



Loan Consolidation: What You Need to Know to Make an Informed Decision

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April 2006

MEDLOANS



Welcome To The Seminar ! ! !

- Consolidation often seems complicated, especially now
- You probably have questions — lots of questions
- What's right for one borrower may not be right for another—your individual loan portfolio will determine what is best for you



Welcome to the Seminar ! ! !

- Agenda
 - Loan Consolidation Basics
 - 6 Key Decision Points
 - Other Considerations
 - Early Repayment Consolidation
 - Regulatory Update
 - Questions and Answers



Learning Objectives

- By the end of the seminar you will:
 - Know what federal student loan consolidation is and how to determine if it is a good option for you
 - Understand the main regulatory aspects of federal student loan consolidation
 - Be able to determine the best time for you to consolidate
 - Know how to apply for federal student loan consolidation



Introduction

“An investment in knowledge always pays the best interest.” -Benjamin Franklin

- You are getting ready to reap the rewards of your education loan investment
 - Your medical degree will repay you, on average, 1.9 million dollars over your lifetime!
- Successfully repaying your loans will help establish and build your credit
- Failing to pay them will have negative ramifications for years
- Learning how to make the best decisions for you is what this session will cover



What is Loan Consolidation?

A Federal Consolidation loan allows the borrower to combine all of their eligible federal education loans into one new loan – and can extend the repayment term, allowing lower monthly payments.

Lender issues new loan and pays off all of the loans put into the consolidation

- The individual, consolidated loans no longer exist
- Loans that have been consolidated cannot, in almost all cases, be unconsolidated
- New loan has a different interest rate and different payback terms



What Loans are Eligible?*

- Stafford Loans – Federal and Direct
 - Subsidized and unsubsidized
- Perkins Loans
- Most Health and Human Services Loans
 - HPSL
 - Nursing – NSL, including LDS
 - HEAL
- Consolidation Loans – Federal and Direct**
- PLUS Loans – Federal and Direct
 - **Cannot** combine parent’s loans with student’s loans
- Private Loans
 - **Cannot** be consolidated in a federal consolidation loan

*See Federal Consolidation Application for a comprehensive listing of eligible loans.

**Subject to regulatory limitations for re-consolidation.



What is the Minimum Balance?

- Federal rules do not set a minimum balance
- Lenders are allowed to impose minimum balances
 - MEDLOANS consolidation minimum is \$10,000
- Federal rules do not set a maximum balance



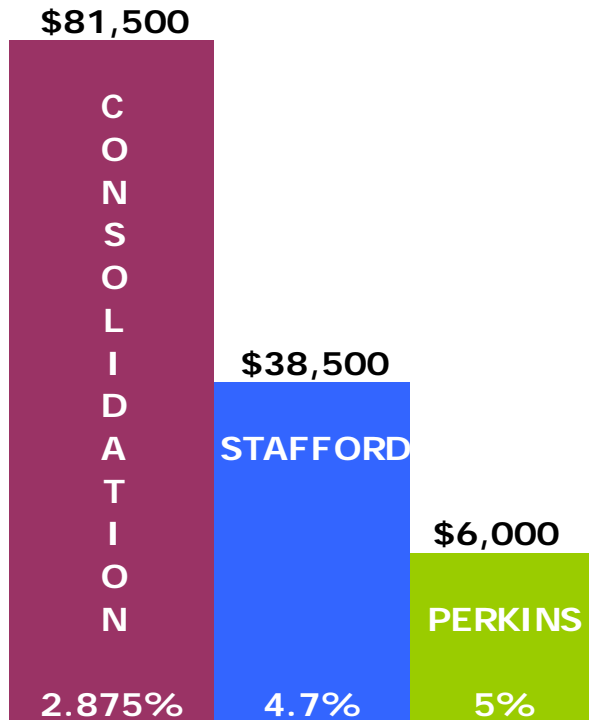
What is the Interest Rate?

- Fixed rate that is the weighted-average of underlying loan rates, rounded up to nearest 1/8th of a percent
- No matter what the weighted-average rate, the fixed consolidation loan rate cannot exceed 8.25%



Weighted Average Example

What is Weighted Average?



$$\$81,500 \times 0.02875 = \$2,343$$

$$\$38,500 \times 0.047 = \$1,810$$

$$\$6,000 \times 0.05 = \$300$$

$$\$126,000 \qquad \qquad \qquad \$4,453$$

$$\$4,453 \div \$126,000 = 0.03534$$

$$\text{or } 3.53383$$

3.53% rounded up to the nearest 1/8 % = 3.625%

Note: Special rules apply to consolidation loans that include HEAL loans



What are the Repayment Options?

