

**Presented by:**  
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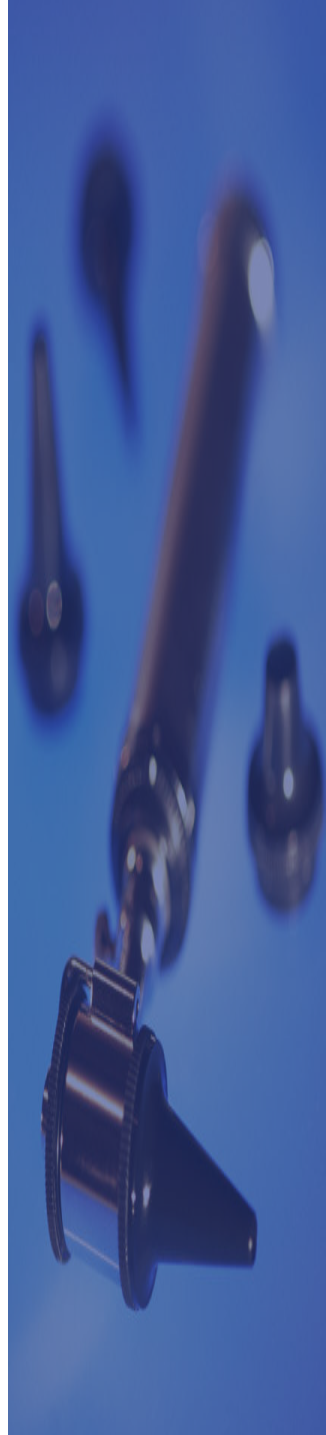
# Smart Ways to Repay

## Education Debt Management



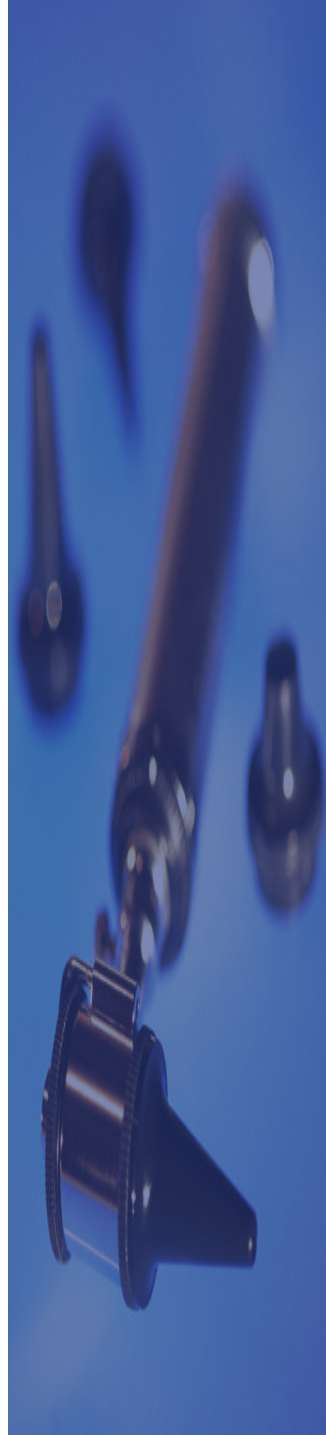
# Agenda

- Consolidation as a Repayment Strategy
- Additional Considerations
- Evaluating Your Options
- Questions?



# Objectives

- Discuss whether loan consolidation is still a viable option for your portfolio
- Provide you with the information needed to evaluate your options and create a repayment strategy that meets your needs



# Consolidation as a Repayment Strategy



# Federal 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 are paid in full and the loan terms no longer apply
- Loans that have been consolidated cannot, in almost all cases, be unconsolidated
- New loan has a different interest rate and different payback terms



# Should You Consolidate?

## Top Reasons to Consolidate

- Loans are with multiple lenders
  - Consolidation allows you to bring your loans to one location for ease in managing the loans
- Monthly payment is unaffordable
  - Consolidation allows you to stretch payments over a longer period to minimize the monthly payment
  - Consider whether repayment plans on existing loans meet needs or whether longer consolidation term is necessary
- Fixed interest rate is desired
  - Consolidation creates a single, fixed interest rate for all of your loans
  - Consolidation is usually used for this reason when interest rates are low on your variable rate loans



# Should You Consolidate?

## ADVANTAGES

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

## DISADVANTAGES

- Higher interest costs likely, due to longer payback period
- Potential loss of federal and lender-specific benefits on the loans consolidated
- Fixed interest rate, preventing you from taking advantage of any future interest rate decreases on your variable rate student loans



# Loans to Consolidate

## ELIGIBLE LOANS\*

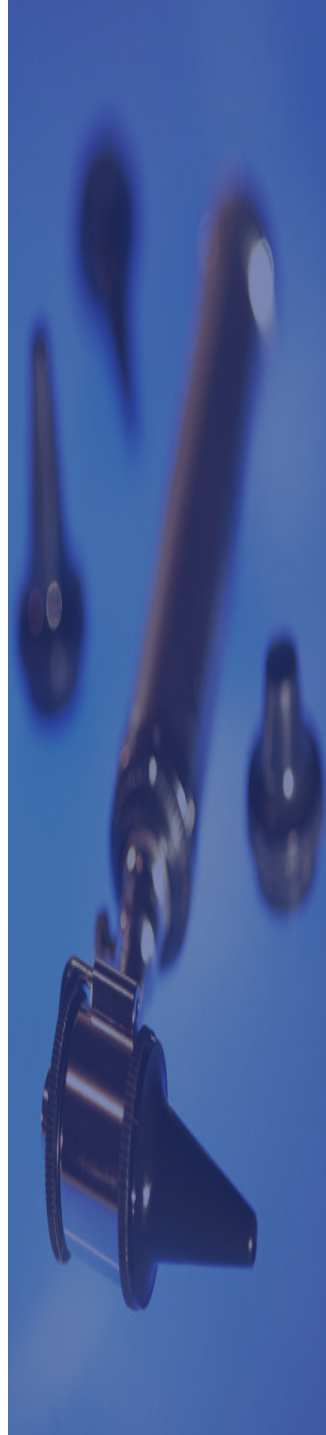
- Stafford Loans
  - Federal and Direct
  - Subsidized and unsubsidized
- Perkins Loans
- Most Health and Human Services Loans
  - HPSL
  - NSL, including LDS
  - HEAL
- Consolidation Loans – Federal and Direct\*\*
- PLUS Loans – Federal and Direct, including Grad PLUS

