

# CHAPTER SEVEN

## CONSOLIDATION LOAN PROGRAMS

Loan Consolidation enables borrowers to pay off or refinance multiple loans with one new loan, one interest rate and one repayment schedule. It may be done to alleviate cash flow problems while in repayment. It may be done for convenience to renew deferments or gain access to additional deferments.

Federal Stafford Loans are made to students through two separate programs. Students awarded Federal Stafford Loans through the Direct Lending Program borrow directly through the federal government. Students awarded Federal Stafford Loans through the Federal Family Education Loan Program (FFELP) borrow through private lenders. As such there are two different consolidation programs.

UMDNJ participates in the FFEL Program. What this means is if you entered UMDNJ without prior student loan debt and borrowed only while in attendance at UMDNJ, you are in most instances limited to consolidate with the Federal Loan Consolidation Program.

In general, there are two different loan consolidation programs.

Federal Loan Consolidation: through the Federal Family Education Loan Program (FFELP) is available from lenders such as banks or similar lending institutions. Federal Loan Consolidation is available to borrowers with Stafford loans from either the FFEL or the Direct Loan Program.

Direct Loan Consolidation: through the Federal Direct Student Loan Program is available from the Federal government. At least one of the following criteria must be met to participate in Direct Loan Consolidation:

- Must be a Direct Loan borrower
- Available to FFELP borrowers out of school who either:
  - a) Cannot find a consolidation loan with their FFELP lender or
  - b) Cannot find a consolidation loan with their lender with Income Sensitive repayment terms they find acceptable.
- Available to borrowers currently enrolled in school if they either:
  - a) Have Direct Loans or
  - b) Have no Direct Loans but are attending a school that participates in the Direct Loan Program.

The following loans can be consolidated into either the Federal Consolidation or Direct Loan Consolidation Programs:

1. Guaranteed Student Loan (GSL)
2. Federal Supplemental Loan for Students (Federal SLS)
3. Federal Subsidized Stafford (either FFEL or Direct)
4. Federal Unsubsidized Stafford (either FFEL or Direct)
5. Federal Parent Loan for Undergraduate Students (Federal PLUS)
6. Federal Perkins Loan
7. Health Professions Student Loan (HPSL)
8. Loans for Disadvantaged Students (LDS)
9. Health Education Assistance Loan (HEAL)
10. Consolidation Loans (either FFEL or Direct)

*The following highlights are intended to briefly describe both consolidation programs. Specific questions not addressed, should be directed to your lender and/or to Direct Loan Consolidation Originations.*

### **FEDERAL CONSOLIDATION LOAN**

A Federal Consolidation Loan enables a borrower with several loans to obtain one loan with one repayment schedule and a fixed interest rate. Non-federal loans made by state or private lenders are not eligible for consolidation.

Consolidation may include in addition to unpaid principal and interest on the underlying loans being consolidated, late charges and collection costs that may have been applied to those loans.

A defaulted loan may be included in a consolidation loan if the borrower has made satisfactory repayment arrangements with the holder to repay the loan.

### **APPLYING FOR A FEDERAL CONSOLIDATION LOAN**

Generally, a borrower submits a Consolidation Loan application to a lender holding at least one of the loans to be consolidated. If none of those lenders agrees to consolidation, the borrower may apply to any other lender participating in the Consolidation Loan Program.

A borrower whose loans are held by one lender must consolidate with that lender unless the borrower certifies that he or she has sought and been unable to secure a Federal Consolidation Loan with acceptable income-sensitive repayment terms.

## LOAN LIMITS

There are no minimum or maximum loan limits that apply to Federal Consolidation Loans.

