

Should I Consolidate into a Direct Consolidation Loan?

Are you wondering if consolidation is right for you?
Answer these questions to find out.

1. Do you have multiple servicers for your federal student loans?



Yes, a consolidation with Direct Loans may offer you the much needed benefit of simplification: one loan, one point of contact, and one payment. In fact, one of the top reasons medical residents consolidate is to simplify the management of their student loans during residency.



No, loan consolidation would not provide an obvious benefit in managing your loans.

2. Are you considering work in public service and Public Service Loan Forgiveness (PSLF)?



Yes, a Direct Consolidation Loan may be necessary to make some of your debt eligible for this forgiveness program. You would NOT need to include all of your loans in the consolidation. Only the federal loans that do not already have the word “Direct” in their name would need to be consolidated—since these are ineligible for PSLF in their current form. For a list of all of your federal student loans, visit www.nsls.ed.gov.

(Note: Please be advised that consolidation will erase all prior payments that qualified for PSLF.)



No, loan consolidation would not provide any obvious benefit based on your future career goals.



Possibly . . . see the advice for those who answered ‘Yes’ (to the left), and then strongly consider following it. This will leave your options open. In the future, you will have the ability to continue on the path toward forgiveness under PSLF or leave public service without penalty.

3. Would you benefit from a lower required monthly payment?



Yes, loan consolidation may benefit your monthly budget because it can dramatically reduce your required monthly payment. This is accomplished by stretching the term of the original loans from 10 years to up to 30 years. Keep in mind, the longer it takes to pay off a loan, the more the loan can cost. However, there are no prepayment penalties on federal student loans, so a consolidation loan can be paid off earlier than required by sending extra money when possible, which will help avoid the additional interest costs.

Alternatively, a lower monthly payment can be obtained without consolidating. By changing your selected repayment plan to an income-driven plan, you could qualify for an even lower monthly payment during residency—possibly making consolidation unnecessary. Discuss this option with your loan servicers.



No, loan consolidation would not provide an obvious benefit to your financial situation. By not consolidating, you avoid stretching out the term of the loan, thus the balance of your debt is likely to be repaid sooner and this will cost you less in interest.



Possibly . . . see the advice for those who answered “Yes” (to the left), and then strongly consider following it as it will allow you the flexibility to pay less when you need to, but still gives you the opportunity to pay more when you are able to do so.

4. Do you have private student loans in addition to your federal student loans?



Yes, medical residents sometimes find it difficult to repay both private and federal loans—at least during residency. A helpful strategy may be to consolidate all federal loans, to obtain a single servicer (a benefit discussed in Question 1), and then request a postponement of payment while in residency. This is easily accomplished with a Mandatory Medical Residency Forbearance. Then, while payments on your federal loans are postponed, you can aggressively focus repayment on the private debt and attempt to repay it in full, as soon as possible.



No, loan consolidation would not provide an obvious benefit in managing your loans.

5. Are you considering an income-driven repayment plan?



Yes, a Direct Consolidation may be needed to make some of your loans eligible for these repayment plans. Specifically, Perkins and LDS Loans are not eligible for income-driven repayment plans – so these loans would need to be consolidated to be made eligible. Your federal student loans that currently do not have the word “Direct” in their name would need to be consolidated to gain eligibility for the PAYE/REPAYE repayment plans. For questions about eligibility, call your servicers.



No, loan consolidation would not provide an obvious benefit in regards to your repayment plan options.

6. After graduating, do you want to start making required payments as soon as possible?



Yes, although there is no way to forfeit or skip the grace period on federal student loans; when these loans are included in a Direct Consolidation Loan, any existing grace periods are gone/lost/forfeited . . . or “skipped” when the new consolidation loan is disbursed. Therefore, consolidation provides an unintended consequence that can benefit those seeking to begin repayment immediately (which may allow borrowers to obtain loan forgiveness four to six months earlier).



No, loan consolidation would not provide an obvious benefit to your financial situation. By not consolidating, you leave your grace period intact—allowing you the time you need to transition (financially and physically) out of medical school and into residency.