## INELIGIBLE LOANS

- Primary Care Loans (PCL)
  - Cannot be consolidated in a federal consolidation loan
- Private Loans
  - Cannot be consolidated in a federal consolidation loan
- Loans in someone else's name
  - Cannot combine parent's loans with student's loans

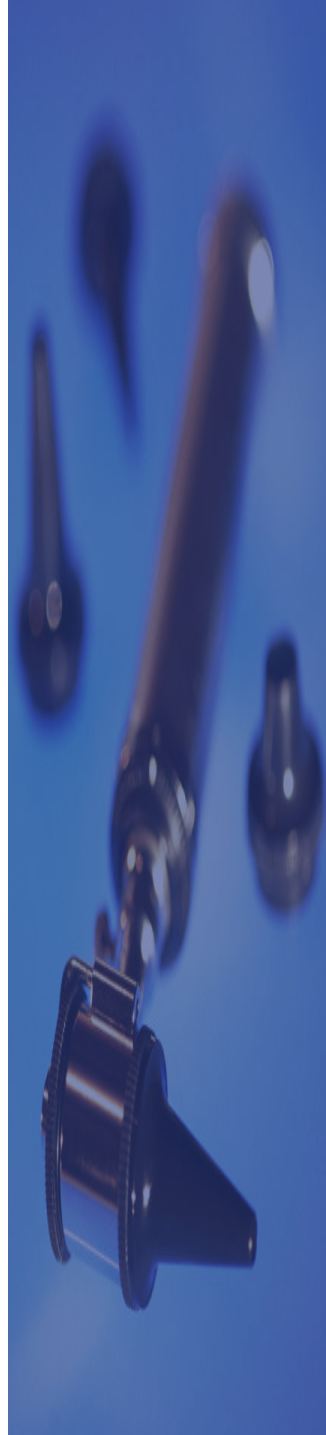
\* See Federal Consolidation Application for a comprehensive listing of eligible loans.

\*\* Subject to regulatory limitations for re-consolidation.



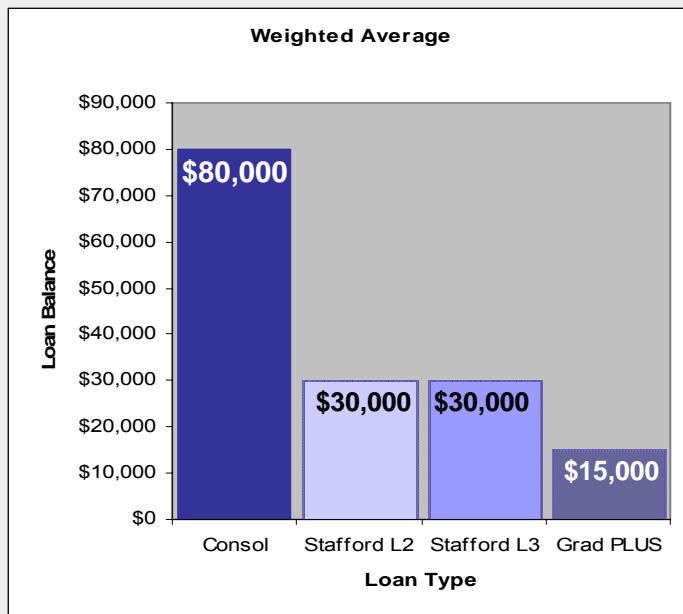
# Loans to Consolidate

- You can consolidate all of your eligible federal student loans or just some of them
  - Interest rates
  - Loan benefits
    - Interest subsidy
    - Deferment and forgiveness options
- You may consolidate again at a later date to combine any excluded loans with your consolidation loan



# Interest Rate

- Consolidation loans receive a fixed interest rate based on the interest rates of the loans you are consolidation
  - Specifically, it is calculated as the weighted average of rates on the loans consolidated, rounded up to nearest 1/8th percent
  - Final interest rate cannot exceed 8.25%



Loan	Balance	Interest Rate	Weight Factor
Consol	\$80,000	2.875%	2,300
Stafford L2	\$30,000	6.540%	1,962
Stafford L3	\$30,000	6.800%	2,040
Grad PLUS	\$15,000	8.500%	1,275
	<b>\$155,000</b>	<b>4.888%</b>	<b>7,577</b>

$$\frac{7,577}{155,000} = 4.888\% \Rightarrow \text{Weighted Average } 5.00\%$$

Round up to nearest 1/8<sup>th</sup> %

# Repayment Term

Consolidation repayment term ranges from 10 to 30 years, depending on your outstanding educational debt.\* Shorter payback is allowed – ask your lender for details.

