender.

The best way to go about choosing a consolidation lender is to determine how knowledgeable and helpful the lender's loan counselors are. When you called the lender, was the representative able to answer all your questions? Did he or she seem unsure or hesitant? On the other hand, did he or she seem so eager to get you on board that you were not offered sufficient time and assistance for your inquiries to be adequately addressed? The loan representatives are the best gauge as to whether a company is sincere in their claim to assist you with your student loans.

Wrapping it Up

So, you're done hitting the books, and now you're ready for your first job. Consolidate your graduate school loan debt immediately, and spend your extra time and energy searching for your dream job or, perhaps, looking into even more education.

You're an ambitious person. Make the smart move and consolidate your graduate student loans now.