Direct Consolidation Loan

The decision to consolidate should be made carefully. Consolidation is not required but may be necessary in some instances.

What is a Direct Consolidation Loan?

A federal loan that combines one or more federal student loans into a new Direct Consolidation Loan for the purpose of possibly lowering a monthly payment amount, gaining access to a particular repayment plan or loan forgiveness program.

Direct Consolidation Loans will have a weighted average interest rate based on all the loans combined.

Pros and Cons of Consolidation

A federal Direct Consolidation Loan cannot be undone once it has been disbursed, so weigh the advantages and disadvantages of consolidating before taking the steps to consolidate.

Pros of Consolidation

- Creates a single loan, with one payment to one servicer. All outstanding loans are not required to be included in the Direct Consolidation Loan.
- May possibly provide a lower monthly payment by making loans eligible for an income-driven repayment (IDR) plan, or by extending loan repayment up to 30 years if enrolled in the Standard or Graduated repayment plan. There is never a penalty for paying the loan off early.
- May make ineligible loans, such as Federal Family Education Loans (FFEL) or Perkins Loans, eligible for IDR plans, IDR forgiveness, or Public Service Loan Forgiveness (PSLF).

Cons of Consolidation

- May create a longer repayment term, depending on the repayment plan chosen. This can also result in higher total loan costs, due to the amount of interest paid and the extended length of repayment.
- The interest rate for the Direct Consolidation Loan is a weighted average of all the loans combined, and the new rate is rounded up to the next 1/8th of one percentage point.
- Any outstanding, unpaid interest becomes part of the new principal when consolidated. The new principal then accrues interest until the loan is paid in full.
- Interest rate discounts, principal rebates, and in some cases, loan cancellation benefits could be lost when consolidating.
- Consolidation may impact a borrower's grace period, deferment period, or forgiveness options.

How to Consolidate

If a borrower's loans are in good standing, and if the borrower is officially separated from medical school, they can complete the Direct Consolidation Loan application online at studentaid.gov. If the borrower is in default on a federal student loan, they may still be eligible for consolidation; however, they will need to meet certain requirements before consolidating. Visit the Federal Student Aid website for more information.

Loans That Can Be Consolidated

Most federal education loans are eligible for consolidation after you complete (or separate from) medical school. The following loans can be considered for a Direct Consolidation Loan:

- Direct Subsidized and Unsubsidized Loans.
- Perkins Loans.
- Direct PLUS Loans.
- Direct Consolidation Loans.

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Repayment After Consolidation

After the consolidation application is processed, borrowers will begin repayment generally within 60 days of the disbursement of the consolidation loan. If the borrower qualifies for a deferment or forbearance, then loan payment can be postponed. Direct Consolidation Loans, like all federal education loans, do not have a prepayment penalty, so extra or unscheduled payments can be made to save time and money.

Consolidation and Public Service Loan Forgiveness (PSLF)

It may be necessary to consolidate to make some federal loans eligible for Public Service Loan Forgiveness (PSLF). However, not all loans need to be consolidated to be eligible for PSLF. To review your loan portfolio, log in to the Federal Student Aid website or contact your servicer(s). If you've made any qualifying PSLF payments on any Direct Loans prior to applying for a Direct Consolidation Loan, contact your loan servicer to determine how those payments and/or your PSLF status may be impacted when applying for a new Direct Consolidation Loan.

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