A top-down view of a white desk with various items: a small potted plant with variegated green and yellow leaves in the top left; a silver calculator in the bottom left; a spiral-bound notebook with a silver pen resting on it in the top center; a blue folder or book in the top right; a pair of purple-rimmed glasses in the middle right; and a light blue mug containing brown coffee in the bottom right.

2017 Credible Student Loan Refinancing Report

**Extreme refinancing: Borrowers  
accelerating paydowns on  
six-figure student loan debt**

June 2017

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# Introduction

When doctors, lawyers, pharmacists and other highly-educated professionals refinance six-figure student loan debt, they're not just getting a lower interest rate. Most also choose a timetable that will allow them to pay their loans off faster than the more leisurely pace that's become the norm for millions of borrowers who have smaller loan balances.

That's according to an analysis of strategies employed by high-balance borrowers who used the Credible marketplace to refinance educational debt of \$100,000 or more during the year ending March 31, 2017.

A growing number of Americans who have student loan debt are enrolling in repayment plans that ease the burden of their monthly payments by

stretching them out over a longer time period. Some borrowers pursuing this strategy may qualify to have their remaining debt forgiven after 10, 20, or 25 years of payments. Others will rack up thousands of dollars in additional interest rate charges without qualifying for loan forgiveness.

Credible's analysis found most borrowers who have refinanced more than \$100,000 in educational debt are taking the opposite approach. Most are on track to dispatch their loans in 10 years or less — saving tens of thousands of dollars in interest payments in the process. Many who have refinanced six-figure educational debt at lower rates will pay it off in just 5 years, Credible found.

# The big picture: How long will it take?

According to the latest figures from the U.S. Department of Education, the majority of federal student loan debt currently in repayment is held by about 8.5 million borrowers who plan to take more than a decade to retire their loans.<sup>1</sup>

About 6.5 million Americans are currently enrolled in increasingly popular income-driven repayment plans, for example, which will spread out payments on more than \$333 billion in educational debt over as long as 20 or 25 years. Another \$90 billion in loans are being paid back by 2 million borrowers who are enrolled in extended plans that stretch payments out beyond the standard 10-year repayment term for federal loans.<sup>2</sup>

The borrowers who are enrolled in these income-based and extended repayment plans are repaying about \$50,000 each, on average. Although the longer timelines help some struggling borrowers make their monthly payments, without an interest rate reduction they will often be facing **thousands of dollars in additional interest charges** — particularly if they don't qualify for loan forgiveness.

Government employees and workers at qualifying

non-profits may qualify for tax-free loan forgiveness after making 10 years of payments under the Public Service Loan Forgiveness program. Borrowers who enroll in income-driven repayment plans like REPAYE can qualify for loan forgiveness after 20 or 25 years of payments, but the amount forgiven is considered taxable income.

*Refinancing allows borrowers to not only reduce their interest rate, but choose the timeline for repayment that best suits their financial situation. Those seeking to reduce their monthly payment can mitigate the impact of extending their loan term by obtaining a lower interest rate.*

While choosing a shorter loan term can mean a higher monthly payment, it also maximizes the savings that can be realized by refinancing. That's because the shorter the loan term, the lower the interest rate offered by most lenders.

A [previous analysis](#) by Credible found that borrowers refinancing educational debt balances averaging \$56,202 into loans with shorter repayment terms reduced their interest rate by 1.71 percentage points, cutting total repayment costs by \$18,668 over the life of their new loan.

# Characteristics of high-balance borrowers who refinance

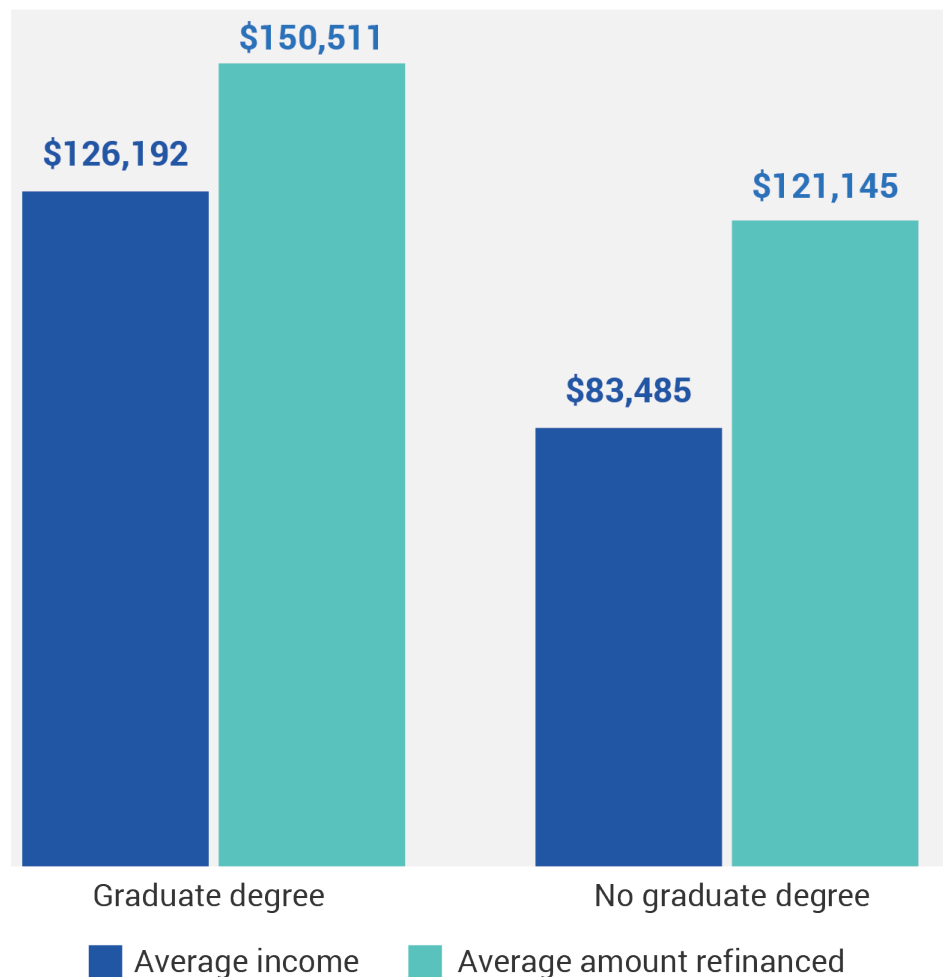
Nearly nine out of 10 high-balance borrowers using Credible to refinance (86 percent) held a graduate degree such as a doctorate, a professional degree, or a master's degree.

