PGPresents, LLC
Independent Student Loan Consulting

FEDERAL CONSOLIDATION

How to know if Federal Consolidation should be part of your repayment strategy

You may have questions about whether or not consolidation should be part of your overall repayment strategy as you graduate and transition into your career, be it one in the health sciences or any other discipline. Federal consolidation is a process whereby you pay off multiple federal loans with one new loan (you're trading debt for debt). There are both advantages and disadvantages to consolidation, and while it remains an effective debt management tool for some graduates, it is not appropriate for everyone, and many recent graduates are finding they are not strong candidates for federal consolidation. The information below should help you determine whether or not you should consider federal consolidation.

Potential Advantages

- Convenience
  - One loan, one loan servicer, one payment, one place to file forms
- Helps maximize potential forgiveness in the Public Service Loan Forgiveness (PSLF) program by converting eligible federal non-Direct Loans into a Direct Loan balance
  - Only Direct Loans are eligible for Public Service Loan Forgiveness (PSLF)
  - Consider consolidating any eligible federal non-Direct Loans into a Direct Consolidation Loan in order to maximize your potential forgiveness under PSLF, assuming other PSLF eligibility criteria are met (see www.StudentAid.ed.gov/publicservice for details on PSLF)
- May allow some borrowers to repay their entire balance with Pay As You Earn (PAYE), assuming they meet eligibility requirements for PAYE, or with Revised Pay As You Earn (REPAYE)
  - PAYE and REPAYE are available on Direct Loans only
- Repayment term may be extended to 30 years, which lowers monthly payments, but adds to total repayment costs if you take full 30 years to repay and never accelerate payments
  - Maximum repayment term for unconsolidated federal loans is 25 years

Potential Disadvantages

- Partially negates an aggressive repayment strategy
  - Voluntary or additional payments cannot be targeted against higher interest rate loans such as Direct PLUS (Grad PLUS), because you only have one loan at one rate
  - You can still pay early, you are just not getting the best "bang for your buck"
  - Borrowers interested in aggressive repayment might not consolidate for this reason
- Slightly higher interest rate
  - Interest rate on consolidation loans is a "weighted" or blended rate of all loans being consolidated, rounded up an eighth of a percent (.125%) then fixed for life of loan
  - This is not a prohibitively higher rate and should not be a strong factor in your decision whether or not to consolidate
- Loss of grace periods on loans you are consolidating, if you consolidate too early
  - Consolidation loans come due immediately as they have no grace period
- Loss of interest subsidy on Federal Perkins, Loans for Disadvantaged Students, and Health Professions Student Loans if included in consolidation
  - Balance on these loans is "converted" to unsubsidized status upon consolidation

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Important Steps to Consolidation and Helpful Hints

1. There is only one option for federal consolidation, the government's Direct Consolidation Loan (DCL) program.
2. The DCL Application and Promissory note are available online at www.StudentLoans.gov.
3. Once you log in, your consolidation application should be pre-populated with your NSLDS record at www.NSLDS.ed.gov, although you do not have to consolidate all your loans.
4. You can expect the entire process to take anywhere from three to six weeks, possibly longer. We strongly encourage you to confirm the timing with the loan servicer you select to process and service your new Direct Consolidation Loan (see 6 below).
5. You need to remain in "Good Standing" on your loans during the consolidation process.
    - Pay loans you are including in your new consolidation loan when they come due or postpone payments until they are paid in full through consolidation
    - Start consolidation early enough to allow time for consolidation to go through before the loans you are consolidating come due or their postponement period is up
6. You may select a loan servicer to both process your Direct Consolidation Loan Application and Promissory Note and to service your new Direct Consolidation Loan.
    - *Borrowers interested in Public Service Loan Forgiveness should strongly consider selecting FedLoan Servicing, as they are the designated PSLF servicer and the only loan servicer who will a) confirm your employer is an eligible PSLF employer and b) track your payments towards PSLF eligibility, if you are interested in PSLF*
7. In general, you do not forfeit deferment and forbearance options when you consolidate.
8. You should be able to confirm your application is accurate by reviewing the Direct Consolidation Loan Summary Sheet that should be sent prior to your loans being paid in full.
9. We strongly recommend you document the entire application process.

So, are you a candidate for federal consolidation?

You *MAY* be if:

- You have multiple loan servicers and would like the convenience of one loan and one loan servicer
- You have some federal non-Direct Loans and are interested in Public Service Loan Forgiveness (PSLF) and thus want to ensure you maximize your potential forgiveness amount under PSLF (meaning you want to be sure it applies to your entire balance, not just to some of your loans; remember only Direct Loans qualify for PSLF, assuming other requirements are met)
- You are PAYE eligible, but have some federal non-Direct Loans and want to repay your entire balance with PAYE by converting the non-Direct Loan balance into a Direct Loan balance
- You have some federal non-Direct Loans and want to pay your entire balance with REPAYE

You *MAY NOT* be if:

- You already have one loan servicer
- You are interested in aggressive repayment and want to target additional payments on your most expensive loan(s)
- You are not interested in PSLF so you don't care what kind of federal loans you have
- Your entire federal loan balance consists of Direct Loans

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