CHAPTER 6

Loan Consolidation in Detail

These fact sheets for borrowers cover the provisions for Federal Consolidation Loans made through private lenders in the FFEL program. For information about consolidating through the Direct Loan Program, see the Direct Loan Consolidation Guide.

Once a borrower leaves school, he or she may consider consolidation as an option to make repayment easier. A Stafford borrower should contact one of his or her lenders to find out about Federal Consolidation Loan. (Not all Stafford lenders will make Federal Consolidation Loans.)

The first two fact sheets (6.1 and 6.2) provide most of the information a borrower will need when deciding whether to consolidate his or her student loans. In the subsequent fact sheets, we've included information about less common issues in consolidation.

From your school's perspective, you may be most interested in the discussion of how Consolidation Loans affect the borrower's future loan limits (Fact Sheet 6.2), and how a borrower can consolidate defaulted loans to regain student aid eligibility (Fact Sheet 6.3).

Student Loans that can be included in Consolidation

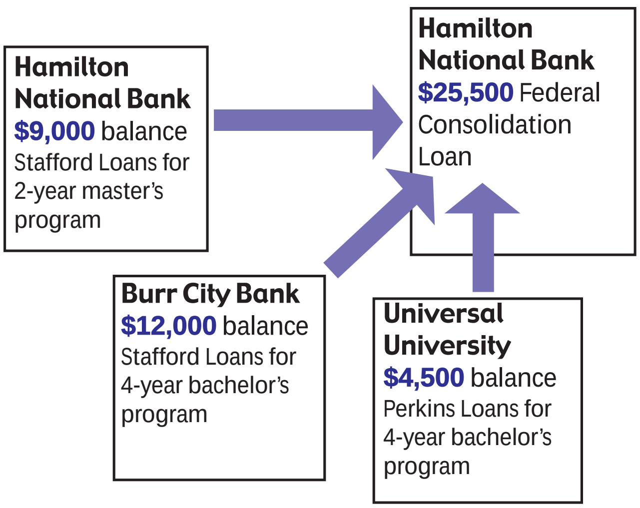
Current SFA Loans
- Perkins Loans
- Stafford Loans
- PLUS Loans (if the parent borrower is consolidating)

Loans from Health and Human Services
- Health Education Assistance Loans (HEAL—discontinued)
- Health Professions Student Loans
- Nursing Student Loans

Older SFA Loans
- National Direct/Defense Student Loans
- Supplemental Loans for Students—SLS
- Auxiliary Loans to Assist Students—ALAS
- Guaranteed Student Loans

Federal Consolidation Loans In A Nutshell

If you have several student loans, you can convert them into a single Federal Consolidation Loan with one interest rate and repayment schedule. When a lender agrees to consolidate your loans, it will pay off the outstanding balance (including the remaining principal and interest) on your existing loans and make one Federal Consolidation Loan to replace them.



- You can consolidate student loans that are in their grace period, as well as loans that are in repayment. However, you lose the benefit of any remaining grace period.
- You're not required to consolidate all of your student loans (Stafford, PLUS, Perkins, Health Professions Loans, and older SFA loans). However, if you exclude a defaulted loan from consolidation, you must make satisfactory arrangements to repay the defaulted loan.
- There are no insurance premiums or other fees for loan consolidation.
- Unlike Stafford and PLUS loans, which have variable interest rates that are recalculated each year, the interest rate on your Federal Consolidation Loan is fixed for the life of the loan.
- The interest rate on a Consolidation Loan is the "weighted average" of the interest rates on the loans being consolidated. In the example, if the Stafford interest rate is 7.5% at the time of consolidation, the rate on the Consolidation Loan (including the 6% Perkins loan) would be 7.235%.
- Depending on the loan amount, Consolidation loans can be repaid over 10-30 years. This may be longer than the repayment period on your current loans. A longer repayment period means a lower monthly payment—but it also means that you'll be paying more interest over the life of the loan, so your total repayment amount will be higher. If you're comfortable with higher monthly payments, you have the right to ask for a shorter repayment period. You can also choose to prepay the loan.
- In addition to the standard repayment plan, a lender must offer graduated, and income-sensitive repayment plans for Federal Consolidation Loans. If you expect a significant increase in income in the next few years, the graduated and income-sensitive plans are a way to start out with lower monthly payments, with higher payments later on, when you can afford them.
- There's no grace period—the first payment on your Consolidation Loan will usually be due within 60 days of the date of disbursement.
- You get the same deferment and forbearance provisions as for a Stafford Loan—in particular, the in-school deferment and the unemployment and economic hardship deferments.

