

Federal Loan Consolidation

What is Federal Loan Consolidation?

Federal Loan Consolidation is the process of taking out a new loan to pay off all your existing federal education loans. Federal Loan Consolidation does not include any private educational loans or SELF Loans that you may have borrowed. The new loan has new terms associated with it. Currently, under the Federal Consolidation Loan (FCL) program, the loan has a fixed interest rate which is calculated as the weighted average of the current interest rates of the loans being consolidated, rounded up to the nearest 1/8%.

If I decide to borrow a Federal Consolidation Loan, what lender should I choose?

You may choose any lender to do your Federal Loan Consolidation. However, we encourage you to choose one of the lenders that supported you with a Stafford loan during your education. Most lenders offer “borrower benefits,” (ex. additional interest rate reduction) for students who make a certain number of on-time monthly payments and/or sign up for electronic payments. You should compare lenders and see which benefits make the most sense for you.

What are the advantages and disadvantages of consolidating?

Advantages

- Borrowers with multiple lenders can consolidate to deal with only one lender.
- Lower monthly payment achieved by extending payment period from the standard 10 years to 15-30 years, depending on your loan balance
- Fixed interest rate

Disadvantages

- Increases the total cost of your debt – because borrowers are scheduled to pay the loan off over a longer period of time, you will pay more in interest over a longer period of time
- Loss of “forgiveness” options
 - Perkins Loan cancellation benefits no longer available if Perkins Loan included in consolidation
 - Stafford Loan forgiveness benefits for teachers not available under consolidation

What else do I need to know about consolidation?

- Prepayments (paying more than the minimum payment) can be made on a consolidation loan. By making prepayments, you can save money on your FCL because you will pay less in interest over the life of the loan.
- The Subsidized Stafford portion of a FCL retains the interest subsidy during deferment periods even if consolidated with Unsubsidized Stafford Loans.
- You may add to any outstanding consolidation loan any eligible loans received before or after the date of the consolidation, provided that you make the request within 180 days of the date the consolidation loan is made. After that point, a loan may not be added, however, you can obtain a second consolidation loan if you have one or more outstanding loan(s) eligible for consolidation.
- If you decide to consolidate, you must make sure you make all of your individual loan payments until your consolidation loan is complete. Your loans must not be in delinquent status when trying to consolidate. Any payments you make to a current loan holder after the loan has been paid in full by consolidation, would be forwarded to your consolidation lender.