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## The Alumni Newsletter from the Financial Aid Office

gGeorgetown University Law Center g

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### Federal Student Loan Interest Rates are Falling - Lock in a Low Rate After July 1

The Department of Education will soon publish the official Federal Stafford Loan Program interest rates effective for the period 7/1/01 through 6/30/02. Interest rates are set using the 91-Day T-Bill rate at the last auction in May, which was 3.69%. Based on this information, the new rate would be 5.99% and only 5.39% during the grace period! The Federal Stafford Loans have an interest rate cap of 8.25%.

	Current Rate	Projected Rate
Loans disbursed on/after 7/1/95 and before 7/1/98	8.19% In-Grace 8.25 % Repayment	6.19% 6.79%
Loans disbursed on/after 7/1/98	7.59% In-Grace 8.19% Repayment	<b>5.39%</b> <b>5.99%</b>

What can you do to save on interest charges? Consolidating your loans now would allow you to lock in the current rate over the life of the loan. In addition, consolidating your loans during your six-month grace period saves even more. The new interest rate would be based on the weighted average of the loans to be consolidated, rounded up to the nearest 1/8th of a percentage point, but not to exceed 8.25%. (Currently 5.99% rounded to 6.0% **and 5.39% rounded to 5.5% for loans consolidated during the grace period**)

### What Does this Mean in Dollars?

Borrowers could save approximately \$1,650 to \$2180 in interest over the life of each loan per \$10,000 in principal (versus the current interest rate). Savings vary depending on the benefits offered by the lender; such as direct debit and on-time payment incentives. For example, the Federal Direct Consolidation Loan program offers a .25% interest rate reduction for repayment that is directly debited from your checking/savings account and a .80% interest rate reduction for 12 on-time monthly payments (**applies to loans consolidated before September 30, 2001, allow several weeks for processing**). Your savings could be more or less depending on future interest rate fluctuations and your repayment pattern.

### Where Can You Get More Information?

The Financial Aid Office has prepared the enclosed *Fast Facts About Consolidation*. This information sheet provides an easy to read description of the consolidation process and possible savings. Should you have unanswered questions after you have investigated your options, you may call GULC Financial Aid at: (202) 662-9210 or send an e-mail to: [finaid@law.georgetown.edu](mailto:finaid@law.georgetown.edu)

### Increased Tax Savings for Grads

The recent tax bill signed into law has expanded the student loan interest deduction. Formerly, a student could deduct up to \$2500 in interest charges for only the first 60 months of repayment. Starting in 2002, the 60-month limit has been eliminated and the borrower may continue to deduct interest as long as he or she meets the income

guidelines. In 2002 the income phase-out increases to \$65,000 for single filers and \$130,000 for joint filers.

The IRS is expected to provide an update *Publication 970*, the document that outlines the tax benefits for education. Before filing your taxes for 2001 review the pertinent IRS documentation or consult with a tax advisor regarding your eligibility for these tax benefits.

## **Loan Repayment Assistance Program**

### **LRAP Deadlines Have Changed**

Future application deadlines and materials for LRAP I & II have changed. The due dates are November 1<sup>st</sup> and May 1<sup>st</sup>, and complete application and re-application materials will be available in late September and March, respectively. Participants and prospective applicants are encouraged to visit [www.law.georgetown.edu/finaid/lrap.html](http://www.law.georgetown.edu/finaid/lrap.html) (the LRAP web site) to learn more about the streamlining of the application materials and process.

### **LRAP 15-Year Repayment Requirement**

As a reminder, Georgetown LRAP benefits are calculated based on a 15-year repayment schedule for federal Stafford loans, whether or not participants choose to consolidate. The typical consolidation servicer will schedule a borrower's federal payments over the longest time period legally available, in many cases 30 years. As such, graduates who apply for consolidation will not be placed on a 15-year repayment schedule without making a specific request to their servicer. To be certain that you receive a 15-year repayment plan, send a letter to your servicer, which outlines the requirements of the LRAP program and requests that all federal loans be placed on a 15-year repayment schedule. Although you may prefer to consolidate over a longer period of time, LRAP participants will receive the maximum benefit by setting up a 15-year repayment schedule. Applicants can visit the LRAP web site to view a sample request letter.

### **Request a PIN from your Loan Servicer**

LRAP participants will be required to provide their most current loan statements for all payments that they wish to have considered in their LRAP calculations. This includes both GULC and non-GULC loans, and any of their

spouses' loans currently in repayment (if applicable). Graduates (and their spouses with student loans) should begin requesting Personal Identification Numbers (PIN) from their lenders/servicers in the near future, which will enable them to have on-line access to their accounts and provide repayment documentation in a timely manner. Requesting and receiving a PIN for on-line access can take up to four weeks, so plan ahead to ensure that you meet the application deadline for next fall.

### **Financial Life Beyond Student Loans...**

#### **T For Personal Financial Planning:**

The Motley Fool: [www.fool.com/school/](http://www.fool.com/school/)  
About.com: [http://home.about.com/finance/401k's, etc](http://home.about.com/finance/401k's,etc) [www.ihfp.com](http://www.ihfp.com)

#### **T For "Other" Loans and Calculators:**

Loanweb: [www.loanweb.com](http://www.loanweb.com)  
Lending Tree: [www.lendingtree.com](http://www.lendingtree.com)

#### **T Suggested Reading:**

*The Green Magazine Guide to Personal Finance: A No B.S. Book for Your Twenties and Thirties.*  
Ken Kurson, 1998.

*Debt-Free by 30: Practical Advice for the Young, Broke, and Upwardly Mobile.*  
Jason Anthony, 2000.