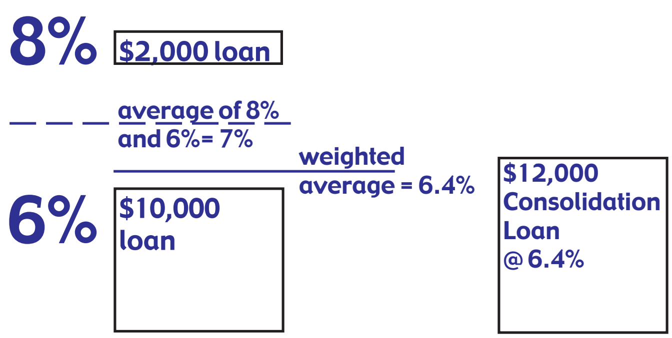
Terms and Conditions

Federal Consolidation Loans

Federal Student Loan Fact Sheet
Stafford • PLUS • Consolidation Loans

Interest rate: average of current loans

The interest rate on a Federal Consolidation Loan is the weighted average of the interest rates of the loans being consolidated. A "weighted average" means that the interest rate on a large loan counts more in the average than the interest rate on a smaller loan. For instance, if you have $10,000 in loans at a 6% interest rate and $2,000 in loans at an 8% interest rate, the weighted average for the $12,000 Federal Consolidation Loan will be 6.4%. The average is rounded to the nearest one-eighth of 1 percent, but it cannot exceed 8.25%.



Length of repayment period

The length of the repayment period for a Federal Consolidation Loan is usually longer than the traditional 10-year period for Stafford Loans. In fact, the payment period can be as long as 30 years.

Consolidation Amount	Maximum repayment period
Less than $7,500	10 years
$7,500 to $9,999	12 years
$10,000 to $19,999	15 years
$20,000 to $39,999	20 years
$40,000 to $59,999	25 years
$60,000 or more	30 years

Repayment plans and total interest

The advantage of a longer repayment period is lower monthly payments. On the other hand, you'll be paying more in interest charges over a longer repayment period. For instance, if you consolidate $10,000 in student loans that you were going to repay in 10 years, your total repayment amount will increase from $13,626 over 10 years to $15,680 over 15 years. (Based on a 6.5% interest rate.) The additional interest has an even greater effect for larger loan amounts. For instance, consolidating $20,000 in Stafford loans to a 15-year Federal Consolidation Loan will increase your total repayment from $27,252 to $35,787.

To make sure that you understand your choices, you should use an on-line repayment calculator that shows you the total interest you'll pay for repayment periods of different length. If you're concerned about the amount of interest you'll be paying, you do have the option to request that

Consolidation calculators
Direct Loans –http://loanconsolidation.ed.gov/
FFEL–http://mapping-your-future.org/features/dmconsolid.htm

your lender set a shorter repayment period on your Consolidation Loan. On the other hand, you may decide to accept the higher interest cost over the long term in order to reduce your current monthly payment.

If you're having difficulty making your current loan payments but expect your income to increase significantly in a few years, there are alternatives to consolidation. For instance, you may want to switch your current loans to a graduated repayment plan or an income-sensitive repayment plan, rather than consolidating.Consolidation and loan limits

There are no minimum or maximum loan limits that apply to Federal Consolidation Loans. The loan's principal balance equals the sum of the amounts that your Consolidation lender will pay to the holders of the loans being consolidated. For instance, if you consolidate undergraduate Stafford Loans that have a total remaining balance of $12,000 with $15,000 in graduate Stafford Loans, you will owe a total of $27,000 on your Consolidation Loan.

Consolidation doesn't change your aggregate loan limits—your Consolidation Loan counts towards the aggregate Stafford Loan limit, just as any individual loans would. However, keep in mind that your outstanding balance on any unsubsidized Stafford loans that were consolidated may have included capitalized interest, which is *not* counted towards your aggregate loan limit. Thus, you may need to work with your school to determine whether the amount of your Consolidation loan shown in NSLDS includes capitalized interest.

more on consolidation & deferment/fobearance options:
www.ed.gov/studentaid

look up your loan amounts: **nslds.ed.gov**

Deferment and forbearance options

All deferment and forbearance options available to FFEL Stafford and PLUS borrowers are available to a borrower who received a Consolidation Loan after July, 1993. Check your promissory note or our Web site for deferment and forbearance options.

If you consolidate subsidized as well as unsubsidized Stafford Loans, you will still get the interest benefits on the portion of the Consolidation loan that represents the original subsidized Stafford Loans.*

For instance, if you consolidate $4,000 in subsidized Stafford loans with $6,000 in unsubsidized Stafford loans, then 40% of your Consolidation Loan would be considered to be subsidized and would be eligible for the interest subsidy during periods of deferment. If you get a deferment later on, when the outstanding balance on your Consolidation Loan is $8,000, then interest will accrue on the $4,800 that represents the portion of the original unsubsidized loan.

As with Stafford Loans, you may pay the interest on a Consolidation loan as it accumulates during a period of forbearance or unsubsidized deferment, or postpone paying the interest and have it capitalized (added to the principal owed) when you resume repayment.

