

# Student Loan Consolidation

## Advantages and disadvantages to consider

A Direct Consolidation Loan allows you to consolidate (combine) multiple federal education loans into one loan. The result is a single monthly payment instead of multiple payments. Loan consolidation can also give you access to additional loan repayment plans and forgiveness programs. There is no application fee to consolidate your federal education loans into a Direct Consolidation Loan, if you consolidate through the U.S. Department of Education.

### Factors to Consider Before Consolidating Your Loans

- » Student loan interest may be tax deductible up to \$2,500 (depending on current tax law).
- » Consider whether you can afford the new consolidated loan payment.
- » Certain loans may be eligible for Public Service Loan Forgiveness (PSLF) or other federal forgiveness programs. After 120 months of payments (10 years), PSLF loans can be forgiven in any amount. Check first to see which jobs are eligible for these programs. Loan amounts forgiven may be subject to federal income tax (depending on that year's tax law).
- » Private loans (from banks, credit unions, etc.) are not eligible for a direct consolidation loan.
- » There are multiple loan repayment programs to choose from; not all of them make sense if you plan to consolidate your loans.

### Advantages to Consolidation

- » Simplicity, as borrowers have just one loan payment to make each month.
- » Consolidated loans have a fixed interest rate over the life of the loan.
- » Federal consolidated loans may qualify for loan forgiveness. Federal Family Education Loans and Perkins loans may also become eligible for PSLF if consolidated into a direct loan.
- » Borrowers may have flexible payment terms, which can reduce the chances of defaulting on a loan.
- » There may be forbearance options during periods of economic hardship.
- » Loan payments may be lower.
- » There is no credit check to consolidate.

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### **Disadvantages to Consolidation**

» An existing federal loan currently eligible for loan forgiveness (say two years into the 10-year period) may have its “clock” re-set to a new 10-year period if consolidated into a new direct loan.

» Borrowers can only consolidate one time. If interest rates were to fall in the future, these loans cannot be renegotiated.

» Making payments over a longer loan period could mean paying higher overall amounts of loan interest.

For more information about all aspects of student loans, visit <https://studentaid.gov/h/manage-loans>



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