REFINANCING YOUR STUDENT LOANS
What every responsible borrower should know before they refinance their loans with a private lender

We know this is a lengthy document, but please read it carefully, as refinancing your student loans is far too important a decision to rush into, and once you refinance, you cannot undo the transaction.

General information

You may want to consider refinancing your student loans with a private lender as part of your overall repayment strategy. This is a very valid option for some borrowers, but it is not for everyone nor will everyone who applies be eligible.

First things first, don't make it complicated, refinancing is simply trading debt for debt, in this case trading federal or private loans (if you have them), or both, for a new *private* loan.

- The main *advantage* to refinancing is the opportunity to secure a lower rate on the loans you are refinancing and thus secure savings on interest and total repayment costs.
- The main *disadvantage* to refinancing, at least for borrowers refinancing federal loans, is that you give up the repayment flexibility available with federal loans that you simply will not find on private loans, even with some recent improvements in private lending.

There are any number of private lenders offering refinance loans, and you can usually find a decent listing with a simple online search. When doing an online search, we suggest you type in the following exactly as listed below, and be sure to include "consumer advocacy" in your search title:

- "Top Ten Student Loan Refinance Lenders Consumer Advocacy"

You will get several websites, including some from private lenders, but be sure to look for the one with "consumer advocacy" in the web address, as that should provide a decent comparison for you.

Eligibility

While eligibility requirements and pricing vary by lender, you can expect each lender to want to see the following:

- Evidence of good credit (these are credit-based loans)
- Solid employment history with steady income
- Favorable debt to income (DTI) ratio

In general, refinance loans are only available to U.S. citizens or permanent residents. However, international students may be able to secure a refinance loan if they have a creditworthy cosigner who is a U.S. citizen or permanent resident. Please check with your lender regarding their lending requirements for international students.

Special note for borrowers in hospital-based residency programs

We respectfully encourage caution when considering refinancing during residency and fellowship, as this tends to be a time when there is a substantial gap between federal debt and income (stipend) and thus borrowers often need the repayment flexibility inherent with federal loans during this time, including access to Income Driven Repayment plans like PAYE and REPAYE as well as the option to postpone payments with Mandatory Residency Forbearance or Graduate Fellowship Deferment, if needed.

We are aware that some lenders offer what we refer to as a "token" payment (for example, $100 per month) during training on their refinance loans. However, remember there is a way some first-year residents can secure a $0 calculated payment with an income plan on their federal loans for the first 12 months of training and it is not unusual for second year residents to see a low monthly payment their second year when they renew their income plan since their prior year tax return will only show six months of stipend income, and that is what will likely be used for the monthly payment calculation by their loan servicer. Since most teaching hospitals are non-profit, medical residents may want to consider preserving the option to retire their federal debt through the Public Service Loan Forgiveness (PSLF) program if after training they land in the public non-profit sector. Therefore, in this case, they would definitely *NOT* want to consider refinancing their federal loans during training, at least until they knew their career path was not going to be in the public sector.

Some medical (and other residents) who have private loans from college or even a masters level program as well as federal loans may consider refinancing just their private loans during residency if they can secure a lower rate on those. This helps reduce the cost of their private loans while keeping open their options with their federal loans.

Important questions to ask before you refinance

When considering a refinance loan for all of part of your student loan portfolio, consider asking the following questions (and note you should ask a lot more than just what rate you can get):

Interest rates and capitalization policies

1. What are both the fixed and variable rates you qualify for? Lenders usually offer both types of rates, and some offer hybrid rates (fixed for a period of time and variable for a period of time).
    a. You can expect fixed rates to be higher than the initial variable rates offered. If you are risk averse, consider a fixed rate so you don't have to worry about the rate ever going up.
    b. Interest rates tend to be lower with shorter repayment terms, but your required monthly payment might be unmanageable, so be cautious to committing to a higher monthly payment just to get a lower rate. You can always overpay with no penalty.
    c. Consider doing a preapproval to see what kind of rates you qualify for.
2. With variable rates, be sure to ask the following:
    a. Is there is maximum rate that can be charged and is there a minimum rate (called a "floor") that can be charged?
    b. Variable rates are usually based on what is called an "index" such as the Prime Rate or something called LIBOR (London Inter-Bank Offered Rate) that varies over time. So, for example, you might get a variable interest rate on your refinance loan of LIBOR plus 4.0. In this case, LIBOR is the index that can change, but the 4.0 is called the "spread" and should not change unless otherwise indicated by the lender.
    c. Does the spread (the amount added to the index) change at any point during repayment?
    d. How often can the rate change (be reset) and how much notice do you get regarding the impact on your monthly payment? This may happen on a monthly or quarterly basis. This is extremely important for budgeting purposes, especially if you are using ACH (automatic debit) to make your monthly payments.

