

Consolidation of 3 loans essay

[Finance](#), [Investment](#)



The formula for calculation of payment per month is $PMT = P \times (APR/n) / [1 - (1 + APR/n)^{-ny}]$, where p is loan taken, APR is rate of interest is always equivalent to 1

Payment in two different cases, first one normally and then consolidating all the loan

Amounts together and calculating the effective payment required to be done along with

Proper comparison between the two kinds. The objective of doing that is to hold a picture

About pros and cons of consolidation and why someone should go forward with

Consolidation. The situation is:

\$15, 000 with an APR of 8% for 15 years

\$10, 000 with and APR of 7. 5% for 20 years

\$ 5, 000 with an APR of 9. 5% for 10 years

Using the formula stated above I have these results:

After consolidation the monthly payment (PMT) becomes \$260. 35

Total monthly payments without consolidation is \$288. 6

After observing all the results, I can conclude that monthly payment consolidated is less

Than the monthly payments normal by a margin of \$28. 25 and on the other hand total

Payment overall in consolidated case is greater than the normal case by a margin of

\$9583. 96.

The reason for less monthly payment in case of consolidation for 20 years is like in this

particular case the duration that we see is greater. In normal case if we take out the

Mean or the average of the duration, it comes out to 15 years. So with greater duration the monthly

Installments gets spaced out well and payment per month decreases.

Payment over life on these 3 loans after consolidation is \$62484

Overall payments without consolidation is \$52900. 04

Pros of doing this consolidation is like, less monthly payments with more Duration and it stands good for those who are looking for an option of less monthly

Installments. A Consolidation Loan allows an individual to consolidate multiple

Education loans into one loan. The result of that is a single monthly payment instead of

Multiple monthly payments. To me it is much better than in case where the monthly

Payments are more and sometimes it becomes unbearable.

Cons of going towards consolidation is that the total sum of money payable at the end

Of the tenure is more than in normal case. The reason is more APR and greater

Duration. The APR we see in case of consolidated payments is much more

than the

Normal case. With a greater duration it keeps on piling. Moreover, there is a

Chance of losing on benefits from original individual loans like, rebate in interest

Rates, rebate in principal amount or loan cancellation discount which would have

Helped someone in reducing the cost of repaying the loan significantly. Once loans are

Consolidated they cannot be segregated until and unless the payment is over and the

Loan account closes.

In order to qualify for a Consolidation Loan, one must hold at least one Direct Loan or

Federal Family Education Loan (FFEL). Students who are still studying cannot avail this

Facility of consolidation. The rate of interest is fixed throughout the tenure of the loan

And so no chance of getting any interest rebates in between. Moreover, there is no cap

Or limit to the interest rates for direct consolidation. To sum up consolidation of different

Loans is a good option but before going into that one should always do a bit of

Homework to realize the monthly payments he has put going forward.