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Frequently Asked Questions about Direct Loan Consolidation

To consolidate your Federal Direct Stafford Loans, go to www.dlsonline.com/consolidatenow/welcome.asp
For more information on consolidation see www.umflint.edu/resources/offices/financial_aid/consolidation.php

Q: Why should I borrow through the Direct Loan Servicer and not a private company?

A: In-school consolidation is a benefit available only to Federal Direct Loan borrowers through the U.S. Direct Loan Servicer; we advise that you consolidate through the Direct Loan Servicer, which is operated by the federal government, and not through private companies. If you consolidate with other companies, you may lose some of your loan benefits. Beware of mail solicitations from private companies offering great deals or severe warnings. Many of these solicitors use language that makes them appear to be government-operated, when in fact, they are not.

Q: Do I need to be graduating to consolidate?

A: No. In fact, with the current low interest rates, it makes sense to consolidate while you are in school. Many students think they must be graduating to consolidate, but you can consolidate while in school at a lower interest rate (currently 4.7% while in school) and keep all your loan benefits (i.e., make no payments while in school and maintain your deferment, forbearance, and cancellation provisions). Recent changes in legislation will eliminate in-school loan consolidation after June 30, 2006. If you do not consolidate before then, you risk losing the ability to lock-in the current low interest rates to potentially save hundreds of dollars in the future.

Q: Will I enter repayment right away if I consolidate while in school?

A: No, you will not have to make payments while you are still in school and you will maintain your grace period, whereby you do not enter repayment until 6 months after you graduate.

Q: Will I lose my grace period if I am graduating?

A: If you consolidate while you are still in school, you will not lose your grace period (the 6 month period where you do not have to repay your loans after you graduate). If you consolidate during your grace period, however, you will lose the remainder of your grace period and enter repayment right away. It is important to apply for consolidation before you graduate. The University reports your graduation date to the Direct Loan Servicer. If you submit a consolidation application after your graduation date, the Direct Loan Servicer will try to work with you to allow you to use as much of your grace period as possible.

Q: Can I consolidate in the future?

A: Recent changes in legislation will no longer allow for in-school consolidation after June 30, 2006. You will be able to consolidate your variable rate loans during your grace or repayment period after this date, but current projections indicate that interest rates may continue to rise so your greatest savings can be achieved by consolidating now. Loans that will be disbursed on or after July 1, 2006, will be fixed rate loans. You may consolidate fixed rate loans to lengthen the repayment period or obtain a single payment; however, because the interest rate on these loans will be fixed, you will not be able to take advantage of lower interest rates should interest rates fall in the future.

Q: I already consolidated last year at a low rate; should I consolidate again and if so, should I combine all my consolidated loans together or can I consolidate my new loans separately?

A: You can have more than one consolidated loan. If you consolidated before, you may choose not to include your previously consolidated loan in your new loan consolidation. Use the calculator at www.loanconsolidation.ed.gov/borrower/bconsol.shtml to help you determine which loans to include in your new consolidation loan.

Q: Can I consolidate only one Direct Loan?

A: Yes. You can consolidate one or more Direct Loans of any amount.

Q: What will the new rates be?

A: Currently, the variable loan interest rates (for loans with disbursement dates between July 1, 1998 and June 30, 2006) are:

- 4.7% while in school, grace period or deferment
- 5.3% while in repayment or forbearance
- 6.1% for PLUS Loans

The interest rate on any loans disbursed prior to July 1, 2006 will remain variable and will change July 1 each year. As of July 1, 2006, variable interest rates (for loans with disbursement dates between July 1, 1998 and June 30, 2006) are anticipated to be:

- 6.98% while in school, grace period or deferment
- 7.58% while in repayment or forbearance
- 8.38% for PLUS Loans

Recent federal legislation will change the interest rate structure on Federal Direct Stafford Loans and PLUS Loans from a variable interest rate to a fixed interest rate for loans received on or after July 1, 2006. The new fixed interest rates will be:

- 6.8% Subsidized & Unsubsidized Federal Direct Stafford Loans
- 7.9% Federal Direct PLUS Loans (may be increased to 8.5% based on legislation currently pending in Congress).

Q: Can I and should I also consolidate my Perkins Loans?

A: If you are borrowing a fixed rate loans such as Perkins Loans, you can use the Direct Loan online calculator (www.loanconsolidation.ed.gov/borrower/bconsol.shtml) to see whether consolidating these loans with your Direct Loans will be to your advantage. Be aware, however, that when you consolidate, you will lose the cancellation provisions of these loans. This could be disadvantageous for certain students, such as those who plan to serve in the Armed Services, Peace Corps, etc. For Perkins Loan cancellation information, see: http://studentaid.ed.gov/students/publications/repaying_loans/2003_2004/english/loan-discharge-cancellation.htm.