

FEDERAL CONSOLIDATION

Should consolidation be part of your repayment strategy?

**INFORMATION AS CURRENT AS POSSIBLE AS OF JULY 2025 and POST H.R.1
SUBJECT TO CHANGE**

Federal consolidation is a process whereby you pay off multiple *federal* loans with one new *federal* loan. You are literally trading debt for debt, in the exact same amount. In general, while borrowers with multiple loans are eligible to consolidate, most recent graduates do not need to consolidate, since their federal Direct Loans tend to be serviced by ONE loan servicer and their loans have FIXED rates (and you do not get a lower rate when you consolidate). The information below should help you determine whether federal consolidation should be part of your repayment strategy. Please read this carefully, because you cannot undo a federal consolidation loan.

SPECIAL NOTE: You do not have to consolidate in order to qualify for Public Service Loan Forgiveness. Do not let anyone tell you otherwise. Direct Loans qualify for PSLF whether consolidated or not, and Direct Loans likely make up your entire student loan portfolio.

Semantics are important:

- **CONSOLIDATION** refers to **FEDERAL** Consolidation with the government's Direct Loan program.
 - **REFINANCING** refers to consolidating your loans with a **PRIVATE LENDER**.
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POTENTIAL ADVANTAGES TO FEDERAL CONSOLIDATION

- Convenience
 - One loan, one loan servicer, one payment, one place to file forms
 - **REMINDER:** You already have the convenience of one payment if all your federal loans are with the same loan servicer, which is highly likely
- Helps maximize potential forgiveness in the Public Service Loan Forgiveness (PSLF) program by converting any eligible federal non-Direct Loans (for example, Federal Perkins from college) into a Direct Loan balance
 - Only Direct Loans are eligible for Public Service Loan Forgiveness
 - **REMINDER:** Check your portfolio, your federal student loan portfolio is likely made up of all Direct Loans, negating the need to consolidate for PSLF
- May allow borrowers to start repayment early (and potentially start qualifying for PSLF early)
 - Consolidation loans enter repayment immediately upon disbursement
- 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 TO FEDERAL CONSOLIDATION

- 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 pay aggressively, but you are not getting the best use of additional payments, as they are not being applied against your highest rate loan
- Slightly higher interest rate
 - Interest rate on federal consolidation loans is a weighted (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 campus-based loans like Federal Perkins, if these are included in consolidation
 - Balance on these loans is converted to unsubsidized status upon consolidation

IMPORTANT STEPS TO CONSOLIDATION AND HELPFUL HINTS

1. The DCL Application and Promissory note are currently available online at [StudentAid.gov/consolidation](https://studentaid.gov/consolidation).
2. When you log in, your consolidation application should be pre-populated with your federal student loan record, simply check off which loans you want to consolidate. You do not have to consolidate all your eligible loans, but there may be implications for not doing so.
3. Entire process generally takes four to six weeks, but there may be delays considering the current disruption at the Department of Education. Currently their website references a backlog of applications and delays in processing. We encourage you to confirm the timing with the loan servicer you select to process and service your new Direct Consolidation Loan.
4. 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.
5. Your lender is the federal government, but you may select the loan servicer to both process your Direct Consolidation Loan Application and Promissory Note and to service your new DCL.

IMPORTANT STEPS TO CONSOLIDATION AND HELPFUL HINTS (continued)

6. In general, you do not forfeit deferment and forbearance options when you consolidate.
7. You should be able to confirm your application is accurate by reviewing the Direct Consolidation Loan Summary Sheet that should be sent prior to the loans you are consolidating being paid in full through consolidation. This is your chance to be sure everything is correct.
8. 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 for your federal loans and want the convenience of one loan and one loan servicer (**we are seeing more split-servicing with the Class of 2025**)
- You have some federal non-Direct Loans (for example, Federal Perkins) and are interested in Public Service Loan Forgiveness (PSLF) and thus want to ensure you maximize your potential forgiveness amount under PSLF
- You have some non-Direct Loans, but want to repay your entire student loan portfolio with an Income Driven Repayment plan that is only available to Direct Loan borrowers
- You want to start repayment (and possibly PSLF eligibility) early, but please note that in general a) you cannot consolidate until after your school reports you have graduated, b) the process takes four to six weeks, and c) the first payment is usually not due for up to 60 days (which means you may end up not starting PSLF eligibility as early as you had hoped)

You *MAY NOT* be if:

- You already have one loan servicer for your federal Direct Loans
- You are interested in aggressive repayment (or may be at some point) and want to target additional payments on your highest rate 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 already consists of nothing but Direct Loans

REMINDER: You do not have to consolidate in order to qualify for Public Service Loan Forgiveness. Do not let anyone tell you otherwise. Direct Loans qualify for PSLF whether consolidated or not, and again, Direct Loans likely make up your entire student loan portfolio.

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