

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, private, or campus-based loans (or a combination of these) 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 improvement to their terms and conditions.

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 multiple 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 starting place for you.

Eligibility

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

- Evidence of good credit (these are credit-based loans) with a solid credit score
- 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 encourage caution when considering refinancing during residency and fellowship, as this tends to be a time when there is a significant 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 (IDR) plans PAYE and SAVE (formerly REPAYE), as well as the option to postpone payments with Mandatory Internship Residency Forbearance or Graduate Fellowship Deferment, if needed, which can be done on federal loans with no fees.

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 you may be able to secure a \$0 calculated payment with an income plan on your 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 (and dental) 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.

Possible Refinancing Scenarios for Medical School Graduates

The following are three fairly common scenarios medical school graduates may take regarding refinancing:

1. Refinance only your private loans from before medical school, and keep your federal loans from medical school as they are - federal. This helps ensure you can keep PSLF on the table as an option on at least the federal portion of your student loan portfolio.
2. Refinance all your loans (including federal) right out of the gate as you start residency, but only if you know you are going to land in the private sector once training is over and thus are willing to take income plans and PSLF off the table as possible options. Be sure to look for a lender that offers a low payment during training.
3. Keep your debt federal during training to keep PSLF on the table, and refinance only if you land in the private sector after training. We feel sure this is the most likely option for medical school graduates.

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

Private lenders have been hard-pressed to compete on interest rates during the period covered by the CARES Act where federal Direct Loans carried a 0% interest rate, and it is our understanding that at the time of this document, interest rates on private loans have gone up.

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 or minimum rate that can be charged?
 - b. Variable rates are usually based on what is called an "index" such as LIBOR (London Inter-Bank Offered Rate) or SOFR (Secured Overnight Financing 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 (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 when using ACH to make your monthly payments.
3. Do you get any discount off your interest rate if you pay with ACH?
 - a. Lenders may offer a .25% (25 basis points) discount off the interest rate if you use ACH.
4. What triggers capitalization, where accrued and unpaid interest is added back to the principal balance?
 - a. This should not be relevant if you pay on time and never request postponement.

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, 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. Should be rare, but some lenders may offer some kind of plan based on income.
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 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?
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 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. Preapprovals usually result in a “soft” pull on your credit, with no adverse impact.

You may see some low interest rates referenced in the marketing materials lenders provide for their refinance loans. We encourage you 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), having a significantly lower rate for a short period of time may not really help, as the best way to negate a high rate 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.

This information is provided courtesy of PGPresents, LLC, an independent student loan consulting company under contract with your school, and is being provided to help upcoming Class of 2024 graduates with repayment. The information provided is as current as possible at the time prepared. Please refer to our website for additional updates, if needed.

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