

To Consolidate or Not to Consolidate Your Student Debt

Are the benefits of combining your college loans worth the potential drawbacks?

If you're like 70% of college graduates, you left school with more than a diploma – you also left with roughly \$40,000 in student loans, potentially from both federal and private lenders. That likely means multiple payments every month on multiple loans, each with its own balance, term and interest rate. You might be able to consolidate or refinance those loans and even work out a lower monthly payment – but should you? Before you start asking different lenders for rates, let's explore your options.

CONSOLIDATING VS. REFINANCING

To discuss the difference between federal and private loans, it's important to distinguish between consolidating and refinancing:

Consolidating means combining multiple smaller loans into one bigger loan. It

doesn't necessarily reduce your interest rate or how much you pay every month, but it does allow you to make one monthly payment instead of several and potentially shorten or lengthen the term. Generally, only federal loans can be consolidated.

Refinancing means paying off your existing loans by taking out a new, bigger loan from a private lender, as you would a mortgage or other loan. Refinancing has all the benefits of consolidating and might result in a lower interest rate, but there are potential drawbacks as well. Both federal and private loans, or a combination of the two, can be refinanced.

IF YOU HAVE PRIVATE LOANS

Unless you happen to have multiple ▶ student loans from the same lender,

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you probably won't be able to consolidate your private loans. However, you might be able to refinance your loans, depending on such factors as the size of the loan and your personal credit history.

Refinancing a private student loan is similar to refinancing a mortgage or other kinds of debt: Based on your qualifications, you may have options on the lending institution, type of interest rate (fixed or variable) and repayment terms. Typically, the better your financial situation, the more favorable the terms of your refinanced loan. However, because it is a new loan, your lender might require you to pay a 1–2% origination fee.

IF YOU HAVE FEDERAL LOANS

All federal loans in your name can be consolidated into what is known as a direct consolidation loan. A direct consolidation loan offers a fixed interest rate that is the weighted average of all of the loans you are combining, rounded up to the nearest 1/8th of 1%. Unless you are consolidating loans from before 2006 that have a variable interest rate or are extending the terms of your government debt, a direct consolidation loan won't save you money on the interest, though it could certainly simplify your monthly finances. Only borrowers who are out of college or are attending classes less than half-time are eligible for consolidation, and the loans under consideration cannot be in default. Also, you only get to consolidate your federal loans once, and there is no cap on its interest rate.

It's also possible to refinance your federal loans as you would your private loans. The same qualification conditions and loan options apply here as well, again depending on your current financial circumstances. However, once you refinance your federal loans, you

lose any benefits associated with those loans, such as income-driven repayment plans, graduated or extended payments, potential loan forgiveness and any deferment of forbearance options. In addition, you might lose your rate or principal reduction if they were offered with the original loan. Generally, new college graduates don't qualify for refinancing, but it could benefit graduates with older debt or parents of student graduates.

Is consolidating or refinancing your loans the right move for you? Potentially, depending on your circumstances, the original terms of your loan(s) and the current lending environment. Your Baird Financial Advisor can sit down with you and one of our education specialists and review your student loans in the context of your broader financial picture.

[Please reach out if you or anyone you know would benefit from discussing this topic further.](#)