### **Loan Repayment Q & A: TIPS TO SAVE YOU MONEY**

**Q: What if I want to repay my loan in a shorter period of time?**

**A:** You can pre-pay all student loans at any time without penalty, including loans that are federally consolidated. This practice would save you substantial interest costs even if relatively small payments of an additional \$25 to \$50 per month are made. In general, pre-pay the loan(s) for which you have the greatest exposure to interest rate increases. Generally, you should first tackle commercial loans first because these loans have no interest rate cap and are adjusted quarterly

**Q: How do I pre-pay my loans?**

**A:** Lenders recommend that for any month you are able to pay more than the required payment amount, your

should write a separate check for the additional payment and be certain to list the account number of the loan you wish to pre-pay. If you have resources to make a large payment during the grace period, you should generally do so within the first 90 days if you want the prepayment to reduce all future monthly payments. If you prepay a large amount after the first 90 days, the length of your repayment will be reduced but your monthly payment will generally remain the same.

# ***Fast Facts About Consolidation***

1. **Eligible Loans** - Consolidation is for FEDERAL student loans. Loan types that may be consolidated include Federal Stafford (Subsidized and Unsubsidized), Federal Perkins and Federal SLS Loans. Your eligible loans will be combined on one new promissory note.
2. **Types of Consolidation** - There are two ways to consolidate; with the federal Department of Education's Direct Loan Program or with a Federal Stafford Lender, e.g. Access Group or Total Higher Education (T.H.E.).
3. **Benefits of Consolidation** - During this time of low interest rates, almost all borrowers will receive a benefit from consolidation. The notable exception would be the rare borrower that plans to repay the loans in less than one year (before interest rates will change again). Benefits of consolidation include:
  - The opportunity to lock-in the low interest rate for the life of the loan, saving the average GULC borrower thousands of dollars.
  - Significantly lower required monthly payment for the loans.
  - Lower payments for federal loans would allow the borrower to prepay higher cost commercial loans and credit cards more quickly.
4. **Possible Costs of Consolidation** - Although consolidation at the favorable rates currently in existence will save borrowers money, there are some costs.
  - Consolidation allows the loans to be paid over a longer period of time. This can result in a higher total amount of interest paid if the borrower extends repayment.
  - Consolidation may start your repayment slightly earlier than would otherwise occur resulting a loss of 1-2 months of interest free grace period on the ***subsidized*** portion of the Federal Stafford Loans. This amounts to approximately \$40 per month per \$8500 loan. If needed, you can request a deferment or forbearance to delay repayment. Contact your consolidation lender for more information.
  - It is possible that interest rates could go lower and you would be able to lock in an even lower rate. The current rates, however, represent historic lows.
5. **Interest Savings** - There are a variety of consolidation programs available, each with slightly different terms. Assuming that borrowers repay their loans in the original 10 year repayment plan the approximate interest savings (versus the current interest rates) per \$10,000 of loan principal would be:
  - \$1657 without utilizing any special repayment incentives.
  - \$1805 using the .25% interest rate reduction for automatic payment / direct debit from your checking or savings account.
  - \$2025 using ***Access Group***'s direct debit savings and 1% interest rate reduction after 48 months of on-time payment.

- \$2099 using **Total Higher Education's** (T.H.E.) bonus program (an annualized .75% principal reduction) for consolidation loans that are paid in a timely manner.
  - \$2188 using the Dept. of Ed's **Direct Loan Program** direct debit savings and .80% interest rate reduction after 12 months of on-time payments (note 9/30 deadline).
6. **Comparing the Savings** - The above savings assume that everything goes as planned. Based on anecdotal evidence, only about 10% of students make it through the longer on-time payment incentive windows (36-48 months). Even one late payment can result in the loss of eligibility for the bonus interest rate reductions. If you are looking for a "sure thing", then **T.H.E.**'s program may be the one for you because you do not have to make any payments before the benefits kick in. If you believe that you can make twelve on-time payments (odds of success improve by using direct debit from your bank account), then the **Direct Loan Program** offers the greatest all around savings. Regardless of the lender you choose, Consolidation will save you money even if you do not take advantage of special repayment incentives.
7. **Selecting a Consolidation Lender** - After you have compared the savings, contact the lender that you want to use. Be careful with lenders that you are unfamiliar with and those that use telemarketers and send out direct mail. Consider their terms carefully and **do not respond** to their high-pressure sales tactics. The phone representatives may be on commission and will receive a benefit due to a hasty acceptance. Several reputable lenders are listed below. If you have any questions regarding a specific consolidation lender, please contact the Financial Aid Office.
- U.S. Dept. of Ed. Direct Loan Program. (800) 557-7392, [www.ed.gov/directloan](http://www.ed.gov/directloan)
  - Access Group - (800) 282-1550, [www.accessgroup.org](http://www.accessgroup.org)
  - Total Higher Education - (888) 843-3095, [www.northstar.org](http://www.northstar.org)
8. **Consolidation Procedure** - The consolidation process is relatively simple and most lenders require that you complete the following basic steps:
- Select your Consolidation lender and contact them by telephone or web. If you select the Department of Education's Direct Loan Program, you can complete the application on line at [www.ed.gov/directloan](http://www.ed.gov/directloan).
  - You will provide the approximate outstanding balance and servicing information for your current loans.
  - You will sign and return a completed promissory note to your consolidation lender.
  - Your consolidation lender will "purchase" your federal loans from your current lender and send you information when the process is complete.
  - You will be required to start repayment within 30 days of the completion of the consolidation process.

If you have questions, please contact the GULC Financial Aid Office at 202-662-9210. The above information is believed to be correct as of 6/20/01, but is not guaranteed. Please verify terms with the lender before completing the consolidation process.

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