



## **Act Quickly to Keep Rein on College Loans** *Deadline looms to trim repayments*

By Susan Tompor  
*Detroit Free Press*, April 24, 2006

Now there's a gift idea for debt-burdened college grads that could have a lot more punch than a monogrammed money clip.

Give that grad a gentle nudge and suggest that he or she consolidate those federally backed student loans.

And make it clear they've got to do it by June 30.

Rates on these variable-rate student loans are heading way higher – possibly 40 percent higher – as of July 1. Officially, we don't know the new rate until the end of May.

But many college loan experts already estimate that the new rates could be 1.5 to 2 percentage points higher than current rates.

So, if you're buying a college graduation card or gift, why not tuck this column in it as well? Students who move quickly can consolidate under the old, lower rates and save thousands of dollars over the life of the loan.

"At this point, it's a no-brainer," said Mark Kantrowitz, publisher of FinAid.org, a student loan site.

### **Pare those payments**

Consider a student graduating from college this spring. Say the student had \$20,000 in federally backed Stafford loans. The graduate who consolidates by June 30 could lock in an interest rate of 4.75% for the life of the loan.

On a \$20,000 balance, the monthly payment would be \$129 if you consolidated to a 20 year loan.

And what happens if you wait until July 1 or after?

Some experts say the same borrower could be looking at a rate of 6.5%. The monthly payment would be \$149 for that 20-year loan.

By consolidating soon, that borrower would have \$20 a month. More important, the borrower would save about \$4,800 over the life of the loan, according to Sallie Mae, the country's largest originator of federally insured student loans.

Students who are still in college also may consolidate their student loans.

A student is eligible for a lower in-school rate while in college or within a six-month window after graduation. And if you consolidate while at the in-school rate, you'd lock in that 4.75%.

But there are some complicated rules if you're still in school. A college junior, for example, would need to apply for early repayment status and then would be eligible to consolidate, says Erin Korsvall, a spokeswoman for Sallie Mae.

And then he or she would have to get a deferment to avoid paying on those loans while in college.

Korsvall noted that Sallie Mae has improved its online process for students still in college who are willing to consolidate. See [www. Smartloan.com](http://www.Smartloan.com).

A downside: You would give up a six-month grace period when you graduate, so you'd have to begin making student loan payments sooner than you would otherwise, but the rate would be lower.

Consolidation is still an option for last year's graduates, if they didn't consolidate those same loans already.

If a borrower graduated last year and is in repayment, his or her loans would have a rate of 5.3% now. If all the student loans were at that same 5.3%, the graduate could consolidate at 5.375% by June 30.

### **Variable rates continue**

Financially savvy students and their parents have long heard about the benefits of loan consolidation. But this year, the message could get a little more confusing.

As of July 1, the Stafford loan rate on new loans will move to a fixed rate of 6.8%.

But it's important to realize that the 6.8% fixed rate would apply only to Stafford loans taken out July 1 or after.

Students who took out student loans before July 1 would continue to have variable-rate loans if they didn't consolidate.

And this is not a small point. Those variable-rate Stafford Loans ultimately could climb as high as 8.25% if interest rates in general keep going up.

So if you have student loans now, you don't want to get confused and think that suddenly your loans automatically would be fixed at 6.8% anyway. They won't be.

And remember, the latest money-saving consolidation deal goes away July 1.

"Late is really bad. Late costs you a lot of money," said Patricia Scherschel, vice president of loan consolidation for Sallie Mae.

She suggests that students look into loan consolidation even before graduation day. That way nothing gets lost in the shuffle of graduation parties, summer jobs, packing up and moving and finding the first real job out of college.

"It's really important that this not get dropped."