- There are four basic types of repayment plans from which you can choose for your FFELP* student loans, whether you consolidate or not.
- There are advantages and disadvantages to each repayment option
 - Standard – equal payments over the life of the loan
 - Graduated – tiered payments over the life of the loan
 - Extended – if eligible
 - Income Sensitive – tied to income, payment reset annually
 - Plan details may vary by lender
- The repayment option you choose will impact the amount of time it takes to repay your loan, the size of your monthly payment, and your overall interest costs
- Additional details will be reviewed later

* Note: The FDLP consolidation program has similar, but not identical repayment plans.



How Long is the Payback Period?

10 to 30 years to repay, depending on how much you owe.*
Shorter payback is allowed – ask your lender for details.

Total Education Debt

Max Payback Period**

Less than \$7,500	10 Years
\$7,500 to \$9,999.99	12 Years
\$10,000 to \$19,999.99	15 Years
\$20,000 to \$39,999.99	20 Years
\$40,000 to \$59,999.99	25 Years
\$60,000 or more	30 Years

*Including federal and private education loans not put in consolidation loan, up to the amount of the consolidation loan.

**Slightly different payback schedule applies to Direct Consolidation Loans.



Advantages of Federal Consolidation

- Lowers monthly payments by extending the repayment term
- Can combine loan payments to multiple lenders into one payment, to one lender
- Replaces a variable interest rate with a fixed interest rate, protecting you against future rate increases
- No application fees, origination fees, pre-payment penalties, or credit checks



Disadvantages of Federal Consolidation

- Total interest costs will likely increase due to longer payback period
- May lose some loan benefits attached to the loans that are paid off with consolidation
- Fixed rate that prevents borrowers from taking advantage of any future decreases in the interest rates on variable rate student loans



Should You Consolidate?

- That depends on your objectives
- Consolidation is a debt-management tool that can:
 - Reduce your monthly payment
 - Simplify check-writing chores
 - Establish a fixed interest rate
 - Some may have consolidated already via early repayment consolidation
 - Federal student loan advantages are retained
 - Deferment
 - Forbearance
 - Interest subsidy (subsidized portion)
 - Loan forgiveness (portion of consolidation loan comprised of Stafford loans)



Should You Consolidate?

Initial Balance	Standard 10-Year Plan Total Pay-back (A)	Standard Monthly Payment Amount (B)	Consolidation level Monthly Payment Amount (C)	Consolidation Level Repayment Plan Total Pay-back (D)	Monthly Payment Amount Difference (B - C)	Total Pay-back Cost Difference (D - A)
\$10,000	\$12,905	\$108	\$78	\$14,001 15 years	\$30	\$1,096
\$20,000	\$25,809	\$215	\$129	\$31,019 20 years	\$86	\$5,210
\$50,000	\$64,523	\$538	\$285	\$85,518 25 years	\$253	\$20,995
\$100,000	\$129,046	\$1,075	\$522	\$187,793 30 years	\$554	\$58,748
\$150,000	\$193,568	\$1,613	\$782	\$281,690 30 years	\$831	\$88,121
\$200,000	\$258,091	\$2,151	\$1,043	\$375,586 30 years	\$1,107	\$117,495

Calculations assume a repayment interest rate of 5.30% for unconsolidated loans, 4.75% for consolidation loans, and maximum repayment terms



What's Best for You?

- This seminar will take you through a simple, six step process that will help you determine if consolidation is the best option for you
 1. Identify your education loan situation
 2. Know when to consolidate
 3. Decide which loans to consolidate
 4. Identify your lender options
 5. Understand your repayment options
 6. Select an application process



Identify Your Education Loan Situation



- What types of education loans do you have?
- What federal program are your loans issued under?
 - Federal Family Education Loan Program (FFELP)
 - Federal Direct Lending Program (FDLP)
 - Both?
- How many loans do you have?
- How much did you borrow?



Identify Your Education Loan Situation



- Do you have all of this information at your finger tips?
- Where can you get it?
 - National Student Loan Data Systems (NSLDS)
www.nslds.ed.gov
 - National Student Loan Clearing House (NSLC)
www.nslc.org/students
 - Your lender's website
www.salliemae.com
 - Manage Your Loans – MYL



Know When to Consolidate



- Federal regulations determine when a borrower may consolidate in the federal consolidation program.
- Once you know when you can consolidate, you'll need to know when you can get the lowest possible interest rate. This is determined by the interest rates on the loans you are consolidating.
- These factors will determine what your fixed rate will be and how much you will pay in total interest.



