

## INTEREST RATES ON FEDERAL EDUCATION LOANS TO DROP JULY 1

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Persons considering a Federal student loan consolidation of their variable-rate loans should seriously look into doing so immediately after 1 July 2009. At that time, interest rates on these consolidations will drop to a historic low and will be “locked in” for the life of the loan – potentially saving thousands of dollars in interest for borrowers.

Federal student loans that were taken out before 1 July, 2006 have variable rates...interest rates on Federal consolidation loans are capped – meaning they cannot go higher than 8.25%. But, borrowers who have variable-rate Federal loans who consolidate them after 1 July can lock in these new low rates:

Stafford Loan Consolidation (In-School/Grace Period): 2.00% v  
v Stafford Loan Consolidation (Repayment Period): 2.50%  
PLUS Loan Consolidation: 3.38%

Some of the important aspects of this initiative are:

- Borrowers who have already consolidated their loans cannot take advantage of the drop in interest rate.
- Persons with loans originated after July 1, 2006 are not eligible for the new lower rate.
- Private student loans cannot be included in a federal consolidation loan.
- Borrowers who are still in school cannot consolidate their loans until they graduate, as Congress repealed the early repayment status loophole in 2006.
- Individuals who received prompt payment discounts from their lender will lose those discounts if they consolidate.
- Borrowers who received up-front discounts on their loans, such as fee waivers, may lose those discounts if they consolidate, depending on the terms of the discounts. However, generally the savings associated with locking in the loans at historically low interest rates will outweigh the value of the lost discounts.
- It is not advisable to include Perkins loans in a consolidation loan, as one loses the subsidized interest and favorable forgiveness benefits associated with a Perkins loan if the loan is consolidated. Also, since the interest rate on the Perkins loan is already fixed, there is no financial benefit to consolidating them.

Since most federally-guaranteed student loan program lenders are no longer consolidating federal education loans, borrowers who wish to consolidate their loans should use the Federal Direct Loan Consolidation program at [loanconsolidation.ed.gov](http://loanconsolidation.ed.gov).