Any offer to consolidate your loans or refinance existing loans must be carefully considered. Too often the end result is that you are worse off than before. Your old low interest or no interest loans are turned into high interest loans. Prepayment penalties to pay off your old loans early are added to the new loan. Closing costs and other up-front charges and fees are also added to the new loan. Be especially wary of anyone who sought you out for the new loan or anyone that is not an established lender in your community.

If you have federal student loans, it is generally not a good idea to consolidate them into a private student loan. Federal student loans come with all kinds of rights, including rights to cancel the loan, defer any payment for a year or more, and payment plans that match your income. These rights are generally unavailable if you consolidate into a private loan. On the other hand, there are good reasons to consolidate federal student loans into a federal student consolidation loan. For more, see Chapter 13 [1].

Source: National Consumer Law Center, Surviving Debt [50th NCLC Anniversary Edition], updated at www.nclc.org/library
Source URL: https://library.nclc.org/sd/0710

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