## BORROWER ELIGIBILITY

To be eligible for a Federal Consolidation Loan, a borrower:

- Must be in the grace period or in repayment status on all loans being consolidated;
- If in default,
  - Must have made satisfactory arrangements to repay the defaulted loan and must have made at least three voluntary, on-time, consecutive monthly payments or
  - Must agree to repay the Consolidation Loan under the income-sensitive repayment plan (with no payments required prior to consolidation);
- Must not have another Consolidation Loan application pending;
- Must agree to notify the loan holder of any address changes; and
- Must certify that the lender holds at least one of the borrower's outstanding loans that are being consolidated or that the borrower has unsuccessfully sought a Consolidation Loan from the holders of the outstanding loans and was unable to secure one.

A married couple may consolidate individual loans if both spouses agree to be held jointly and separately liable for repayment of the Consolidation Loan regardless of the amount of their individual debt and any future change in marital status. If one spouse becomes totally and permanently disabled, has collection of his or her loan obligation stayed by a bankruptcy filing, or has that obligation discharged in bankruptcy, the other borrower remains obligated to repay the loan. If one spouse dies, the portion of their obligation is discharged.

If a borrower is unable to obtain a Consolidation Loan from a lender eligible to make such loans, the borrower may apply through the U.S. Department of Education for a Federal Direct Consolidation Loan under the Direct Loan Program. The borrower must certify that he or she has been unable to obtain from an eligible lender a Federal Consolidation Loan or a Federal Consolidation Loan with income-sensitive repayment terms acceptable to the borrower. **The eligibility criteria for Federal Direct Consolidation Loans differ from the criteria for the Federal Consolidation Loans.**

## **INTEREST RATES**

Contact your loan consolidation program for current rates and specific information.

There are no insurance premiums or other fees for loan consolidation.

The borrower should understand that the consolidation of Stafford Loans may result in higher interest rates that he or she was previously paying. However, because Consolidation Loans may have repayment periods as long as 30 years, the borrower's monthly repayment amount may be reduced.

## **REPAYMENT**

Generally, the first payment on a Federal Consolidation Loan is due within 60 days after consolidation. (The repayment period begins on the day the Consolidation Loan is disbursed). There is no grace period. There are a number of repayment options, including the graduated and income-sensitive repayment options. The repayment period varies from 10 to 30 years, depending on the amount consolidated and on other student loans the borrower may have. If the amount to be consolidated is less than \$7,500, for example, the repayment period must not exceed 10 years.

All deferment and forbearance options are available to FFEL Stafford Loan borrowers. If a married couple is jointly liable for repayment of a Federal Consolidation Loan, the lender may grant forbearance only if both persons meet the conditions for forbearance.

The following are consolidation agencies that UMDNJ graduates typically use:

- SallieMae Smart Loan Consolidation  
1-800-448-3533  
[www.salliemae.com/apply/borrowing/smartloan.html](http://www.salliemae.com/apply/borrowing/smartloan.html)
  
- The Access Group  
1-888-250-6401  
[www.federalconsolidation.org](http://www.federalconsolidation.org)
  
- Total Higher Education (T.H.E.)  
1-866-562-6672  
[www.northstar.org/consolidation](http://www.northstar.org/consolidation)
  
- MEDLAONS Consolidation Loan  
1-800-622-6214  
[www.aam.org/Medloans](http://www.aam.org/Medloans)

## DIRECT CONSOLIDATION LOAN

Direct Consolidation Loans allow William D. Ford Federal Direct Loan (Direct Loan) and Federal Family Education Loan (FFEL) borrowers to combine one or more federal education loans and create one Direct Loan with one monthly payment. Borrowers can extend their repayment periods, thereby reducing monthly payments and possibly lowering the interest rate.

### APPLYING FOR A DIRECT CONSOLIDATION LOAN

Borrowers submit an application to the U.S. Department of Education, Consolidation Department, Loan Origination Center. [www.loanconsolidation.ed.gov/](http://www.loanconsolidation.ed.gov/)

### LOAN LIMITS

There are no minimum or maximum loan limits that apply to Direct Consolidation Loans.

### BORROWER ELIGIBILITY

Borrowers must send a Direct Consolidation Loan application to The Department's Loan Origination Center. A single consolidation application is used, even if the borrower is consolidating more than one type of loan, such as subsidized student loans and unsubsidized student loans. The publication *Federal Direct Consolidation Loans Booklet*, answers commonly asked questions.

