

Office for Financial Success – Financial Tip of the Week

A service of the Personal Financial Planning Department
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PRIVATE LOAN CONSOLIDATION

Last week I addressed consolidation issues/strategies for federal loans. As promised, this week I will discuss consolidation of private loans (PL). Contrary to popular belief, you can consolidate private loans – the primary question you will need to answer is whether or not doing so is in your best interest. In most cases, it's not ...

Private Loan Consolidation Considerations.

- Cannot consolidate PLs until you're out of school and beginning repayment.
- Cannot consolidate PLs with federal loans [nor would you want to].
- Unlike federal consolidation – in the vast majority of instances, consolidating PLs will leave you with a variable rate loan – NOT a fixed interest rate.
- **Keep in mind that the best option/choice is often to leave them alone.**

How do I know if consolidation makes sense for me?

- Look at the benefits of your current lender. There are very few companies (about 10) that will consolidate any private loans [regardless of lender]. Most companies will offer some type of consolidation or “refinancing” of private loans, but will require that you have loans with them to be eligible. That requirement will differ by lender; some will require at least one loan be with them, some may require that at least 50% of the consolidated amount be with them. Regardless, researching your current lender(s) is a good place to start.
- Shop around. As mentioned, there are a few companies that don't have stipulations in order to use their consolidation/refinance program. Here is the best list I've come across (<http://finaid.org/loans/privateconsolidation.phtml>). You want to shop closely the loan rates/terms because the lender, not the government sets the interest rates (most are linked to the Prime Rate or LIBOR Index).
- What is your credit? Perhaps the most important question to ask is 'How is your credit now?' and what did it look like when you first took out the loan(s). Private loans are credit-based – if you had poor credit with no co-signer, your current rate is inevitably high. You are the best candidate for PL consolidation. Your rate with good credit should never be worse than the prime rate (currently 8.25%), but could be 6% or more than that with poor credit. You possibly paid fees to take the loans out initially; most companies will assess more fees (not all) to consolidate the loans (1% - 3% is common, but I've seen fees that approach 10%) ... these fees [along with maintaining a variable rate loan] are the biggest reasons why often you're best not to consolidate private loans. If you had good credit all along, your loan situation is not likely to improve by consolidating. If you decide that PL consolidation does make sense for you, you may want to review my article (<http://financialsuccess.missouri.edu/altloanselection.pdf>) on PL shopping – the criteria used to shop for the loan initially is the same for shopping for a consolidation company.