AAMC
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Effects of Federal Student Loan Consolidation

Loan Type	Simplify Repayment[1]	Lower Monthly Payment[2]	Make Eligible for PSLF/PAYE/REPAYE[3]	Forfeit Grace Period[4]	Fix a Variable Rate[5]	Make Eligible for Residency Forbearance or IBR[6]	Loss of Interest Subsidy[7]	Grace and Deferment Options Lost[8]
Direct Subsidized Loans	x	x		x	x			
Direct Unsubsidized Loans	x	x		x	x			
Federal Subsidized Stafford Loans	x	x	x	x	x			
Federal Unsubsidized Stafford Loans	x	x	x	x	x			
Direct PLUS Loans	x	x		x				
Grad PLUS Loans	x	x	x	x				
Perkins Loans	x	x	x	x		x	x	x
LDS Loans	x	x	x	x		x	x	x
Direct Consolidation Loans	x	x						
Federal Consolidation Loans	x	x	x					

= Benefits
= Consequences

1. **Simplify Repayment.** The main benefit of loan consolidation for medical residents is simplification of the repayment process by combining all federal student loans into a single new loan with one point of contact and a single required monthly payment. This is a valuable benefit for those who have little time or energy to manage personal financial matters.

2. **Lower Monthly Payment.** Before consolidating, most loans have a 10–25-year repayment term, but after consolidating, the loan term is lengthened up to 30 years. This longer term causes the required monthly payment to decrease significantly—a great benefit if cash flow is limited. Alternatively, an extended term can also mean higher interest costs. The good news is that there is no prepayment penalty for federal loans, so extra payments are allowed and encouraged at any time to reduce the total interest cost.

3. **Make Eligible for PSLF/PAYE/REPAYE.** Loans that were not originally disbursed from Direct Loans are not eligible for Public Service Loan Forgiveness (PSLF), or the Pay As You Earn (PAYE) and Revised Pay As You Earn (REPAYE) repayment plans. However, if eligible federal student loans (like Perkins Loans) are included in a Direct Consolidation Loan, they become eligible for PSLF and the PAYE and REPAYE repayment plans. Other eligibility requirements also need to be met.

4. **Forfeit Grace Period.** Consolidation loans do not have a grace period, and repayment will be required within 60 days of the consolidation loan being disbursed. For this reason, if a borrower wants to use their entire grace period, they will need to either 1) request that the servicer delay the processing of the consolidation until the end or near the end of the grace period (this request is made in the consolidation application), OR 2) simply wait to complete a consolidation application until after all grace periods have been fully exhausted. On the other hand, consolidation is the only way to "skip" the grace period—call it an unintended loophole. Borrowers seeking loan forgiveness may want to begin making payments immediately after graduation, and consolidation can accelerate the start of these payments.

   Technically, PLUS Loans do not have a grace period; however, they do have what is referred to as a post-enrollment deferment that behaves much like a grace period (postponing payments) and lasts for six months. This deferment occurs automatically and would be lost if the PLUS Loans were consolidated before the entire post-enrollment deferment was experienced.

5. **Fix a Variable Rate.** (This benefit is applicable only to loans disbursed before July 1, 2006.) The interest rate on a consolidation loan is based on the weighted average of the underlying loans, rounded up to the nearest one-eighth of a percent, and then fixed for the life of the loan. A fixed rate is protected from rate changes, and may be of great worth for variable rate loans. However, very few medical graduates have these older variable rate student loans; therefore, the effect of consolidation on already fixed interest rate loans is more likely to result in a slightly increased rate because of the rounding process.

6. **Make Eligible for Residency Forbearance or IBR.** Perkins Loans and LDS Loans are not eligible for Mandatory Medical Residency Forbearance or the Income-Based Repayment (IBR) plan in their original form. These loans, however, can be included in a Direct Consolidation Loan, making the debt eligible to be postponed with a resident forbearance or repaid under IBR. All other federal student loans are eligible for repayment under IBR in their original form and with their current servicer. (Note: Parent PLUS Loans would not be eligible for IBR.)

7. **Loss of Interest Subsidy.** In their original form, Perkins and LDS Loans are subsidized, which means that interest does not accrue while the loan is in an in-school, grace, or deferment status. When a Perkins or LDS Loan is consolidated, the balance of the loan becomes unsubsidized.

8. **Grace and Deferment Options Lost.** Certain loans are eligible for additional time in grace or deferment, but when these loans are consolidated, the remaining balance on these loans loses these options.

Be Advised: Consolidation will erase prior payments made on the loans being consolidated, which will negatively affect your pursuit of PSLF. Is the consolidation worth resetting the payment count on your PSLF eligibility?