Borrowers may add pre-existing eligible loans to a newly created Direct Consolidation Loan without submitting a new application; borrowers simply submit a request to The Department within 180 days after the loan is originated.

There are two types of consolidation, regular and in-school. Borrowers may consolidate loans any time after they are fully disbursed. Consolidation eligibility criteria vary somewhat depending on when borrowers consolidate and whether they are in default. All Direct Consolidation Loan borrowers, however, received the same deferment, forbearance, and discharge provisions available to borrowers of other Direct Loans. **Note that a borrower who consolidates a loan that is in deferment must re-apply for the deferment once the loan is consolidated.**

### **Regular Consolidation:**

- A borrower can consolidate when his or her loans are no longer in an in school period, such as during the borrower s grace period, when a loan is in repayment, or even when a loan is in default. A borrower consolidating at least one fully disbursed Direct Loan or FFEL, none of which is in an in-school period, may consolidate under the regular Direct Loan Consolidation Loan process. A borrower may also include other student loans, such as Federal Perkins Loans and eligible health professions student loans.
  
- Available to FFEL borrowers out of school who either:
  - a) Cannot find a consolidation loan with their FFEL lender or
  - b) Cannot find a consolidation loans with their lender with Income Sensitive repayment terms they find acceptable.
  
- For married borrowers who want to consolidate jointly, only **one** borrower must meet the conditions described in the preceding paragraph. Joint consolidators are held jointly and separately liable for their consolidation loan, however, **both** borrowers must qualify for deferment, forbearance, and discharge, unless a discharge is due to school closure or false certification. In those two cases, only **one** borrower has to qualify; however, only the portion of the direct consolidation loan affected by the school closure or false certification can be discharged.
  
- Regular consolidation requires that borrowers have no federal consolidation loan applications pending with any other lenders (for example, a FFEL Program lender). Also, borrowers must agree to notify The Department of any address change.
  
- A regular consolidationloan s repayment period begins the day the first disbursement is made; the first payment is due within 60 days of the date, unless the borrower is in deferment on the consolidation loan. There is no grace period.
  
- Borrowers in repayment on any loans to be consolidated should continue making payments to their current loan holders until receiving written notice from the Department that it has consolidatedtheir loans. Once the loans are consolidated, any payments a borrower makes to the original holders will be sent to The Department to reduce the Direct Consolidation Loan balance.

### **In-School Consolidation:**

- An in-school period is defined as the period before a loan enters the grace period while a borrower is enrolled **at least half time** at an eligible school. A loan is considered to be in an in-school period if the borrower entered but never completed the grace period because the borrower re-enrolled **at least half time** at an eligible school before the grace period expired.

- In-school consolidation requires borrowers to meet the requirements for regular consolidation, with some exceptions. Unlike regular consolidation, borrowers eligible for in-school consolidation may consolidate **only** Direct Loans or FFELs; the other types of federal education loans may be consolidated only after borrowers leave school.
- Borrowers attending Direct Loan schools must consolidate at least one fully disbursed Direct Loan or FFEL that is **in an in-school period**. Borrowers attending non-Direct Loan schools must have a Direct Loan **and** must consolidate a Direct Loan that is in an in-school period. (Note: that borrowers can qualify simply by consolidating one Direct Loan that is in an in-school period).
- Borrowers with no Direct Loans who want to consolidate FFELs must be attending Direct Loan schools. (At least one FFEL must be in an in-school period). Such borrowers do not have to certify that they have been unable to obtain Federal Consolidation Loans-FFEL borrowers currently are not permitted under the Federal Consolidation Loan Program to consolidate a loan in an in-school period.
- The borrower of an in-school Direct Consolidation Loan receives a six-month **grace** period on the loan when he or she reduces enrollment to **less than half time** at an eligible school. For further information and clarification contact the Direct Loan Consolidation program.