## Total Education Debt

**Less than \$7,500**

**\$7,500 to \$9,999.99**

**\$10,000 to \$19,999.99**

**\$20,000 to \$39,999.99**

**\$40,000 to \$59,999.99**

**\$60,000 or more**

## Max Payback Period

**10 Years**

**12 Years**

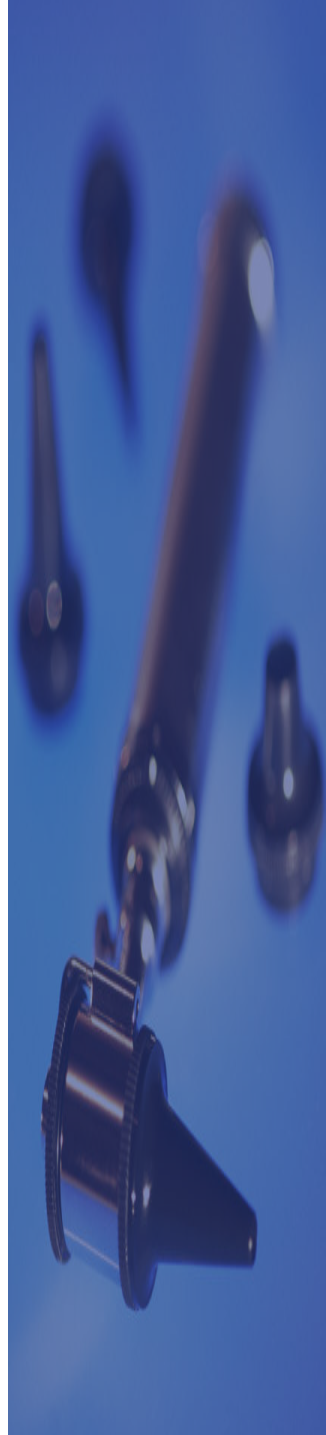
**15 Years**

**20 Years**

**25 Years**

**30 Years**

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



# When to Consolidate

- Eligibility is based on loan status\*
  - Can consolidate when the loan has entered a grace or repayment status
    - Stafford loans enter repayment after the expiration of the grace period
    - Grad PLUS enter repayment upon full disbursement
    - Consolidation loans enter repayment upon full disbursement
      - **Exception:** DL in-school consolidation loan enters repayment after the expiration of the grace period

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



# When to Consolidate

- All borrowers may consolidate:
  - Anytime during the grace period
    - Remaining grace period is forfeited on consolidated loans
    - Most of your grace period can be retained through “grace hold” option
      - Ask whether lender will hold disbursement of your loan
      - Request this option by completing [item 26 of Section D.1](#) on the FFEL Common Consolidation Application
      - **NOTE:** The interest rate on any loan being consolidated will remain in effect, including any change in the variable rate, until the consolidation loan is disbursed
  - Anytime during repayment
    - Including during a period of deferment or forbearance

**TIP: Do not use the “grace hold” option if you will return to school in the fall!**

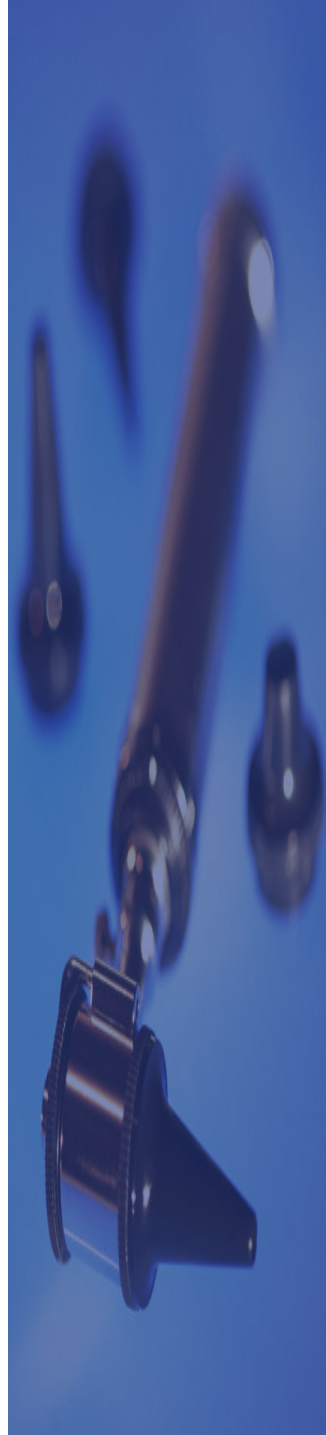


# When to Consolidate

## Variable Rate Loans

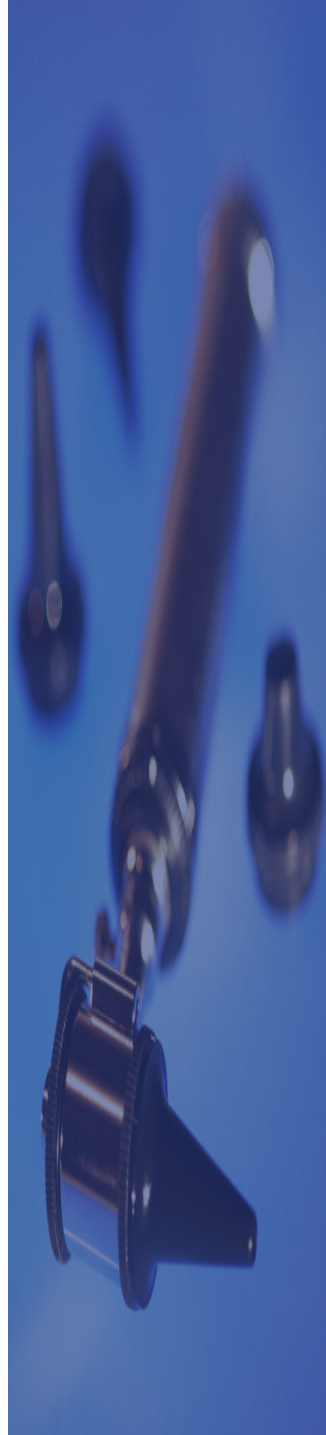
- Most recent variable rate Stafford loans have a lower interest rate during in-school, grace, and deferment periods\*
  - Consolidating during grace or deferment periods can result in a lower interest rate on your consolidation loan
- Interest rates on variable rate federal loans reset on July 1
  - New rate could be higher or lower
  - Check in June for the new interest rate that will be effective July 1 to determine whether you should consolidate before or after July 1
- Since the final fixed rate on a consolidation loan is determined when the loan is consolidated, consolidate when interest rates are lowest!

\* Applies to Stafford loans first disbursed July 1, 1995 – June 30, 2006, inclusive. Rate is up to 0.6 percentage points lower during these periods.