Know When to Consolidate

- Stafford interest rates are variable and are reset every year on July 1st.
 - The rate is based on the Treasury Bill (T-bill) auction and usually causes the interest rate to go up or down
 - Stafford loans have a lower interest rate while the loan is in an in-school, grace, or deferment status
 - The interest rate goes up .60% when the loan is in a repayment or forbearance status
 - Since the final fixed rate on a consolidation loan is determined when the loan is consolidated, you will want to consolidate when the rates are the lowest!



Know When to Consolidate



- Eligibility is based on borrower and loan status
- FFELP loans
 - Can consolidate when the loans have entered a grace or repayment status
 - The borrower may request that loans in an in-school status be accelerated into repayment status while still attending school
 - Borrowers must know the rules and understand the impact!
 - Lenders are not required to honor early repayment requests
- FDLP loans
 - Can consolidate after the loan(s) is fully disbursed
 - Even if the borrower is still in school
- In-school consolidation option terminates for all borrowers July 1st



Know When to Consolidate*

- All borrowers may consolidate:
 - Anytime during the post-school, six-month grace period
 - But you'll give up any remaining grace period once the consolidation loan is disbursed
 - So ask your lender to hold the disbursement of your loan until just before your grace period ends
 - Complete item 26 of Section D.1 on Common Consolidation Application
 - If you are returning to school in the fall, DO NOT select this option
 - This option not available for Direct Loan consolidation
 - Anytime during repayment
 - FFEL borrowers who accelerate loans directly to repayment status from in-school status will permanently waive the grace and in-school periods on those loans
 - During a period of deferment or forbearance

*Special rules apply to borrowers who are delinquent or in default.



Know When to Consolidate

- Borrowers with at least one Direct Loan or who are attending a DL school may obtain a Direct Consolidation Loan while still in school and still retain the grace period on their consolidation loan.



Is Now the Time to Lock in Rates?



- Current Stafford rates are at the fourth lowest level in history of federal loan program
- Upward trend since May 2005
- Future interest rates could be higher or lower
 - Market fluctuations
 - Law changes



Decide Which Loans to Consolidate



- You can consolidate all of your eligible federal student loans or just some of them
 - Some loans may have existing benefits that may be lost if they are consolidated
 - For example, Perkins loans lose loan forgiveness benefits when they are consolidated
 - Some loans may have interest rates that would influence the final fixed rate in such a way that it would be better to leave them out of the consolidation



Decide Which Loans to Consolidate



- Once consolidated, Perkins, HPSL, LDS, and Federal Nursing loans lose their interest subsidy during a period of authorized deferment
 - Perkins loans retain interest subsidy if consolidated under the Direct Loan consolidation program
- Perkins loans lose Perkins-specific deferment options when they are consolidated
- You may exclude these loans from consolidation until you no longer need deferment subsidy
- Federal rules allow you to reconsolidate your consolidation loans with your Perkins loans, etc., at a later date



Decide Which Loans to Consolidate



- Current regulations allow married couples to consolidate their loans together
 - As of 7/1/06, this option will no longer be available for FFEL or DL consolidation loans
- BUT, most borrowers are generally advised not to apply for spousal loans
 - Joint and several liability clause survives divorce
 - Deferment eligibility is harder to establish
- It is an option, but understand the rules and the implications!



Identify Your Lender Options



- Federal regulations stipulate which lender you may consolidate with
 - Single Holder Rule: If all of your FFEL loans are with the same lender, you must attempt to consolidate with that lender first. If that lender does not offer consolidation loans or does not offer income sensitive repayment terms, you may select any eligible lender
 - If your loans are held by more than one lender, you may select any eligible lender




Identify Your Lender Options



- If you have only Direct Loans, you may consolidate with the FDLP or with any eligible FFEL program lender
- If you have Direct Loans and FFEL loans with multiple lenders, you may consolidate with the FDLP or with any eligible FFEL program lender
- If you have Direct Loans and FFEL loans with one lender, you may consolidate with the FDLP or with the FFEL lender (single holder rule still applies)



Identify Your Lender Options

- 
- When you can select your lender, shop carefully
 - Look for lenders who have experience in the student loan program
 - This will be a long term relationship
 - Compare borrower benefits
 - Interest rate reductions, rebates
 - Be sure you understand how to qualify for the benefits and how you can lose them
 - Ask your lender to quote the “value” of the benefits being offered
 - Look for services and options you want



Understand Repayment Options



- There are advantages and disadvantages to each of the four available repayment options under the FFEL* program
 - To minimize the amount of interest you pay, select the one with the highest payment you can reasonably afford

* Note: The FDLP consolidation program has similar, but not identical repayment plans.