## **INTEREST RATES**

Contact your loan consolidation program for current rates and specific information.

There are no insurance premiums or other fees charged for loan consolidation.

A borrower should understand that the consolidation of loans may have repayment periods as long as 30 years. This may reduce monthly payments.

## **CONSOLIDATION OF DEFAULTED LOANS**

Generally, defaulted student loans may be consolidated if borrowers agree either to repay the Direct Consolidation Loan under the Income Contingent Repayment Plan or make satisfactory repayment arrangements with the current loan holder. However, the borrower has only one option-to make satisfactory repayment arrangements with the current loan holder-in the following two situations:

- The borrower has a defaulted loan and at least one Direct Loan or FFEL in an in-school period and wants an in-school consolidation loan, or
- The borrower wants to consolidate a defaulted PLUS Loan.

For purpose of consolidating a defaulted Direct Loan, FFEL, or Perkins Loan, satisfactory repayment arrangements are defined as **three** consecutive, voluntary, on-time, full monthly payments that are reasonable and affordable given the borrower s total financial situation.

Borrowers eligible to consolidate defaulted health professions loans must contact the loan holders to determine how a satisfactory repayment arrangement is defined.

## **SUBSEQUENT CONSOLIDATION**

A borrower may add pre-existing eligible loans to a Direct Consolidation Loan within 180 days after the date the Direct Consolidation Loan is made. Pre-existing eligible loan is one fully disbursed before the Direct Consolidation Loan s first disbursement is made.

A borrower who wants to consolidate additional eligible loans after 180 days must complete a new Direct Consolidation Loan application.

## **REPAYMENT**

- A regular Direct Consolidation Loan s repayment period begins the day the loan is disbursed. If a Direct Consolidation Loan includes at least one Direct Loan or FFEL that is in an in-school period at the time The Department receives the consolidation application, the repayment period begins the day after the grace period ends.
- A borrower who had a defaulted loan and became eligible for a Direct Consolidation Loan by agreeing to repay it under the Income Contingent Repayment (ICR) Plan may switch to a plan other than ICR if he or she:
  - Was required to make, and did make, a payment under ICR in each of the prior three months; or
  - Was not required to make payments but made three reasonable and affordable payments in each of the prior three months.

In either case, a borrower must call or write the Direct Loan Servicing Center to receive permission to make a switch.

## **DIRECT CONSOLIDATION LOAN**

- United State Department of Education  
Consolidation Department  
P.O. Box 1723  
Montgomery, AL 36102-1723  
**1-800-557-7392**  
[www.ed.gov/DirectLoan](http://www.ed.gov/DirectLoan)

## IMPORTANT POINTS TO CONSIDER

1. Compare the cost of consolidation vs. unconsolidated loans.
2. Check to see how consolidation may impact your Economic Hardship Deferment (EHD). EHD is determined using a debt to income ratio. Each year a borrower must reapply to determine eligibility. Lower interest rates on student loans mean lower monthly payments, which mean a lower debt to income ratio.
3. Review the timing of your consolidation application so that you maximize grace periods.
4. You will pay more in interest over the course of an extended repayment period through consolidation. However, you can reduce the amount of interest paid by pre-paying your loan at any time without penalty.
5. You may, in some cases, pay interest at a higher average annual rate because the consolidation rate is rounded up from the weighted average of your former rates. This depends upon the annual rate being used in the conversion.
6. You do not have to include lower interest loans such as the Federal Perkins Loan in the consolidation package. Make sure you understand all ramifications when adding your Perkins Loan(s) to a consolidation package.
7. Consolidation is different from combining loans. Combining loans merely creates a single payment coupon for multiple loans.
8. Check out multiple Federal Loan Consolidation Programs, if applicable. Incentive programs will vary.

An excellent primer on Loan Consolidation can be found at AAMC Student and Application Information web site.

[www.aamc.org/students/financing/debthelp/moneymatters/start.htm](http://www.aamc.org/students/financing/debthelp/moneymatters/start.htm)