

Student Loan Consolidation



Getting Out of Debt

Student Loan Consolidation: Getting Out of Debt

Introduction

When we talk about college graduation, several promising life changes occur in our minds – potential careers, independence as well as new beginnings. However, although it means beginning of something, it still signifies something less enjoyable too – the repayment of student loans.

As you all know, the repayment of ample student loans can be off-putting for both students and their parents. It was found out by the Public Interest Research Group in the US that the average debt among student borrowers is currently in excess of \$16,500. That large! The Associated Press also noted that graduates of public colleges and universities usually emerge owing more than \$10,000 for their undergraduate years alone. Those who are in private institutions typically owe \$14,000, while the graduate-level students often owe more than \$24,000. What's more for those studying medicine or law? For sure, they accumulate even more debt. And, the bad thing is, repaying these debts are even becoming more difficult for graduates in the midst of uncertain jobs and the recession.

With the interest rates in all student loan programs are now at record lows, there is no reason for the graduates not to consider student loan consolidation. It is often said that with student loan consolidation, students and graduates can save thousands of bucks in interest charges.

Now let us look at the things involved in student loan consolidation.

Student Loan Consolidation: A Definition

Student loan consolidation is typically defined as the process or the act of combining multiple loans into a single loan in order to decrease the monthly payment amount or elevate the repayment period. There are a lot of reasons behind it, and among those is money saving payment incentives, decreased monthly payments, fixed interest rates, and new or renewed deferments.

The Plus Factors of Consolidation

Student loan consolidation has a lot to offer. That is what many experts often say. To find out what consolidation has to offer, let's read on.

Overall Interest Savings

Over time, the student loans you have borrowed have been assigned with different variable interest rates. Note that the key word here is *variable*. While the loan you received may have offered, say, 3.5 percent at first, the rate will actually go up as the interest rates go up. So, if you have two or more of these loans, there is a great possibility that you may have owed amounts at different rates, and these rates can rise and fall yearly. Considering that the interest rates have nowhere else to go but up, it is no doubt a safe bet that the debt you have accumulated will mount faster than it would if you consider a student loan consolidation.

By considering consolidation and remaining on your 10 years payment plan, it is possible that you can lock your interest at today's current loan rates and save some bucks over the long haul. Aside from that, all of those loans that may have come from different lending companies or banks can be a burden to deal with. So, if you consolidate, it means that you only deal with one single company and one payment rather than several. Other than that, you have the great chance to receive added bonuses like payment and interest rate reductions in case you pay your debts on time over a period of months. These benefits are also possible to

come if you have automatically withdrawn your monthly payment from a checking or savings account.

Improved Credit Score

By considering a loan consolidation, borrowers not only save or reduce their long term debt but can also help change their credit score for the better over time. It is worth noting that an improved credit score is a very important factor when a person enters the “real” world and wants a new car, apartment or charge card.

Here are some tips for you that can help you as you enter the job market.

- *More Open Accounts, The Lower the Score:* Over the student borrower's life, he or she may have borrowed up to eight separate loans to pay for school. Each of these loans has a different payback amount, payment terms and interest rate. The more accounts the student has opened, the lower the over credit score. Thereby, lowering the amount of open credit lines on a credit report is needed, but this can only be made possible through a student loan consolidation in which the older accounts will be combined into a single account.
- *The Lower the Payments, the Higher the Score:* When the credit report evaluation comes, it is usual in the process that the amount of the borrower's monthly minimum payments is taken into account. So, when you hold a number of loans, every payment is considered part of the borrower's monthly payment obligation. Those who have considered consolidation have only one payment to make, which is typically lower than the minimum amount of the separate, multiple loans.
- *The Debt to Credit Ratio Matters:* As you may know, the credit bureaus typically find out if you are in debt. They do this by way of evaluating the

amount of your available credit you actually use. So, in case you have a total of \$10,000 available on three credit lines and you owe \$2,000, your score will then be considered higher than especially if you have maxed out your on credit line with a \$2,000 limit. It is worthy to note that if a person has several loans with a maximum used, it will reflect negatively on his or her credit score. Given this fact, consolidating the accounts is very important in order to lessen the number of open accounts being used.

Returning to School is a Possibility

Many students and graduates left school for family, career or financial reasons. The odds here are they will want to return to college down the line. However, if they fail to pay on their student loans while they are out of school, there is a great possibility that they can be kept from receiving any financial aid when they return. So, if financial reasons were part of the primary reason they left school, it therefore implies that digging a much deeper hole will only make it harder for them to come back.

By consolidating, the loans will also become easier to manage and pay off. And, once the loans are consolidated, you can retain your right for forbearance as well as for deferment. You can even take advantage of income sensitive and graduate repayment options which you may not have encountered before while you're on your multiple loans.

Hiding from Loans is Impossible

There is one particular truth when it comes to student loans – you can't hide from them. It may sound extreme though, but school loans are completely immune to bankruptcy and those students or graduates that failed to pay their bills face stiff punishments. The usual consequences are poor credit ratings, garnishment of wages, and IRS penalties.

Besides, attaining licenses in certain fields is impossible when you failed to pay off your student loan debts. There is even a chance that you may be excluded from some government contracts if you own a small business. With all these consequences, it is then clear that avoiding a student loan is no way to start a life after college. If you do come back and take out more and more student loans, you will be able to consolidate again after graduation.

In the end, about half of the students coming out of college have actually gained their degrees. Of course, it can be tough to remain and stay in school with financial burdens, and it is harder to come back. But, thanks to student loan consolidation that creating one less barrier to coming back to school and keeping your credit rating clean is now possible.

The Right Period to Consolidate

In the government consolidation loan program, it is interesting to know that there are actually no deadlines connected to it. It is supported by the fact that you can apply for the student loan anytime during the grace period or even on the repayment period. But to consolidate student loans, some considerations must be paid attention. To consolidate student loans, you should know that it usually take place during your grace period. At this moment, the lower in-school interest rate will then be applied to estimate the weighted average fixed rate to consolidate student loans. And once the grace period has ended on your government student loans, the higher in-repayment interest rate will be applied to estimate the weighted average fixed rate. Given such process, it is then understandable that your fixed interest rate for government student loan consolidation will be higher if you consolidate student loans after your grace period.

And when you are interested to consolidate student loans, you should know that even of your student loans are already in repayment, to consolidate student loans is still allowed and beneficial. It is for the reason that when you consolidate

student loans at this time, you already fix the interest rate on your government student loans while the rates are still originally low.

Conclusion

As presented, student loan consolidation can help most borrowers in many ways. But, it is still necessary to note that rates won't actually stay low without end. In fact, they are so low now and the only place for rates to go is up. So, if you are on your way out of college, saving every cent you can in today's tough job market is worth considering. And, regardless of the situation you are in to right now, consolidating your college loans is a practical decision.