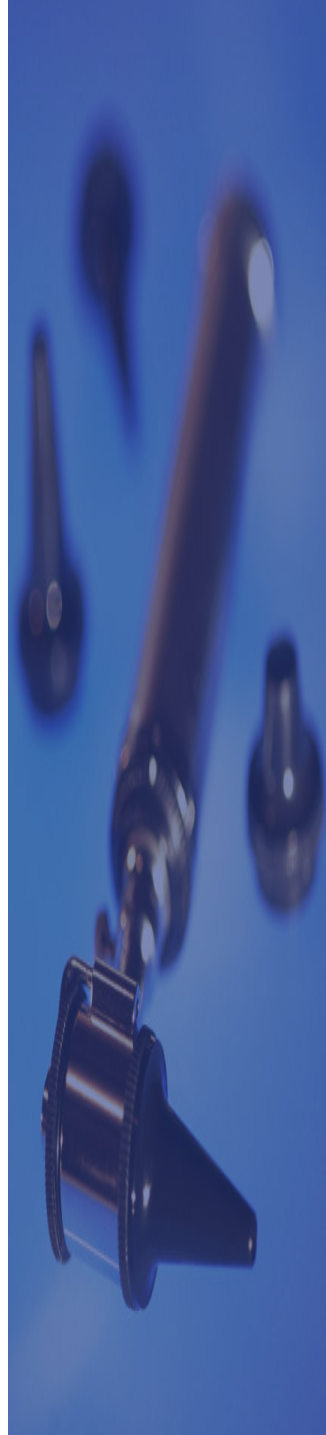
# Balance Limitations

- Federal rules do not set a minimum balance
- Lenders are allowed to impose minimum balances
  - Direct Loan consolidation: no minimum
  - Sallie Mae consolidation minimum: \$5,000
  - MEDLOANS consolidation minimum: \$10,000
- Federal rules do not set a maximum balance
  - No limit on MEDLOANS consolidation



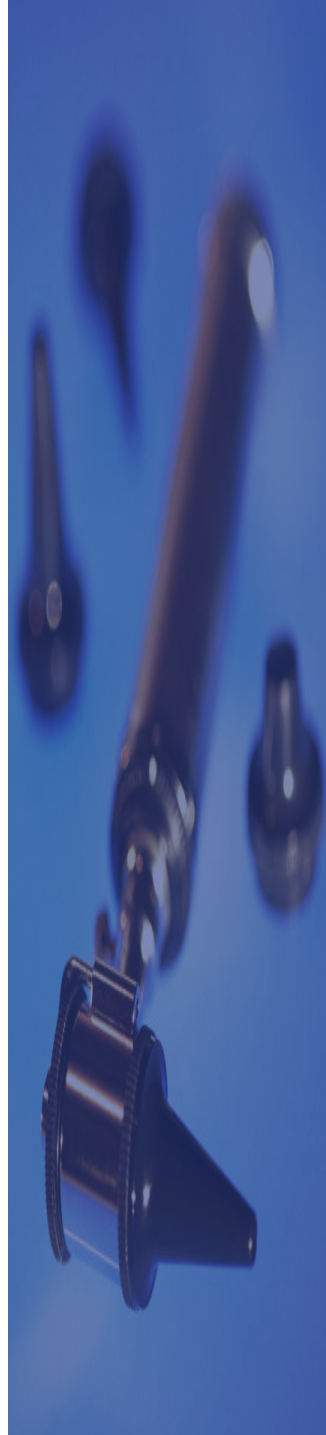
# Selecting a Lender

- Shop carefully when selecting your lender
  - Look for lenders who have experience in the student loan program
    - Remember, this will be a long term relationship
  - Look for services and options you want
  - Evaluate not only those benefits being offered on consolidation, but also the benefits available on your current loans!



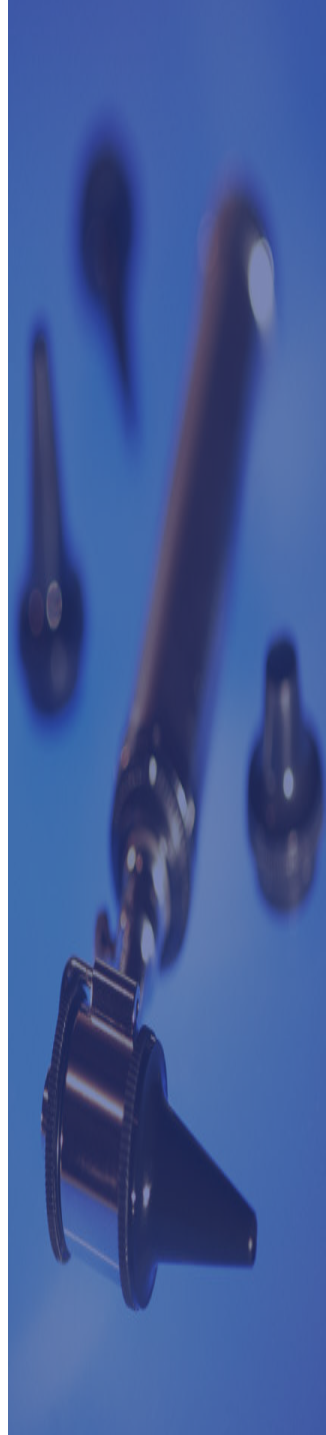
# Comparing Borrower Benefits

- Two main types of lender-specific benefits:
  - Interest rate reductions or principal rebates
    - Rebates may be “cash-back” or principal reductions
    - Rebates may be based on original balance or on outstanding balance at the time you earn the benefit
- Expect qualification criteria for any benefit offered
  - e.g., sign-up for certain products or services, minimum balance requirement, series of on-time payments
- Compare different benefit offerings carefully
  - Understand how to *qualify* and be *disqualified*
  - Determine the “value” of the benefit being offered
  - Evaluate only those benefits you are certain to earn!