Standard (Level) Repayment



- Most common option
 - Payments of equal, monthly installments
 - Automatically selected if you do not choose another plan
 - Direct Lending standard plan is limited to a 10-year payback period
- Advantage
 - Least expensive option in terms of total interest costs
- Drawback
 - Payment may be more than some borrowers can afford



Graduated Repayment



- Tiered payment plan
 - Monthly payment amount changes periodically, usually increasing
 - Lenders' plans may vary
- Advantage
 - Lower initial payments
- Drawback
 - Later payment tiers can be high
 - Higher interest costs



Income-Sensitive Repayment



- Monthly payment based on the borrower's income, re-examined annually
 - Payments must cover accruing interest
 - Lenders' plans may vary
 - Direct Lending offers “income-contingent” plan with federally mandated eligibility calculations and payment amounts
- Maximum term can be extended up to 5 years
- Advantage
 - More affordable payment
- Drawback
 - Significantly higher interest costs over the life of the loan



Extended Repayment



- Extends the repayment term for up to 25 years
 - Must have more than \$30,000 in FFEL loans
 - Only for “new borrowers” on or after 10/7/98
- Lender may offer either level or graduated schedule, or both
- Advantage
 - Can provide longer repayment term
- Drawback
 - Usually results in higher interest costs



Postponing Repayment - Deferment

- A period of time during repayment in which the borrower, upon meeting certain conditions, is not required to make payments of loan principal
 - Government pays the interest on the subsidized portion of the consolidation loan
 - Most frequently used deferments
 - In-school
 - Unemployment
 - Economic Hardship
 - Medical students may qualify for this deferment during residency programs



Economic Hardship Deferment



A period during which the borrower is working full time but is earning an amount that does not exceed the greater of the minimum wage or the poverty line for a family of two.

Economic hardship also exists if a borrower's monthly payments on federal education loans are equal to or greater than 20 percent of the borrower's monthly income, as defined in FFELP regulations.



Economic Hardship Deferment



ECONOMIC HARDSHIP DETAILS

- Federal education loans include Stafford, Perkins, GSL, SLS and certain Health Professions loans. Not included are private education loans, credit card debt, mortgages or car payments.
- Monthly gross income refers to the borrower only; if married, a spouse's income does NOT count. Having children makes no difference.
- Poverty level, interest rates and income can change each year, so deferments must be applied for each year.
- If you qualify, you may defer for up to three years.
- Your loan servicer can calculate the numbers for you, but be sure they are aware of ALL your federal education loans and be sure they are using a 10 year repayment schedule.
- **You MUST file each year.**



Economic Hardship Deferment



ECONOMIC HARDSHIP DEFERMENT ELIGIBILITY REQUIREMENTS

TWO conditions must be met, and **BOTH** must be met to qualify for Economic Hardship Deferment:

Condition #1: Borrower's total monthly loan payments on FEDERAL education loans amortized over 10 years must EQUAL or EXCEED 20% of their monthly gross income...

- AND -

Condition #2: Borrower's monthly gross income minus total monthly loan payments as described above must be **LESS** than \$2,420*

**220% of the greater of the monthly wage or the monthly living standard for a family of two living in poverty (continental U.S.);subject to change each year. (02/02/06)*



Economic Hardship Deferment



ECONOMIC HARDSHIP DEFERMENT CALCULATION EXAMPLE

Assumptions:

Annual salary	\$	40,788
Monthly salary	\$	3,399
Total Loan Portfolio	\$	120,000
Monthly Loan Payments	\$	1,511

Do you meet condition #1? **Yes**

\$ 1,511 greater than or equal to 20% of monthly gross income (\$680)

Do you meet condition #2? **Yes**

\$1,888 (\$3,399– \$1,511) is less than \$ 2,420

Estimated payments calculated at current interest rates of 4.7 % in school and grace, 5.3% in repayment. Portfolio is based on \$120,000 in Staffords borrowed over four years.



