

How To Consolidate Student Debt To Save Thousands: Combined Or Separated?

When you are thinking about consolidating your student debt, there is an issue that may arise and you should be prepared to make a well informed decision. Otherwise you might end up paying thousands of dollars in interests that you could have avoided. This issue is whether to consolidate your government and private loans combined or separated. As you might have guessed, this issue comes to pass only if you have both Federal Student Loans (or another form of government student loan) and private student loans. Government loans usually have lower interest rates since they are based on the applicant's needs and not on his credit. Private loans on the other side, have usually higher interest rates. Combined Or Separated? Though there is an exception, the answer to this question will almost always be "separated". The reason why one should consolidate government student loans and private student loans separately is that since government loans have lower interest rates, the interest rate of the consolidation loan will sky rocket the amount of money you will have to pay to finance the principal of government loans. In other words, the combined interest rate of a consolidation loan covering government and private loan principals will be far more expensive than that of separated consolidation loans. If you have \$20000 on government loans at a 5% interest rate and \$10000 on private loans at a 8% interest rate, You are paying \$1800 in interests per year. If you consolidate both debts at a 7% interest, you will be paying \$2100 in interest per year. We are talking about \$300 dollars more on interests which turn consolidation useless. If you consolidate only your private debt at the same rates as the above example, you will end up paying \$1700 in interests per year. This means you will be saving \$100. If you consolidate your government loans separately with a lower interest rate you may save a lot more. Every Rule Has An Exception There is a situation where you might be able to save money by combining both debts. This does not mean that you would not save more by consolidating separately, but you might save money nevertheless and seize the benefits of having a single loan installment every month. Let's use the above example but changing the amounts. You have \$5000 on government loans and \$25000 on private loans. At the same rates, consolidating your debt combined would save you \$150 per year while consolidating only the private debt would save you \$250. However, there is another benefit of student debt consolidation that can convince you of consolidating government student loans and private student loans combined. When you consolidate you can extend the term of your loans and thus reduce your monthly payments making them more affordable. That's why those \$100 per year of difference between both consolidations might be worth paying. You should always think over and over before making a financial decision. If you are not good with numbers there are many consultants out there that can help you understand which option is best for you. There is no reason to be ashamed, so do not hesitate to ask for help if you need to.

About the Author

Devora Witts is a certified loan consultant with several years of experience in the credit area who instructs people regarding credit recovery and approval for personal loans, home loans, consolidation loans, car loans, student loans, unsecured loans and many other types of loans. If you want to understand [Bad Credit Personal Loans](#) and [Unsecured Personal Loans](#) thoroughly you can visit her site <http://www.badcreditloanservices.com>. If the link doesn't work, just copy and paste www.badcreditloanservices.com in your browser's address bar.

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