

Loan Consolidation Fact Sheet

What is Loan Consolidation?

Student borrowers can consolidate (combine) multiple federal student loans into one loan: a Direct Consolidation Loan, making a single monthly payment.

What are the Advantages of Student Loan Consolidation?

- Your monthly payment might be lower.
- Extended repayment period based on your total education indebtedness – possibly up to 30 years.
- Fixed interest rate for the life of the loan protecting you against future rate increases. The fixed rate is based on the weighted average of the interest rates on all of the loans you consolidate.
- Convenience, because all of your loans are now combined into one loan, you make just one payment to one lender.
- Keep your current federal student loan benefits: deferment and forbearance eligibility, loan discharge in the event of death or permanent disability, and no fees or prepayment penalties.

Are there any Disadvantages of Student Loan Consolidation?

- Borrowers lose their grace period, which means that their loans go into repayment **immediately** if the borrower's loan is not in a deferment or forbearance status.
- The total cost of repaying your loans may significantly increase because you may have a longer time to repay, so you'll pay more interest.
- You might lose some borrower benefits (interest rate discounts or principal rebates) offered through your lender. Borrower benefits can significantly reduce the cost of repaying your loans.

Which Loans Can Be Consolidated?

Most federal student loans can be consolidated, including those issued under the Federal Family Education Loan Program (FFELP - which is the federal loan program prior to 2010-2011 where banks processed federal loans), the Federal Direct Loan Program (FDLP), and other federal programs such as the Federal Perkins Loan.

Note: *The U.S. Department of Education will not consolidate Private/Alternative loans with Federal Student Loans. However some private companies may offer this type of consolidation. Make sure you do your research so you know what you are getting into if you are considering consolidation with a private company!*

What should I Consider Before Consolidating?

- Compare the cost of repaying your current loans with the cost of repaying a consolidated loan.
- Identify all of your education loans. To view loan information go to: National Student Loan Data System (NSLDS) www.nslds.ed.gov
- Determine whether you will lose any borrower benefits if you consolidate.
- Decide which loans to consolidate.
- Understand your repayment options.

When can I Consolidate my Loans?

- During your grace period (the set period of time after you graduate, leave school or drop below half-time status before you must begin repayment on a Direct, FFEL or a Perkins Loan).
- Once you've entered repayment – Repayment begins the day after the end of the grace period.
- During periods of deferment or forbearance.

Where can I Consolidate my Loans and obtain more information?

- Visit www.studentloans.gov

Understanding Student Loan Terms

Accrue: To accumulate.

Accrual Date: The date on which interest charges on an educational loan begin to accrue.

Capitalization: The practice of adding interest charges to the principal balance of an educational loan, thereby increasing the balance of the loan. Interest is then charged on the new balance which includes both the unpaid principal and the accrued interest.

Consolidation: The combining of two or more eligible loans to create one new loan with one monthly payment that is usually lower with a possible extended repayment term.

Default: The failure of a borrower to consistently make payments on time during repayment of a loan or the failure to meet other terms of the promissory note that was signed to receive the loan.

Deferment: An authorized period of time, under qualifying circumstances, during which principal loan payments are not required.

Delinquent: The failure of a borrower to make payment when it is due or to meet other terms of the promissory note that was signed to receive the loan.

Direct Loan Consolidation: Loan consolidation provided through the U. S. government

Fixed Interest: The interest rate stays the same for the life of the loan.

Forbearance: An agreement with your lender or servicer to temporarily reduce or postpone student loan payments for a borrower who experiences financial hardship.

Garnishment: The practice of withholding a portion of a defaulted borrower's wages to repay his or her loan without consent.

Grace Period: The set period of time after a student graduates, leaves school or drops below half-time status before the principal or interest payments are due for a Stafford or Perkins Loan.

Guarantor: A government or private not-for-profit organization that insures lenders against a borrower's default, death, disability, or bankruptcy for FFEL loans.

Interest: A charge for borrowing money, calculated as a percentage of the principal amount of the loan.

Principal: The total amount borrowed by the student.

Promissory Note: A binding legal document the borrower signs, noting the conditions and terms under which the borrower agrees to repay the loan.

Repayment Term: The period during which the borrower is required to make payments on the loan.

Servicer: Companies that collect payments on a loan, respond to customer service inquiries, and perform other tasks associated with maintaining a loan portfolio.