

Federal Student Loan Consolidation and Forgiveness

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Do you have multiple loans with different lenders? Are you having a hard time keeping track of payment schedules? Does the total amount due on all loans in a single month overwhelm your current budget? If you answered yes to any of these questions, loan consolidation may be an option for you. While loan consolidation will not eliminate the overall outstanding balance of your loans, it can simplify repayment and potentially reduce interest charges. However, you may end up paying more if you increase the length of the repayment period over which you repay a consolidated loan.

Student Loan Consolidation

There are both pros and cons to consolidating student loans.

Pros

- Simplify payments (one single payment versus multiple).
- Switching from variable interest rate loans to a fixed interest rate.
- Ability to select from multiple repayment plans.
- Continued ability to switch to different payment plans throughout the duration of the loan.
- Refinance loan to lower the interest rate.
- Under federal loan consolidation, some ineligible federal loans become eligible when paired with eligible loans (e.g., Federal Family Education Loan (FFEL) Program and Federal Perkins loans are consolidated within a Direct Consolidation Loan and may become eligible for the Public Service Loan Forgiveness program).
- Alleviate risk of loan default due to high multiple payments (often limited to a single consolidation for federal loans).

Cons

- Some loan consolidations can eliminate forgiveness or discharge options (e.g., adding Perkins loans into direct consolidation loans may limit benefits associated with the Perkins Loan Program).
- Ability to pay off high interest loans first and then focus on low interest.
- Parent PLUS loans can be consolidated within a direct consolidation loan, but they cannot be repaid under the previous Income Based Repayment plan.
- Loss of grace period (in some cases, requests can be made to delay the consolidation process until the end of the grace period).

Consolidating Student Loans

There are two major types of student loans: private and federal. Loans offered by the federal government are referred to as federal student loans. Private loans are granted and managed by lending institutions (banks, credit unions, etc.) other than the federal government. Multiple federal education loans can be consolidated free of charge to the borrower. Private loan consolidation is basically refinancing multiple loans into a new loan. While you can consolidate private and federal loans, it is usually best to keep them separate.

Federal Student Loans

Steps to consider when consolidating federal loans:

1. Gather information about all student loans provided through the federal government (retrieve your student loan information at: <https://www.nslds.ed.gov/>).

2. Evaluate your current financial spending and saving plan (budget) to determine the amount that you can afford to pay for the consolidation.
3. Apply for a Direct Consolidation loan online (<https://studentloans.gov>) or via the paper form.
4. Choose the loans you want to consolidate as well as a loan servicer (loan servicers help you determine which payment plan matches your budget in addition to managing loan payments during the life of the loan).
5. Review the terms and conditions of each option.
6. Read all correspondence received from loan servicer and respond if necessary.

Private Student Loans

Steps to consider when consolidating private loans:

1. Gather information about all student loans provided through each private lender. Obtaining your credit reports at AnnualCreditReport.com can provide you with a detailed list of your loans reported to the 3 credit agencies in addition to other financial information you might want to review prior to making the decision to consolidate.
2. Evaluate your current financial spending and saving plan (budget) to determine refinancing goals.
3. Review various refinancing lenders to determine which has the best rate to fit your budget. Taking time to review each lender's loan characteristics such as origination fees, variable or fixed interest rates, early pay off penalties.
4. Read and evaluate the eligibility requirements of each option prior to applying to determine if you meet the criteria (good credit, favorable debt-to-income ratio, employment).
5. Apply for the loan that matches your refinancing goals.

Cancellation, Forgiveness & Discharge

Some federal loans may qualify for forgiveness, discharge or cancellation. The cancellation of the loan releases the borrower's obligation to repay all or a designated portion of the principal and interest for a student's loan. Cancellation of student loans may also be referred to as forgiveness or discharge of the loan.

The amount of student loans cancelled may have to be reported as income on your federal tax return in the year the debt was cancelled. If you receive a Form 1099-C from the lender, the amount on the form will have to be reported. This means you will have to pay taxes on the amount of the debt cancelled.

The tables on the following pages summarize types of Forgiveness, Cancellation, or Discharge available to students with Direct Loans, FFEL Program Loans and Federal Perkins Loans.

Resources

Federal Student Aid: Consolidation
<https://studentaid.ed.gov/sa/repay-loans/consolidation>

Direct Consolidation Loans
<http://loanconsolidation.ed.gov/help/faq.html>

Debt.Org: America's Debt Help Organization
<https://www.debt.org/students/loan-consolidation/>

Student Loan Hero: What you Need to Know Before Consolidating Federal and Private Student Loans
<https://studentloanhero.com/featured/how-to-consolidate-student-loans-guide/#>

Student Loan Borrower Assistance
<http://www.studentloanborrowerassistance.org/loan-cancellation/>