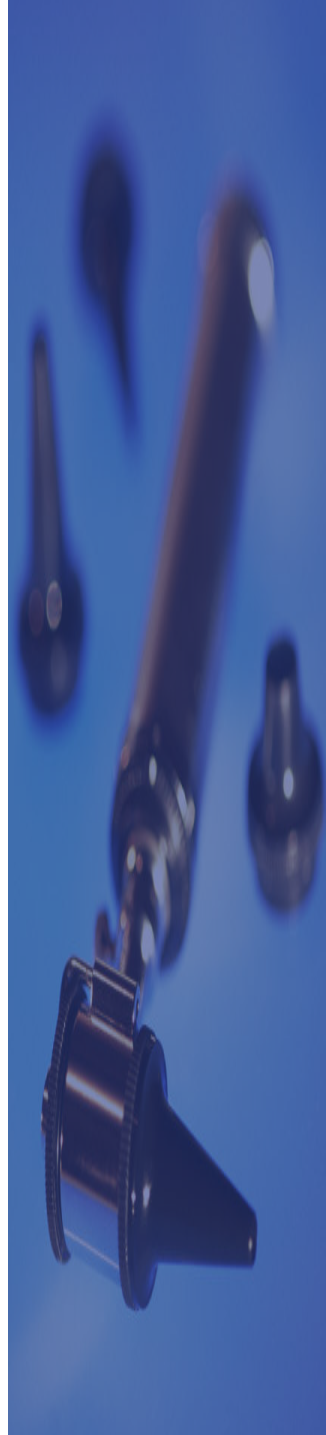
# Application Process

- Most lenders offer multiple application options
  - Online, paper, or concierge service
- Gather all of your information
- Carefully complete the application and submit it in a timely manner
  - Take advantage of lowest rates
- Monitor progress
- Continue to make any required payments until loan is disbursed



# Why MEDLOANS?

- Experience and service quality
- MEDLOANS borrower benefits\*
  - MEDLOANS Consolidation Cash Back benefit: Loan credit or cash back based on 1% of your initial MEDLOANS consolidation loan balance after 3 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
  - 1% interest rate reduction after making the initial 24 on-time payments
  - ¼% interest rate reduction for auto debit
- 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  
Online application and information  
<http://www.aamc.org/students/medloans/consolidation/start.htm>



\* Special rules limit availability of these benefits to the non-HEAL portion of consolidation loans. Different benefits apply to MEDLOANS Consolidation loans with an initial non-HEAL balance that is less than \$30,000 and to MEDLOANS Consolidation loan disbursed prior to March 1, 2006. Other terms and conditions apply.

# Applying for MEDLOANS Consolidation

[www.aamc.org/medloans](http://www.aamc.org/medloans)

The screenshot shows the MEDLOANS website interface. At the top left, the MEDLOANS logo is next to the AAMC logo. The top right contains the text "MEDLOANS® is a program of the Association of American Medical Colleges" and navigation links for "Home", "Government Affairs", "Newsroom", "Meetings", "Publications", "Shopping Cart", "Site Map", and a search bar. The main content area features a large blue graphic of a stethoscope on the left. To its right, the heading "MEDLOANS" is followed by the tagline "Providing for tomorrow's doctors." Below this is a paragraph describing the program's history and a paragraph about borrower rewards. On the right side, there is a quote "I want to cure help heal." and a "Quick Links" section with three items: "Apply for a loan", "Access your account", and "Consolidate your loans". The "Consolidate your loans" link is circled in red. A red box with an arrow points to the "Consolidate your loans" link, containing the text "Direct link to the MEDLOANS consolidation application". Another red box with an arrow points to the "For Residents and Borrowers in Repayment" link in the left sidebar, containing the text "Resources about consolidation, deferment, and debt management, including the consolidation primer".

**MEDLOANS**  
Providing for tomorrow's doctors.

MEDLOANS is the only loan program sponsored by the Association of American Medical Colleges. With more than 20 years of experience, we're the nation's oldest, most stable loan program. Our loans are tailor-made to meet the needs of medical school students—they're also among the least expensive.

MEDLOANS rewards borrowers for on-time payments and offers unique resources and services before, during, and after medical school.

**Quick Links**

- [Apply for a loan](#)
- [Access your account](#)
- [Consolidate your loans](#)

**For Students and Applicants**

**For Financial Aid Officers**

**For Residents and Borrowers in Repayment**

**“I want to cure help heal.”**

**Direct link to the MEDLOANS consolidation application**

**Resources about consolidation, deferment, and debt management, including the consolidation primer**

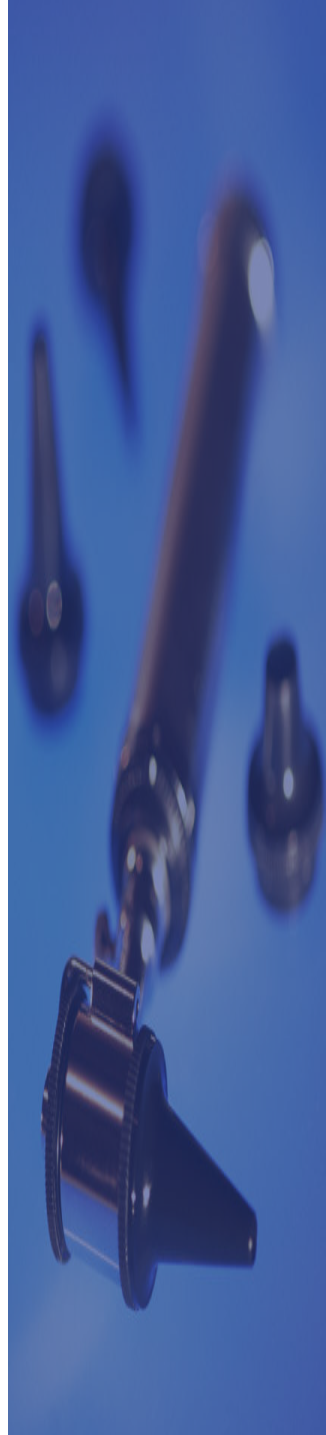
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# Other Considerations



