

## CONSOLIDATION PRIMER

### Federal Consolidation as Part of Your Repayment Strategy

As you graduate from dental school and transition into your profession, you may question whether to make consolidation a part of your overall repayment strategy. Federal consolidation allows you to pay off multiple federal loans with one new loan. While consolidation can be an effective debt management tool for some dental and dental hygiene graduates, consolidation is not appropriate for everyone. Many recent graduates, including upcoming graduates in the Class of 2018, may find they are not strong candidates for federal consolidation, which has advantages and disadvantages.

The information below is designed to help you determine whether to consider federal consolidation.

#### Potential Advantages

- Consolidation offers convenience.
  - After consolidation, assuming you consolidated all your eligible loans, you have one loan, one loan servicer, one payment, one place to file forms.
- Consolidation converts non-direct loans into one direct loan.
  - May allow entire balance to be repaid with Pay As You Earn (PAYE) or Revised Pay As You Earn (REPAYE), as only direct loans may be repaid with PAYE and REPAYE.
  - Having a direct loan<sup>1</sup> maximizes your potential forgiveness amount in the Public Service Loan Forgiveness (PSLF) Program.
    - ✓ See [StudentAid.ed.gov/publicservice](http://StudentAid.ed.gov/publicservice) for details on PSLF.
- Your repayment term may be extended to 30 years, lowering monthly payments.

#### Potential Disadvantages

- Consolidation partially negates an aggressive repayment strategy.
  - You cannot target your higher interest loans for voluntary or additional payments because you have only one loan at one interest rate.
    - ✓ You can still pay early, but you are not getting the best “bang for your buck.”
- You pay a slightly higher interest rate for a Direct Consolidation Loan.
  - The interest rate on a Direct Consolidation Loan is a “weighted” or blended rate (of all loans being consolidated), rounded up an eighth of a percent (.125%) and fixed for the life of loan.
    - ✓ This new rate is not prohibitively higher than previous rates—don’t let it discourage you from consolidating your loans.
- The first payment on a Direct Consolidation Loan comes due immediately.
  - If you launch the process too early, you lose grace periods on the loans you are consolidating.
- Federal Perkins, Health Professions Student Loans, and Loans for Disadvantaged Students balances lose their subsidized interest status if they are included in the consolidation.

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<sup>1</sup> Only direct loans are eligible for forgiveness under the Public Service Loan Forgiveness Program.

## Important Tips on Consolidating Your Loans

ADEA strongly recommends that you document the entire Direct Consolidation Loan application process.

1. There is only one option for federal consolidation, the government's Direct Consolidation Loan Program.
  - The online application is available at [StudentLoans.gov](http://StudentLoans.gov).
  - When you log in, your consolidation application will be prepopulated with your records from [www.NSLDS.ed.gov](http://www.NSLDS.ed.gov).
    - ✓ Even though the application is prepopulated with your records, you do not have to consolidate all of your loans.
2. Select a loan servicer both to process your consolidation application and service your Direct Consolidation Loan:
  - If you are interested in the PSLF program, strongly consider selecting FedLoan Servicing.
  - This servicer is the only one that will both confirm your employer is an eligible PSLF employer and track your loan payments toward PSLF eligibility.
3. Start the consolidation process early enough so it can be completed before the loans you are consolidating come due.
  - Confirm the timing with the loan servicer you select to process and service your new Direct Consolidation Loan.
4. Expect the entire process to take anywhere from a few weeks to several months. Remain in "good standing" on your loans during the consolidation process. If your loan payments come due before you have finished the consolidation process, either start paying the loans or postpone payment until they are paid in full through consolidation.
5. In general, you do not forfeit deferment and forbearance options when you consolidate.
  - Not forfeiting these options may important be if you are enrolling in an advanced dental education program.
6. Confirm that your application is accurate!
  - Review the Direct Consolidation Loan Summary Sheet.
    - ✓ You will receive the sheet before the loans you are consolidating are paid in full by the new loan.

## So, Are You a Candidate for Consolidation?

You **may** be if:

- You have multiple loan servicers and would like the convenience of having one loan servicer.
- You have some non-direct loans and are interested in:
  - PSLF, as this helps you maximize your potential forgiveness amount under PSLF.
  - Repaying your entire balance with PAYE or REPAYE.

You **may not** be if:

- You already have one loan servicer.
- All your loans are direct.

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