URS
Utah Retirement Systems

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.

SEE NEXT PAGE

Advantages, Continued

» If you currently have federal student loans that are with different loan servicers, consolidation can greatly simplify loan repayment by giving you a single loan with just one monthly bill.

» Consolidation can lower your monthly payment by giving you a longer period of time (up to 30 years) to repay your loans.

» If you consolidate loans other than Direct Loans, consolidation may give you access to additional income-driven repayment plan options and Public Service Loan Forgiveness (PSLF). The PSLF Program forgives the remaining balance on your Direct Loans after you have made 120 qualifying monthly payments under a qualifying repayment plan while working full-time for a qualifying employer. (Direct Loans are from the William D. Ford Federal Direct Loan Program.)

» You'll be able to switch any variable-rate loans you have to a fixed interest rate.

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.

» Because consolidation usually increases the period of time you have to repay your loans, you will likely make more payments and pay more in interest than would be the case if you didn't consolidate.

» When you consolidate your loans, any outstanding interest on the loans that you consolidate becomes part of the original principal balance on your consolidation loan, which means that interest may accrue on a higher principal balance than might have been the case if you had not consolidated.

» Consolidation may also cause you to lose certain borrower benefits—such as interest rate discounts, principal rebates, or some loan cancellation benefits—that are associated with your current loans.

» If you're paying your current loans under an income-driven repayment plan, or if you've made qualifying payments toward Public Service Loan Forgiveness, consolidating your current loans will cause you to lose credit for any payments made toward income-driven repayment plan forgiveness or PSLF.

SEE NEXT PAGE

Disadvantages, Continued

If consolidation would cause you to lose the benefits associated with some of your current loans and you are working toward earning those benefits, you should not include those loans in your new Direct Consolidation Loan. When you apply for a Direct Consolidation Loan, you don't have to consolidate all of your eligible loans.

For example, if you have both Direct Loans and other types of federal student loans, and you have been making payments toward PSLF on your Direct Loans, you should not consolidate your Direct Loans along with your other loans. Similarly, if you have Federal Perkins Loans and you are employed in an occupation that would qualify you for Perkins Loan cancellation benefits, you should not include your Perkins Loans when you consolidate. Leaving out your Direct Loans or Perkins Loans will preserve the benefits on those loans.

If you want to lower your monthly payment amount but are concerned about the impact of loan consolidation, you might want to consider deferment or forbearance as options for short-term payment relief or consider switching to an income-driven repayment plan for longer-term payment relief.

Once your loans are combined into a Direct Consolidation Loan, they cannot be removed. The loans that were consolidated are paid off and no longer exist.

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