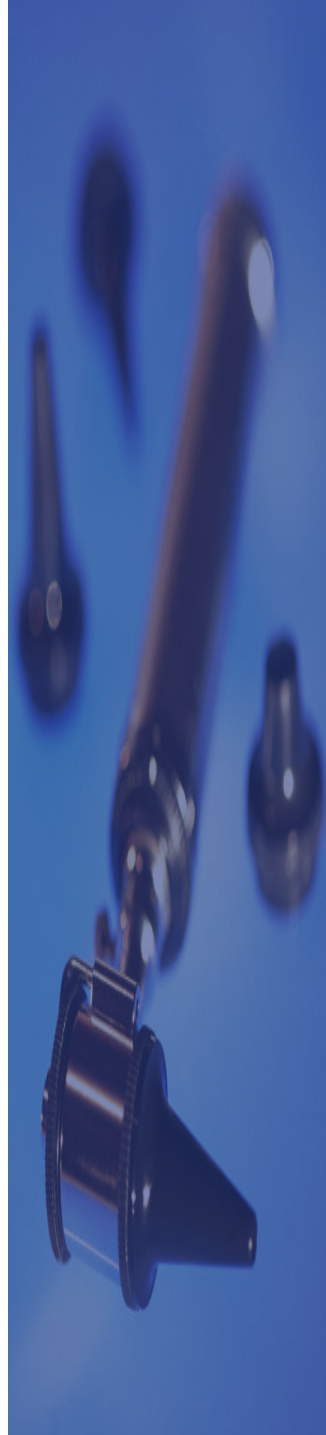
# Re-Consolidation

- You may have already consolidated some, or even most, of your federal loans
- You can consolidate again if you have one or more eligible loans in addition to your existing consolidation loan
  - You can also consolidate two consolidation loans into a single consolidation loan
- “Run the numbers” to evaluate whether consolidating again will be beneficial
  - We will look at an example shortly



# Private Consolidation

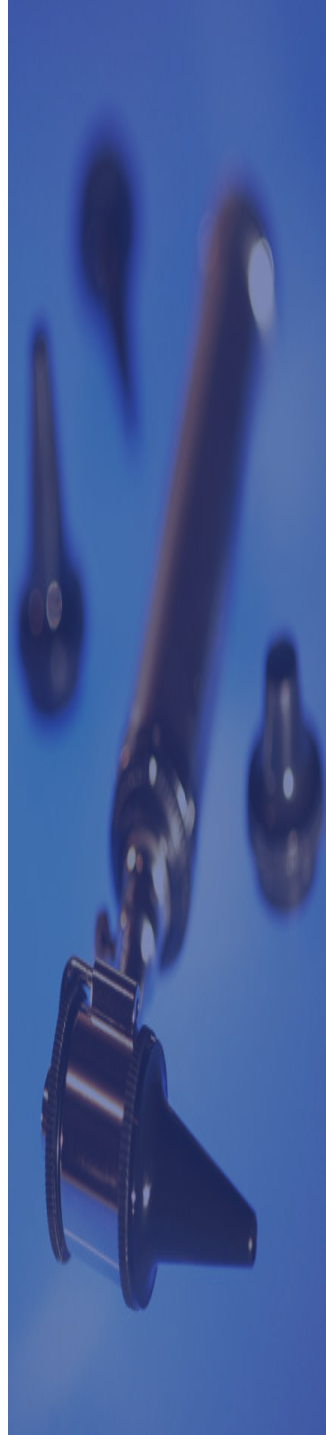
- **Consider carefully whether consolidation is appropriate for your private education loans**
  - **Federal Consolidation:** Private loans cannot be included, Federal loans can be included
  - **Private Consolidation:** Both private and federal loans can be included
    - **HOWEVER: Federal loans included in a private consolidation will lose all of their federal benefits**
    - A better option may be to pursue combined billing of your federal and private loans with a single lender
  - Some form of credit worthiness is almost always required for a private consolidation loan
    - Baseline credit score and/or minimum salary
    - Co-signer may be required



# Private Consolidation

- Department of Education regulations do not apply to private consolidations loans
  - Benefits of the federal consolidation program not available
    - Postponement options may be limited, if available at all
    - Interest is not mandated by federal student loan regulations
      - For example, can be a variable rate changing monthly
      - 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 consolidation with Sallie Mae offers combined billing with your federal MEDLOANS consolidation loan

[www.salliemae.com/privateconsolidation](http://www.salliemae.com/privateconsolidation)

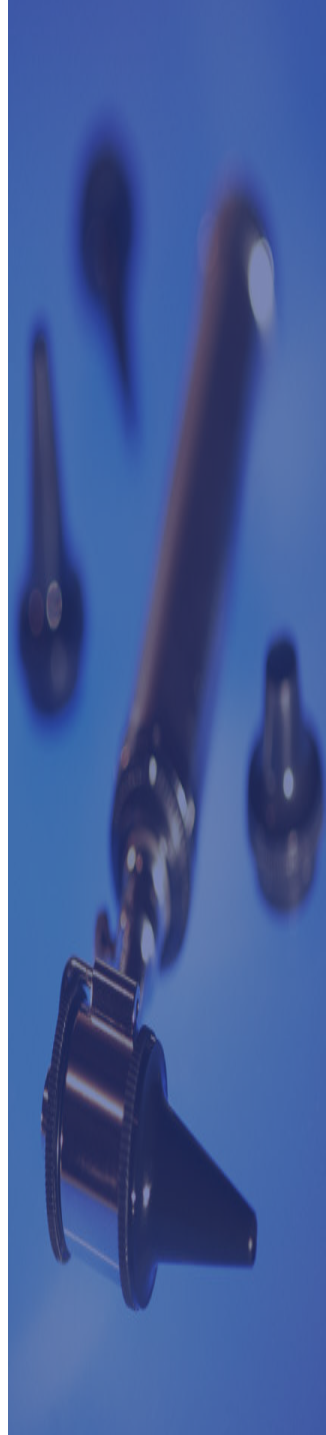


# Evaluating Your Options



# Re-Consolidation

- If you already consolidated most of your loans, consider whether to consolidate again or leave your loans “as-is”
- Evaluate your financial goals, and follow a strategy that achieves those goals
  - Retain benefits on current loans
  - Minimize total interest costs
  - Aggressively repay higher interest rate loans
  - Minimize monthly payment
  - Minimize payments to multiple companies