Direct and FFEL Loans Cancellation and Discharge Summary Table

Discharge Condition	Amount Discharged	Notes
Borrower's total and permanent disability or death	100 percent	If you are a parent PLUS loan borrower, then the loan may be discharged if you die, or if the student on whose behalf you obtained the loan dies.
Bankruptcy (in rare cases)	100 percent	Cancellation is possible only if the bankruptcy court rules that repayment poses an undue hardship to the borrower.
Closed school (for borrowers who could not complete their program because the school closed while they were enrolled or borrowers who withdrew not more than 90 days before the school closed)	100 percent	For loans received on or after Jan. 1, 1986.
False loan certification (school falsely certified a borrower's eligibility to receive a loan)	100 percent	For loans received on or after Jan. 1, 1986.
False certification by reason of identity theft (loan was made as a result of the crime of identity theft, as determined by a court)	100 percent	Effective July 1, 2006.
School does not make required return of loan funds to the lender	Up to the amount that the school was required to return.	For loans received on or after Jan. 1, 1986.
Full-time teacher for five consecutive years in a designated elementary or secondary school or educational service agency serving students from low-income families. Must meet additional eligibility requirements.	Up to \$5,000 (up to \$17,500 for elementary/secondary special education teachers and secondary math and science teachers) of the total loan amount outstanding after completion of the fifth year of teaching. Under the Direct and FFEL Consolidation Loan programs, only the portion of the consolidation loan used to repay eligible Direct Loans or FFEL Program loans qualifies for loan forgiveness.	For Direct Subsidized and Unsubsidized Loan and Subsidized and Unsubsidized Federal Stafford Loan borrowers with no outstanding balance on a Direct Loan or FFEL Program loan on Oct. 1, 1998, or who have no outstanding balance on a Direct Loan or FFEL Program loan on the date they received a loan after Oct. 1, 1998. PLUS loans are not eligible.
Loan forgiveness for public service employees (Direct Loan Program only)	100 percent of the remaining outstanding balance on an eligible Direct Loan.	For a borrower who is not in default and who makes 120 monthly payments on the loan after Oct. 1, 2007, under certain repayment plans, while the borrower is employed full-time in a public service job. You may not apply for forgiveness until after you have made all of the required 120 qualifying monthly payments.

*Interactive chart available on studentaid.ed.gov

Federal Perkins Loan Cancellation and Discharge Summary Table

Cancellation Conditions	Amount Forgiven
Borrower's total and permanent disability or death	100 percent
Bankruptcy (in rare cases—cancellation is possible only if the bankruptcy court rules that repayment would cause undue hardship)	100 percent
Closed school (before student could complete program of study); applies to loans received on or after Jan. 1, 1986	100 percent
Service in the U.S. armed forces in a hostile fire or imminent danger pay area	Up to 50 percent for borrowers whose active duty service ended before Aug. 14, 2008 Up to 100 percent for borrowers whose active duty service includes or began on or after Aug. 14, 2008
Full-time firefighter (for service that includes Aug. 14, 2008, or began on or after that date)	Up to 100 percent
Full-time law enforcement or corrections officer	Up to 100 percent
Full-time nurse or medical technician	Up to 100 percent
VISTA or Peace Corps volunteer	Up to 70 percent
Librarian with a master's degree working in a Title I-eligible elementary or secondary school or in a public library serving Title I-eligible schools (for service that includes Aug. 14, 2008, or began on or after that date)	Up to 100 percent
Full-time attorney employed in a federal public or community defender organization (for service that includes Aug. 14, 2008, or began on or after that date)	Up to 100 percent
Full-time employee of a public or nonprofit child- or family-services agency providing services to high-risk children and their families from low-income communities	Up to 100 percent
Full-time staff member in the education component of a Head Start program	Up to 100 percent
Full-time staff member in a prekindergarten or child care program that is licensed or regulated by a state (for service that includes Aug. 14, 2008, or began on or after that date)	Up to 100 percent
Full-time qualified professional provider of early intervention services for the disabled	Up to 100 percent
Full-time speech pathologist with a master's degree working in a Title I-eligible elementary or secondary school (for service that includes Aug. 14, 2008, or began on or after that date)	Up to 100 percent
Full-time special education teacher of children with disabilities in a public or other nonprofit elementary or secondary school	Up to 100 percent
Full-time teacher of math, science, foreign languages, bilingual education, or other fields designated as teacher shortage areas	Up to 100 percent
Full-time special education teacher of children with disabilities in an educational service agency (for service that includes Aug. 14, 2008, or began on or after that date)	Up to 100 percent
Full-time teacher in a designated educational service agency serving students from low-income families (for teaching service that includes Aug. 14, 2008, or began on or after that date)	Up to 100 percent
Full-time faculty member at a tribal college or university (for service that includes Aug. 14, 2008, or began on or after that date)	Up to 100 percent

Note: As of Oct. 7, 1998, all Perkins Loan borrowers are eligible for all cancellation benefits regardless of when the loan was made or the terms of the borrower's promissory note. However, this benefit is not retroactive to services performed before Oct. 7, 1998.

*Interactive chart available on studentaid.ed.gov