

Federal Consolidation Loan

A Federal Consolidation Loan is a practical way to refinance education debt by bundling all of the federal loans into a single loan and paying off the remaining balances. Consolidation loans are available to either students or parents of students. Student borrowers are eligible for a consolidation loan if they are in the six-month post-school grace period or in the loan repayment period. The student borrower may qualify for a consolidation loan while still enrolled in school if his/her status drops below that of half time. Parent borrowers may consolidate at any time, regardless of the student's enrollment status. There is no credit check during the loan process; anyone who has qualified for a federal loan is eligible for the Federal Consolidation Loan.

Reasons to consider a Federal Consolidation Loan:

- Simplified record-keeping
- Avoid multiple billing statements
- Reduced monthly payments
- Extended repayment (up to 30 years)
- Convert multiple loans into a single fixed-rate loan
- Flexible repayments, additional incentive plans
- One Federal Student Loan payment per month

Reasons not to consolidation federal student loans:

- You will not be able to take advantage of any further interest rate reductions that may be available on your Stafford or PLUS loans
- While the interest rate may be lower for a consolidation loan, the total interest over the life may increase if the repayment term is extended
- Some loans, such as the Perkins, already have low, fixed rates, and may or may not be suitable for consolidation as rates may actually increase
- If you participate in special benefit programs with rate reductions, deferments or forbearances for vocation such as pharmacy, nursing, teaching, etc., consolidation may adversely affect those benefits currently received.

Eligible Federal Student Loans

The following student loans are eligible for a Federal Consolidation Loan:

- Federal Stafford Loan (subsidized or unsubsidized)
- Federal Direct Loan (subsidized or unsubsidized)
- Federally Insured Student Loan (FISL)
- Auxiliary Loan to Assist Students (ALAS)
- Federally Supplemental Loan for Students (SLS)
- Federal Parent Loans for Undergraduate Students (PLUS)
- Health Education Assistance Loan (HEAL)
- Loan for Disadvantaged Students (LDS)
- Federal Perkins Loan*
- Health Professions Student Loan*
- Nursing Student Loan*
- National Direct Student Loan*
- Guaranteed Student Loan (GSL)

*These loans typically have low, fixed interest rates – consider consolidation carefully. Prior Federal Consolidation Loans may be re-consolidated only if at least one other eligible student loan is included in the new consolidation.

Disbursement

The typical processing time for the Federal Consolidation Loan is four to ten weeks. Remittance will be made directly to the creditors listed on the application; the borrower will not receive the funds. You should continue to make required payments on all student loans until such time as your creditors receive the full disbursement of funds from the consolidation lender. After disbursement, the consolidation loan cannot be cancelled or unconsolidated.

Interest and Other Charges

The Federal Consolidation Loan has a fixed interest rate, which is based on the *weighted* average of the interest rates of all the loans being consolidated, but excluding Health Education Assistance Loans (HEAL). This weighted average is then rounded up to the nearest 1/8th percent, and is capped at 8.25%. The weighted average is calculated on the true interest rates of the loans, and does not consider any borrower benefit, special rates, discounts, or other incentives.

Federal law forbids lenders from charging fees for the consolidation loan, and also forbids lenders from charging pre-payment penalties on federal education loans. If loan payments are not made according to the loan agreement, late fees and/or collection costs may be assessed.

Incentive Programs

Many lenders offer special incentives for consolidation loans. Two of the more common incentives reward those borrowers that make their repayments on time and/or choose to have the monthly payment automatically transferred from their checking or savings accounts. The types of incentives as well as the requirements to satisfy said incentives are varied according to the lender. In some cases, deferments or forbearance may impact one's eligibility for such incentive programs.

Repayment

The repayment of a Federal Consolidation Loan begins within sixty (60) days after disbursement is made. There is no grace period; borrowers in the original six (6) month grace period forfeit the remainder of said grace period when a consolidation disbursement is made. There is a minimum payment of \$50 per month.