# Re-Consolidation - Sidney

Loan Type	Loan Amount	Interest Rate
Consolidation	\$108,000	4.75% (fixed)
Stafford	\$32,000	6.8% (fixed)

**Sidney assesses whether to leave loans as-is, consolidate the Stafford loan separately, or consolidate the existing consolidation loan with the Stafford loan.**

**Note that because Sidney's Stafford loan is a fixed interest rate, timing of the consolidation loan is not a main issue.**

# Re-Consolidation - Sidney

Leaving current loans “as-is”, Sidney can repay the Stafford loan under a 10-year or a 25-year schedule

Leave Loans Separate						
Loans	Balance	Interest Rate	Term	Monthly Payment Amount	Interest Cost	Total Repayment Amount
Consol Loan	\$108,000	4.750%	30 years	\$564	\$94,816	\$202,816
Stafford Loan	\$32,000	6.80%	10 years	\$369	\$12,191	\$44,191
Combined Total	\$140,000	Combined totals*, yr 1-10		\$933	\$107,007	\$247,007
		yr 11-30		\$564		

**OR**

Loans	Balance	Interest Rate	Term	Monthly Payment Amount	Interest Cost	Total Repayment Amount
Consol Loan	\$108,000	4.750%	30 years	\$564	\$94,816	\$202,816
Stafford Loan	\$32,000	6.80%	25 years	\$223	\$34,631	\$66,631
Combined Total	\$140,000	Combined totals*, yr 1-25		\$787	\$129,447	\$269,447
		yr 26-30		\$564		

# Re-Consolidation - Sidney

## Consolidation Options:

Can consolidate just the new Stafford loan, resulting in two separate consolidation loans, **OR**

Can consolidate the Stafford with the existing consolidation loan.

### Two Separate Consolidation Loans

Loans	Balance	Interest Rate	Term	Monthly Payment Amount	Interest Cost	Total Repayment Amount
Consol Loan 1	\$108,000	4.750%	30 years	\$564	\$94,816	\$202,816
Consol Loan L2	\$32,000	6.875%	30 years	\$211	\$43,678	\$75,678
<b>Cumulative Total</b>	<b>\$140,000</b>	Totals: Two, 30yr Consols		<b>\$775</b>	<b>\$138,495</b>	<b>\$278,495</b>

**OR**

### Consolidate All Loans Into One

Loans	Balance	Interest Rate	Term	Monthly Payment Amount	Interest Cost	Total Repayment Amount
Consol Loan	\$140,000	5.250%	30 years	\$774	\$138,311	\$278,311

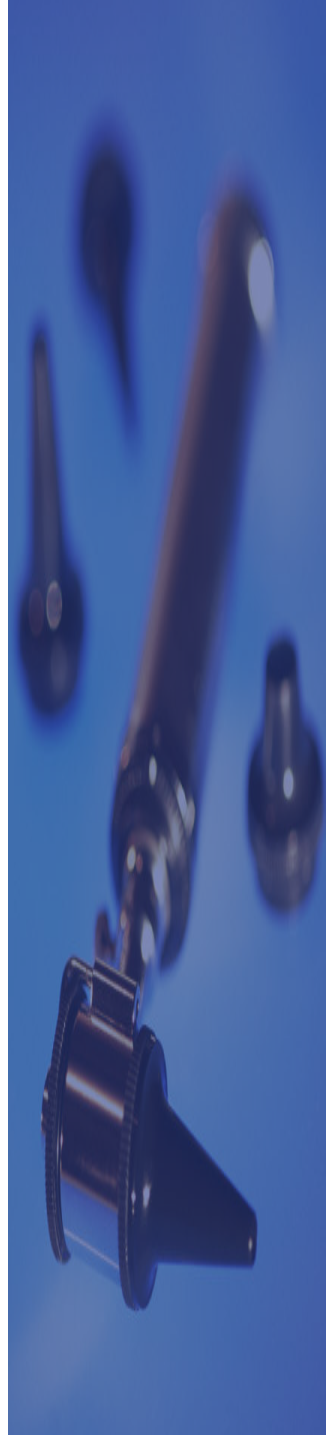
# Re-Consolidation - Sidney

## Comparison

	Monthly Payment	Total Payments	Notes
<b>Current Portfolio (10-yr Stafford term)</b>	\$933	<b>\$247,007</b>	Retain benefits on current loans Highest initial monthly payment Lowest overall total cost
	\$564		
<b>Current Portfolio (25-yr Stafford term)</b>	\$787	<b>\$269,447</b>	Retain benefits on current loans Use of extended repayment on Stafford reduces the initial monthly payment Moderately high (comparative) overall total cost
	\$564		
<b>Consolidate Stafford Separately</b>	<b>\$775</b>	<b>\$278,495</b>	Results in a higher interest rate on Consol L2 (due to rounding requirement) Only slightly lower monthly payment compared to Stafford extended repayment Allows opportunity to aggressively repay higher rate loans Highest (comparative) total interest cost
<b>Consolidate All Eligible Loans</b>	<b>\$774</b>	<b>\$278,311</b>	Easiest way to manage all loans Lowest initial monthly payment Slightly lower total cost than creating two separate consolidation loans High (comparative) total interest cost

# Complex Portfolio

- Having multiple loan types in your portfolio creates a diverse set of options for consolidation
- Evaluate your financial goals, and follow a consolidation strategy that achieves those goals
  - Retain benefits on current loans
  - Minimize total interest costs
  - Aggressively repay higher interest rate loans
  - Minimize monthly payment
  - Minimize payments to multiple companies
  - Retain federal benefits on certain loans