Cancellation options

It's important to know that Consolidation Loans don't have a cancellation/forgiveness provision for teachers at low-income schools or for child-care providers. Therefore, you lose those options when you consolidate your Stafford Loan. However, all of the other cancellation provisions that are available for a Stafford Loan, are also available with a Consolidation Loan, including the cancellations for total and permanent disability, unpaid school refund, forgery of aid documents, and attending a school that closed. If some but not all of your consolidated loans are affected by consumer problems at your school, only the portion of your Consolidation Loan that is made up of the affected loans will be cancelled.

*Note that this is a recent provision—consolidation loans made before November 13, 1997 did not have any interest benefits.

Consolidation Issues: Defaulted Loans, Joint Consolidation

More information under "Repaying your loan"
www.ed.gov/studentaid

Consolidating a defaulted loan

You can even consolidate a defaulted loan, as long as no court judgment or wage garnishment order has been issued against it.

If you agree to repay the Consolidation Loan under an income-sensitive repayment plan, you can consolidate the loan without making any additional payments. However, if you want a standard, extended, or graduated repayment plan, you must first make three voluntary, on-time, consecutive monthly payments to the current holder of your defaulted loan under a "satisfactory repayment arrangement" before you may consolidate your loans. (These arrangements must be satisfactory to the holder of the loan.)

If you're consolidating a defaulted loan, the payoff amount may include, in addition to unpaid principal and interest, late charges and collection costs applied to those loans. A guaranty agency (or the Department's Debt Collection Service, if it holds the loan) may assess late fees of up to 6% per overdue installment and collection charges of up to 18.5% of the principal and interest that is outstanding at the time of loan payoff certification on a defaulted loan that is to be included in a Federal Consolidation Loan.

Joint consolidation by married couples

You may consolidate your student loans with those of your spouse if both of you agree to be held jointly and separately liable for repayment of the Consolidation Loan, regardless of the amount of your individual debts and regardless of any future change in marital status. If your spouse dies, becomes totally and permanently disabled, or your spouse's repayment obligation is suspended or discharged because of bankruptcy, you will still be obligated to repay the loan.

Both you and your spouse must meet the eligibility requirements to qualify for a Consolidation Loan. Only one of you needs to certify that the lender holds at least one of the outstanding loans that are being consolidated, or that you have unsuccessfully sought a Consolidation Loan from the your current loan holders.

To receive a deferment, forbearance, or have the loan cancelled, both you and your spouse must meet the qualifying conditions. The only exceptions are when all or part of the loan is cancelled because of school closure, an unpaid refund, or false certification of the loan. In these cases, only one of you needs to qualify. However, only the portion of the Consolidation Loan affected by one of these conditions may be cancelled.

Consolidation Issues: Perkins, PLUS, older loans

Consolidating a Perkins loan

Some borrowers are afraid that they'll "lose" the lower Perkins interest rate if they include a Perkins or NDSL in a Consolidation Loan. Because the interest rate on a Consolidation Loan is the weighted average of the interest rates on the prior loans, there should be no significant difference in the amount of interest you pay on that Perkins amount before and after it's consolidated.

However, you should bear in mind that you will lose some of the deferment and cancellation provisions on your Perkins loan. For instance, the Consolidation Loan doesn't have cancellation provisions for VISTA and Peace Corps volunteers, teachers at low-income elementary or secondary schools, or for full-time nurses, medical technicians, and law enforcement/corrections officers.

Because Consolidation Loans may have repayment periods as long as 30 years, your monthly repayment amount on the Perkins portion of your loan may be less than what you were previously paying on that loan. However, remember that extending the repayment period usually increases the total amount of interest that you'll be paying on the loan.

Endorser for PLUS loan consolidation

If you had to get an endorser on the PLUS portion of the original Consolidation Loan, you must use the same endorser for the added PLUS Loan. If an endorser was not originally required but is required for the added PLUS loan, the endorser must agree to repay the entire PLUS Consolidation Loan.

Provisions for older loans

The interest rate for a Federal Consolidation Loan made from July 1, 1994 to November 13, 1997 was the weighted average of the interest rates on the loans being consolidated (rounded up to the nearest whole percent) or 9%. When calculating the weighted average of interest rates, the consolidating lender must use the interest rates that are in effect for each loan at the time the loan is paid in full for consolidation.

The interest rate for a Federal Consolidation Loan made from November 14, 1997 to September 30, 1998 is the bond equivalent rate of 91-day Treasury bills sold at final auction before June 1, plus 3.1%. The interest rate may not exceed 8.25%.

If your lender received your Consolidation Loan application before January 1, 1993, you are responsible for the interest on the loan during periods of deferment. If your lender received your Consolidation Loan application from January 1, 1993 through August 9, 1994, the Department pays the interest on your loan during periods of deferment. (These interest payments do not cover any portion of the Consolidation Loan that represents a former HEAL loan.) For loan applications received on or after August 10, 1994, the Department pays the interest on the Consolidation Loan during periods of deferment if the loan is made up exclusively of subsidized Stafford Loans.