Postponing Repayment - Forbearance

- A period of time during which the borrower is permitted to temporarily cease making payments or reduce the amount of the payments
 - The borrower is responsible for the interest that accrues on the loan during the forbearance period
 - Most forbearances are granted at the discretion of the lender; some forbearances are entitlements for eligible borrowers



Forbearance



- Borrowers who need payment relief but do not meet the requirements for deferments
- Allows borrower to:
 - Temporarily postpone payments
 - Extend the period of time allowed to make payments
 - Temporarily make smaller payments
- Interest accrues on subsidized and unsubsidized loans



Forbearance




- Mandatory:
 - Must be granted if you meet eligibility criteria
 - Available for internship/residency program
- Voluntary:
 - Granted at the discretion of your lender or servicer
 - Typically granted for a period up to 12 months
 - Verify impact on borrower benefits before applying



Attention: Residents!



Select an Application Process

- 
- Online application
 - Can be an electronic process
 - Including electronic signature
 - Can be printed out and signed
 - Lender assistance over the telephone
 - Paper application or online
 - Paper application
 - Usually the longest turn around time



Select an Application Process



- Decide which process is best for you
- Gather all of your information
- Carefully complete the application
 - Online or paper
- Submit application in a timely manner
 - Take advantage of lowest rates
- Monitor progress
- If already in repayment, continue to make payments until loan is disbursed



What's Best for You?



- Remember to review the six simple steps to evaluating loan consolidate
 1. Identify your education loan situation
 2. Know when to consolidate
 3. Decide which loans to consolidate
 4. Identify your lender options
 5. Understand your repayment options
 6. Select an application process
- In many cases today it is a good option, but only you can decide what is best for your situation.



Why MEDLOANS Consolidation?

- Experience and service quality
- MEDLOANS borrower benefits
 - ¼ % interest rate reduction for auto debit
 - 1% interest rate reduction for 48 on-time payments
 - MEDLOANS Consolidation Cash Back benefit: Loan credit or cash back based on 1% of your initial MEDLOANS consolidation loan balance after 33 on-time payments.
 - To qualify, before your first payment due date, sign up on Manage Your Loans to receive your account information by e-mail.
 - Once earned, the MEDLOANS Cash Back Benefit is yours to keep.
- Flexible repayment options
- Combined billing with Sallie Mae private loans
- Concierge service
 - Can be requested online, over the phone or via request form
 - **1-800-622-6214** Hours: 8 a.m. to 8 p.m. Mon.–Thurs.; 8 a.m. to 5 p.m. Fri. (ET)
- Online application and information
 - <http://www.aamc.org/students/medloans/consolidation/start.htm>



Early Repayment Consolidation Borrowers

Early Repayment Consolidation

If you consolidated last year while in school and have taken out new loans, you need to understand the repayment issues for your loans.

Current consolidation loan does not have a grace period

- Will go into repayment immediately once you leave school
 - First payment due within 60 days

Any newer Stafford loans will have a grace period

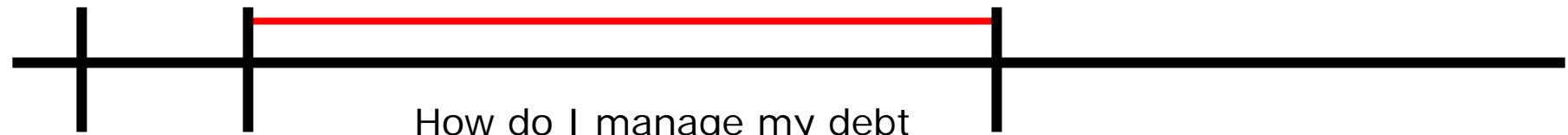
- First payment due within 60 days of the end of the grace period



