

Consolidation

Consolidation is the option of combining two or more federal student loans into one larger loan with new borrowing terms, one monthly payment, and a new and fixed interest rate.

Borrowers have the option of choosing which loans to be consolidated. Qualifying loans include those borrowed under the Direct Lending and Federal Family Education Loan (FFEL) programs, the Federal Perkins, and the Federal Nursing loans. Please note that borrowers can only apply for consolidation when loans are either in the grace period or repayment status.

Depending on the balance of the new loan, the repayment term can range from 12-25 years. The interest rate of the consolidation is the weighted average interest rate for the original loans, rounded to the nearest 1/8 of a percentage. Please note that consolidation loans do not have a grace period.

Advantages

- potentially lowers number of bills
- extended repayment terms & a lower monthly payment
- retains interest subsidies during periods of deferment
- fixed interest rate for lifetime of the loan

Disadvantages

- increased rounded interest rate, increased accrued interest
- Perkins loans become unsubsidized
- loss of Perkins cancellation benefits
- extending life of loan means more interest accrual

Alternatives

- automatically debited monthly payments from your bank account to your servicer
- lower monthly payments by selecting a different repayment option for current loans

In the end, there are two main reasons to consolidate: to get fixed interest rates on the original variable-interest rate loans and/or to have one loan and therefore, one servicer and one monthly payment.

To help in the consolidation decision, please make use of the consolidation calculators available on www.finaid.org.

Consolidation applications can be completed at loanconsolidation.ed.gov. Note that this is the only agency offering government consolidation for student loans. Consolidating with a private institution means borrowers lose all federal student loan protections.