# Complex Portfolio - Darry

Loan Type	Loan Amount	Interest Rate
Consolidation	\$65,000	2.875% (fixed)
Stafford	\$38,500	6.54% / 7.14% (variable rate, in-school & repmt rates)
Stafford	\$38,500	6.8% (fixed)
Graduate PLUS	\$20,000	8.5% (fixed)
Perkins (undergrad)	\$8,000	5% (fixed)
Private loans (undergrad & grad)	\$35,000	(various variable interest rates)

**Darry assesses consolidation options during the Stafford grace period.**

# Complex Portfolio - Darry

## Current Portfolio (Darry keeps loans “as-is”)

Loans	Balance	Interest Rate	Term	Monthly Payment Amount	Interest Cost	Total Repayment Amount
Consolidation Loan - #1	\$65,000	2.875%	30 Years	\$270	\$32,085	\$97,085
Stafford Loan *	\$38,500	7.14%	10 Years	\$450	\$15,476	\$53,976
Stafford Loan	\$38,500	6.80%	10 Years	\$444	\$14,667	\$53,167
Grad PLUS	\$20,000	8.50%	10 Years	\$248	\$9,757	\$29,757
Perkins Loan	\$8,000	5.00%	10 Years	\$85	\$2,182	\$10,182
<b>TOTAL</b>				<b>\$1,497</b>		<b>\$244,167</b>

\* Variable rate loan: Interest rate, interest cost, and total repayment amount will be affected by annual changes to the variable interest rate.

## Option A: Consolidate All Eligible Loans

Loans	Balance	Interest Rate	Term	Monthly Payment Amount	Interest Cost	Total Repayment Amount
Consolidation Loan (All Elig Lns)	\$170,000	5.375%	30 Years	\$952	\$172,702	\$342,702

# Complex Portfolio - Darry

## Option B: Consolidate Solely New Stafford Loans

Loans	Balance	Interest Rate	Term	Monthly Payment Amount	Interest Cost	Total Repayment Amount
Consolidation Loan - #1	\$65,000	2.875%	30 Years	\$270	\$32,085	\$97,085
Consolidation Loan #2	\$77,000	6.750%	30 Years	\$500	\$102,791	\$179,791
Grad PLUS	\$20,000	8.50%	10 Years	\$248	\$9,757	\$29,757
Perkins Loan	\$8,000	5.00%	10 Years	\$85	\$2,182	\$10,182
<b>TOTAL</b>				<b>\$1,103</b>		<b>\$316,815</b>

## Option C: Consolidate Existing Consolidation Loan With Stafford Loans

Loans	Balance	Interest Rate	Term	Monthly Payment Amount	Interest Cost	Total Repayment Amount
Consolidation Loan - #2	\$142,000	5.000%	30 Years	\$763	\$132,423	\$274,423
Grad PLUS	\$20,000	8.50%	10 Years	\$248	\$9,757	\$29,757
Perkins Loan	\$8,000	5.00%	10 Years	\$85	\$2,182	\$10,182
<b>TOTAL</b>				<b>\$1,096</b>		<b>\$314,362</b>

# Complex Portfolio - Darry

## Option D: Consolidate Solely New Stafford and PLUS Loans

Loans	Balance	Interest Rate	Term	Monthly Payment Amount	Interest Cost	Total Repayment Amount
Consolidation Loan - #1	\$65,000	2.875%	30 Years	\$270	\$32,085	\$97,085
Consolidation Loan -#2	\$97,000	7.125%	30 Years	\$654	\$138,263	\$235,263
Perkins Loan	\$8,000	5.00%	10 Years	\$85	\$2,182	\$10,182
<b>TOTAL</b>				<b>\$1,009</b>		<b>\$342,530</b>

## Option E: Consolidate All FFEL/DL Loans (Exclude Only Perkins)

Loans	Balance	Interest Rate	Term	Monthly Payment Amount	Interest Cost	Total Repayment Amount
Consolidation Loan #2	\$162,000	5.375%	30 Years	\$908	\$164,575	\$326,575
Perkins Loan	\$8,000	5.00%	10 Years	\$85	\$2,182	\$10,182
<b>TOTAL</b>				<b>\$993</b>		<b>\$336,758</b>

# Complex Portfolio - Darry

	Monthly Payment	Total Payments	Notes
<b>Current Portfolio *</b>	\$1,497	\$244,167	Retain benefits on current loans Highest initial monthly payment Lowest overall total cost
	\$270		Retains subsidy and deferment benefits on Perkins loan
<b>Option A: Consolidate All Eligible Loans</b>	\$952	\$342,702	Easiest way to manage all loans Lowest initial monthly payment High (comparative) total interest cost
<b>Option B: Consolidate just new Stafford</b>	\$1,103	\$316,815	Retains the ultra-low interest rate on original consolidation loan Extends repayment length on high balance Staffords High-rate PLUS excluded to avert influence on Consolidation interest rate
	\$770		Allows opportunity to aggressively repay higher rate loans Moderate (comparative) total interest cost Retains subsidy and deferment benefits on Perkins loan
<b>Option C: Consolidate Stafford &amp; Consolidation</b>	\$1,096	\$314,362	Obtain a mid-range interest rate (5%) on new consolidation loan High-rate PLUS excluded to avert influence on Consolidation interest rate
	\$763		Allows opportunity to aggressively repay higher rate loans Moderate (comparative) total interest cost Retains subsidy and deferment benefits on Perkins loan
<b>Option D: Consolidate just Stafford &amp; PLUS</b>	\$1,009	\$342,530	Retains the ultra-low interest rate on original consolidation loan Blends current Stafford and PLUS rates for second consolidation loan Allows opportunity to aggressively repay higher rate consolidation loan
	\$270		High (comparative) total interest cost Retains subsidy and deferment benefits on Perkins loan
<b>Option E: Consolidate just FFEL/DL (Exclude only Perkins)</b>	\$993	\$336,758	Retains subsidy and deferment benefits on Perkins loan Second lowest initial monthly payment
	\$908		High (comparative) total interest cost

\* Monthly payment and total payments will be affected by annual interest rate changes variable rate loans.

# Questions?



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