



## GradPLUS Consolidation – More questions than answers – AGAIN

There is not ONE answer to the question “should I consolidate a GPLUS loan while I am a student?” Each person has different life goals and repayment habits. Knowing some of the questions to ask will help you make an informed choice:

FFELP Borrower:

### **Is the consolidation interest rate discounted to a lower rate than your current Grad PLUS rate?**

Your GPLUS interest rate is fixed at 8.5% by federal regulation, but many students pay a *lower rate* because the lender they selected is buying down the rate to match the rate offered by students in the Direct Loan program, which is 7.9%. In addition, many lenders offer other borrower benefits, either up front (by buying down origination and default fees) or once the loan enters repayment. Benefits may include cash rebates or interest deductions for on-time repayment, or for authorizing automatic withdrawals from checking accounts to make loan payments. The full benefit package may reduce the interest rate on your loan below the 7.9%, if you meet all the criteria.

**Is the Consolidation lender offering an achievable benefit package that is BETTER than the one I have right now?** Nationally, less than 10% of borrowers will earn all advertised borrower benefits. Are the benefits achievable? Will you lose them if you miss the first loan payment (the most common contributing factor) or enter a period of forbearance or deferment (this period might include the summer). If you consolidate, you lose any benefit offered by the original lender, so make sure you think the new benefits are **better!**

**When will I receive my Consolidation loan borrower benefits?** Most borrower benefits in the Consolidation program don't kick in until the loan is officially in repayment. If you are two or three years away from graduation, the Consolidation lender may not be able to honor the benefits they are advertising: is the lender well-known and trusted in the community? Do they offer their benefit package in writing? Will you retain those benefits even if the loan is sold? Don't rely on information advertised on a website—you need to get the promise in writing!

Recommendation: Most students at FFELP schools will be better off not choosing consolidation.

Direct Lending Borrower:

**Is the increased interest associated with the Consolidation loan worth it?** Your 7.9% DL GPLUS will be consolidated at 8%. Does the benefit package offered by the consolidating lender offer savings that are **greater** than the accrued DL interest at the lower rate?

**What about my Direct Loan rebate?** DL borrowers receive a 1.5% rebate after 12 months of on-time payment. Is the benefit package in the FFELP consolidation **greater** considering the increased interest rate and the loss of the DL rebate?

Recommendation: Some students may benefit from consolidating a DL GPLUS loan with a FFELP lender, but not all. The key factors to consider is whether the total savings are greater under FFELP or DL, and whether you can realistically achieve the advertised benefits being offered, remembering that far fewer than 50% of students meet all the requirements. A quick rule of thumb<sup>1</sup>: if the consolidating lender does not offer an immediate rate reduction or rebate, the student is better off waiting until graduation.

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Notes:

1) This rule is based on the fact that the borrower would accrue at a lower rate (7.9% vs. 8.0%) and would still have the opportunity to consolidate upon graduation. Additionally, consolidation benefits have improved over time and therefore if this trend continues the benefit package would be superior upon graduation. Lastly, this assumes continuation of current regulatory and legislative policy. If changes such as lender spread reductions were to be announced, a student may want to consolidate prior to their implementation in order to lock in the superior benefits (as lenders would most likely scale back benefit offerings in response).