There exist within the Federal Consolidation Loan four (4) basic repayment options. The four basic types of repayment options include:

- **Standard Repayment:** The monthly payment amount is fixed for the life of the loan. This plan has the highest initial monthly payment, but also the lowest total interest to be repaid.
- **Graduated Repayment:** The monthly payment starts low and increases at specific intervals over the life of the loan. Early payments typically include the interest only; as principal is added to the monthly payment, the amount increases. The length of time that one may make interest-only payments is defined by the specific lender, and as such, is variable.
- **Income Sensitive Repayment:** The monthly payment is based upon a percentage of expected income, and can fluctuate with changes in one's earnings. The minimum payment may be no less than the monthly accrued interest, but at least \$30. The maximum payment may be no more than three (3) times greater than any other payment. Earnings documentation must be provided to the lender.
- **Extended Repayment Plan:** This repayment option allows the borrower to repay the loan over a maximum period of thirty years, depending on the total amount loan debt. Minimum monthly payment of \$50 month, or more if necessary to repay the loan within the required time period.

The length of the repayment period for a Federal Consolidation Loan varies according to the sum of the beginning balance of the Consolidation Loan and the amount of the borrower's other education loans. Other education loans are those made to a borrower by an organization under a public or private student loan program exclusively for the purpose of financing the borrower's of a dependent student's postsecondary education. For the purposes of determining repayment terms, the sum of other education loans may not exceed the amount of the Consolidation Loan and may not include non-Title IV education loans that are in default (except those for which satisfactory repayment arrangements have been made).

You may choose the repayment option that best suits your circumstances, and switch from one repayment option to another at no cost, or penalty, by contacting the lender. You may be limited to repayment options, based upon the number of loan years remaining. You may also select the term of the repayment period. Limits on the length of the term are federally mandated according to the debt.

| MAXIMUM REPAYMENT PERIODS FOR CONSOLIDATION LOANS | |
|---|--|
| Total Education Debt | Maximum Term* |
| Less than \$7,500 | 10 years |
| \$7,500 but less than \$10,000 | 12 years |
| \$10,000 but less than \$20,000 | 15 years |
| \$20,000 but less than \$40,000 | 20 years (may be extended under the Extended Plan) |
| \$40,000 but less than \$60,000 | 25 years |
| \$60,000 or greater | 30 years |

*Maximum repayment periods exclude authorized periods of deferment and forbearance

**Terms may differ for income sensitive repayment.

Deferment, Forbearance, and Default

There may come a time during the repayment period, where you find it difficult to make payments. During such times, you may still request a deferment or forbearance of the consolidation loan. A borrower may be entitled to in-school deferment, education related deferment, unemployment deferment, temporary total disability deferment, or economic hardship deferment depending on when the borrower's Consolidation loan was made and whether the borrower had any outstanding principal or interest balance on a FFELP loan on July 1, 1993.

Federal Consolidation Loan borrowers remain eligible for all types of forbearances. Forbearance provisions for Consolidation Loan borrowers are the same as those for PLUS, Stafford and SLS borrowers. Forbearance allows temporary cessation of payments, an extension of time for making payments, or temporarily smaller payments than were previously scheduled. Any unpaid interest may be capitalized (added to the principal).

Deferment and forbearance periods do not count as part of the repayment period. You must continue to remit payments until the request for deferment/forbearance has been officially granted by the lender – failure to do so could result in the loans defaulting. Defaulting on some or all federal student loans may have serious consequences including, but not necessarily limited to:

- Loss of state and federal income tax refunds
- Loss of other state or federal payments
- Administrative wage garnishment
- Collection charges, including attorney fees
- Increased interest rate charges
- Ineligibility for loan deferments
- Ineligibility for additional aid
- Loss of professional license
- Damage to credit record, and/or
- Other legal action

Cancellation, Discharge, and Forgiveness of loan

A Federal Consolidation Loan may be cancelled under any of the following conditions:

- The borrower dies
- The borrower becomes totally and permanently disabled
- The student is a full-time teacher for five (5) consecutive years in a designated elementary or secondary school serving low-income families (depending on when borrower begins his/her teaching service, subject area, and other borrower qualifications). Maximum amounts apply.
- The loan is discharged in bankruptcy (in most cases, federal education loans are not discharged)