FEDERAL CONSOLIDATION
Should consolidation be part of your repayment strategy?

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, as noted below).

The information below should help you determine whether federal consolidation should be part of your repayment strategy as you graduate from dental school and choose a repayment strategy for your student loans. Please read this carefully, because you cannot undo a federal consolidation loan.

SPECIAL NOTE: We strongly encourage you to pay close attention to updates from the current administration and the U.S. Department of Education regarding consolidation, as there have been recent provisions allowing some eligible borrowers to consolidate to help speed up either the term forgiveness associated with Income Driven Repayment plans or forgiveness with the Public Service Loan Forgiveness program. In some cases, deadlines for doing so have been extended. Check out StudentAid.gov/publicservice and StudentAid.gov/consolidation for updates.

You do not have to consolidate to qualify for Public Service Loan Forgiveness.

POTENTIAL ADVANTAGES

- Convenience.
  - One loan, one loan servicer, one payment, one place to file forms.
    - *REMINDER: Depending on when you first started borrowing, you likely already have the convenience of one payment if all your federal direct loans are with the same loan servicer. Loan servicers tend to offer combined (single) billing, meaning you may make one payment, which is applied proportionally against all your loans they service.*
- Helps maximize potential forgiveness in the Public Service Loan Forgiveness (PSLF) program by converting any eligible federal non-direct loans (Perkins, Loans for Disadvantaged Students, and Health Professions Student Loans) into a direct loan balance.
  - Only direct loans are eligible for PSLF.
    - *REMINDER: Check your portfolio—your federal student loan portfolio is likely made up entirely of direct loans.*
- May allow borrowers to start repayment (and potentially start qualifying for PSLF) early.
  - Consolidation loans do not have grace periods, they 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 the 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 pay aggressively, but you are not getting the best use of additional payments.
- 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 the life of the loan.
  - This is not a prohibitively higher rate and should not be a strong factor in your decision to consolidate (in other words, this is not a reason to not consolidate if you really need or want to).
- 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 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 Direct Consolidation Loan (DCL) Application and Promissory note are available at StudentAid.gov/consolidation.
2. Once you log in, your consolidation application should be pre-populated with your federal student loan record; you 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. The entire process may take three to six weeks. 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 on the 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 DCL Application and Promissory Note and to service your new DCL.
6. In general, you do not forfeit deferment and forbearance options when you consolidate; in fact, these options are generally renewed when you consolidate.
7. Watch for the DCL Summary Sheet that should be sent prior to the loans you are consolidating being paid in full through consolidation, as this allows you 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* and want the convenience of one loan and one loan servicer.
- You have some federal non-direct loans and are interested in 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 like Income Based Repayment.
- You want to start repayment (and possibly PSLF eligibility) early.

You *may not* be if:

- You already have one loan servicer for all your direct loans (which is likely).
- You are interested in aggressive repayment (or may be at some point) and want to target additional payments on your highest rate loans(s).
- You are not interested in PSLF so you don't care what kind of loans you have.
- Your entire federal loan balance already consists of nothing but direct loans.

Winter Spring 2025