Early Repayment Consolidation Borrowers

Early Repayment Consolidation Sample Timeline

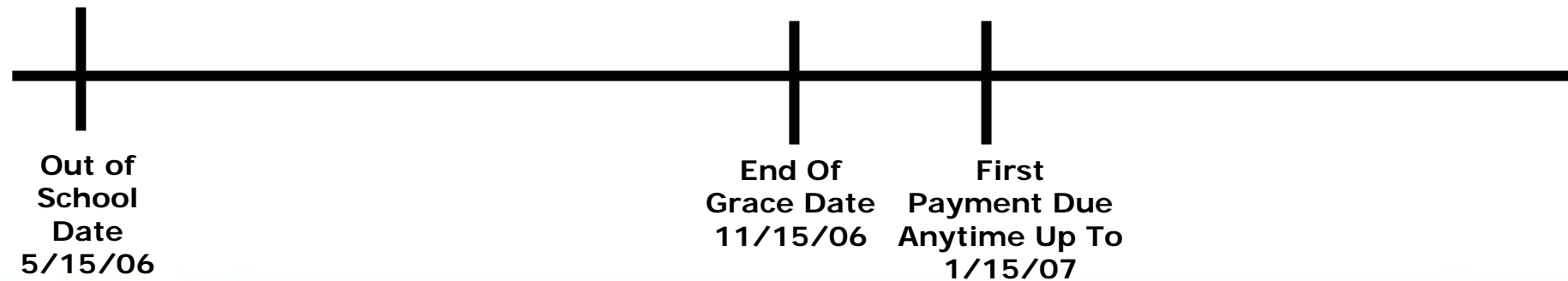
Existing consolidation loan



How do I manage my debt during this time period?

1. Make full payments
2. Explore interest only payments
3. Deferment
4. Forbearance

Newer Stafford loans



Early Repayment Consolidation Borrowers

If you already have a consolidation loan, you can:

- Consolidate existing consolidation loan with new Stafford loans
 - New rate and term
 - Most convenient option; one loan, one payment
- Consolidate new Stafford loans
 - Will have two separate consolidation loans, probably with different interest rates and possibly with different repayment terms
 - Ability to do a separate consolidation loan is based on the disbursement dates of new loans
 - 1st disbursement date must be after the disbursement date of the existing consolidation loan
- Keep loans separate
 - Existing consolidation loan goes into repayment immediately
 - Stafford loans go into repayment after grace
- Run your loan portfolio on repayment calculators to determine your best option



Examples

Consolidate Existing Consolidation Loan with New Stafford Loans

Amount	Interest Rate	Term	Payment	Interest Costs
\$154,000	3.375%	30 years	\$681	\$91,098



Examples

Existing Consolidation Loan

Amount	Interest Rate	Term	Payment	Interest Costs
\$115,500	2.875%	30 years	\$479	\$57,012

Consolidate New Stafford Loans

Amount	Repayment Interest Rate	Term	Payment	Interest Costs
\$38,500	4.75%	20 years	\$249	\$21,211
		30 years	\$201	\$33,800
				Total \$90,812



Examples

Existing Consolidation Loan

Amount	Interest Rate	Term	Payment	Interest Costs
\$115,500	2.875%	30 years	\$479	\$57,012

New Stafford Loans – Not Consolidated

Amount	Repayment Interest Rate*	Term	Payment	Interest Costs
\$38,500	5.3%	10 years	\$414	\$11,183
	7.3%	10 years	\$453	\$15,859

*This interest rate will reset every July 1st, with a maximum rate of 8.25%



Private Education Loans

- **Consider carefully whether or not consolidation is appropriate for your private education loans**
 - Cannot be consolidated in a federal consolidation loan
 - Can be consolidated in a private consolidation loan
 - Some form of credit worthiness is almost always required
 - Baseline credit score and/or minimum salary
 - Co-signer may be required



Private Education Loans

- **Federal regulations do not apply to private consolidations loans**
 - Restrictions of the federal program do not apply
 - No single holder rule
 - Can select any participating lender
 - Benefits of the federal program not available
 - Deferment and forbearance entitlements
 - Interest is not mandated by federal regulations
 - For example, can be a variable rate, that changes quarterly
 - Usually is higher than federal consolidation interest rate
- **Application fees and other fees may apply**
 - Carefully review the total overall costs, including what the new interest rate will be
 - Existing private education loans may have lower rates



Private Education Loan Consolidation

Sallie Mae Private Consolidation Loan

- Will be available in late April 2006
- Will provide combined billing with MEDLOANS federal consolidation loan borrowers



Reauthorization – effective 7/1/06

Spousal consolidation eliminated

New Stafford loans will be at a fixed rate

New PLUS loans will be at a fixed rate

Will not be able to consolidate while in school

- Both FFEL and DL

Cannot reconsolidate unless

- Take out a new eligible loan
- Leave out an eligible loan



Resources

www.aamc.org/debthelp

“You want to do what? A Primer on Loan Consolidation”

Subscribe to MONEYMATTERS listserv:

www.aamc.org/debthelp

www.aamc.org/medloans





Questions?

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