Interest rates and capitalization policies (continued)

3. Do you get any discount off your interest rate if you pay with ACH?
    a. Many lenders offer a .25% (called 25 basis points) discount off the interest rate if you use ACH.
4. What triggers capitalization, where any accrued and unpaid interest is added back to the principal balance of the loan?
    a. This should not be relevant if you pay on time and never request postponement, but considering asking anyway.

Repayment options

1. How long do you have to repay the loan?
    a. In general, you can expect repayment to be based on a designated time period (for example, 5 years, 7 years, 10 years, 12 years, 15 years, etc.). This is called TIME-driven repayment.
    b. Similar to mortgages, usually the shorter the term, the better the rate.
2. Are there any repayment options such as interest only or options based on income?
    a. Don't expect any repayment plans based on income, but no harm asking.
3. Are there any penalties for aggressive payments over and above the minimum required payment each month? The answer should be no, but you should confirm anyway.
    a. Can additional payments be targeted against principal, as is often the case with mortgages? *With federal loans, payments always go to outstanding interest first.*
4. For medical and other residents, are there options such as "token" payments (for example, $100 per month) if borrowers go ahead and refinance during training?
    a. If the answer is yes, be sure you know how long you can make these lower payments, which is extremely important if you are doing a long residency program.

Postponement options

1. Are there any postponement options available, and if so, what are they based on and how long do they last? This is extremely important for medical (and other residents) if they refinance during training, especially if they are doing a lengthy residency program.
    a. For example, is postponement based on advanced training periods such as residency for borrowers doing residency programs or perhaps based on financial hardship, and if the latter, how is that defined?
2. Is there a fee to postpone payments? There is never a fee to postpone payments on federal loans.
3. Do periods of postponement count against (reduce) the overall repayment term?

Cosigner provisions

1. Is a creditworthy cosigner required?
2. Can you get a lower rate on your loan if you bring on a cosigner, even if one is not needed for approval?
3. If you have a cosigner on the loans, what are the cosigner release provisions?
    a. In general, lenders allow you to apply to drop your cosigner from the obligation to repay after you have made a designated number (usually 24 or 36) timely payments.

Forgiveness and other provisions

1. Is the loan forgiven in the event of death or disability as is the case with federal student loans?
    a. This is extremely important for borrowers who have a family.
    b. *Do not confuse this with Public Service Loan Forgiveness (PSLF), as private loans are not eligible for PSLF.*
    c. If not forgiven in the event of death or disability and if the loan has a cosigner, will the cosigner be responsible for the loan?
2. Do you have to set up an account with the lender (for example, checking or similar) in order to have the loan approved or to get a certain rate?
3. For borrowers in residency programs, if you refinance during residency, do you have to refinance again when training is complete? This is especially important for borrowers whose lender allows a token payment (for example, $100) during residency.
4. Does the lender offer any services (for example, unemployment support and counseling) that you do not need that is included in the price (the interest rate) they offer?
5. What impact, if any, does a preapproval have on your credit?
    a. In general, preapprovals result in a "soft" pull on your credit, with no adverse impact on your credit.

You may have seen some rather remarkably low interest rates referenced in the marketing materials lenders provide for their refinance loans and while careful not to speak on behalf of the lending industry, private lenders are now competing with the provisions in the CARES Act where borrowers with federally-owned loans are seeing a 0% interest rate on those loans (see our home page www.PGPresents.com for details). However, in a previous annual report on refinancing, the average interest rate on refinance loans was 5.56%, well above what you may see advertised. In addition, several years ago, the Federal Trade Commission accused a major student loan refinance lender of misleading borrowers with regard to promised savings. *Long story short, when shopping for a refinance lender, don't accept what they project as savings using a loan balance and rate that likely has nothing to do with your own, rather ask them to project your estimated savings based on your own student loan portfolio and rate they offer.*

Lastly, don't forget that for a lower interest rate to really result in significant savings, you would need to hold onto the loan for a relatively long period of time. In other words, if you plan to be aggressive on your loans when you are making significant income (for example, as an attending physician, if you are a medical school graduate), having a significantly lower rate for a short period of time may not really help, as the best way to negate a high rate (which you likely have on your federal loans) is to aggressively pay. In other words, it may be safer to keep your loans federal and simply overpay on the highest interest rate loan as opposed to refinancing with a private lender.

Lastly, a gentle reminder that when you refinance with a private lender, the use of Income-Driven Repayment plans and access to Public Service Loan Forgiveness are no longer an option.

For more information, please visit our home page www.PGPresents.com.

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