The median age of borrowers refinancing six-figure educational debt was 32, and the average balance refinanced — \$146,514 — exceeded average income of \$120,378. More than six in 10 (62 percent) were married.

Although those who earned graduate degrees often take on additional educational debt, their higher educational attainment typically provides them with an even bigger boost in earnings, Credible found.

Those with graduate degrees earned \$126,192, on average, and refinanced loan balances averaging \$150,511. Borrowers with only an undergraduate degree had more modest earnings — \$83,485 — but refinanced \$121,145, on average.

## Average income and loan balance



*Among borrowers using Credible to refinance more than \$100,000 in educational debt, a graduate degree was associated with 26 percent more refinanced student loan debt, but an even bigger boost in income — 51 percent.*

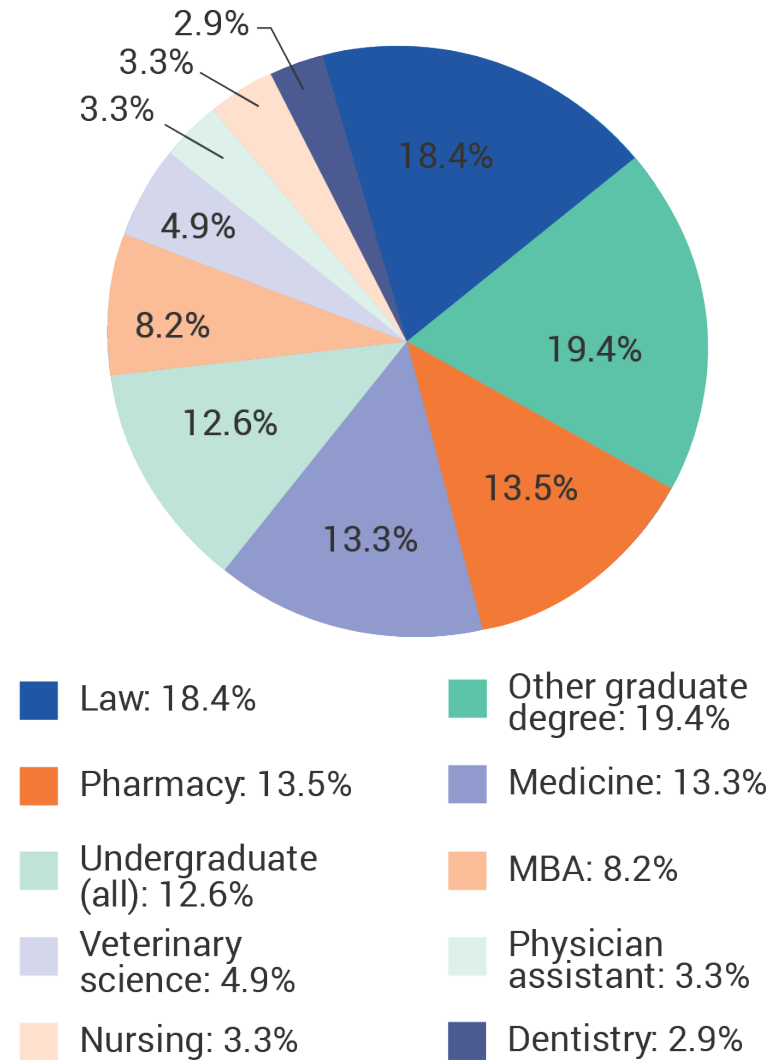
That doesn't mean that refinancing is only an option for highly-paid borrowers with six-figure loan balances.

*Credible's 2016 Student Loan Refinancing Report found that recent graduates 27 and younger are also refinancing student loan balances (\$49,379) that are nearly as large as their annual salaries (\$54,200).*

Our latest analysis takes a more in-depth look at strategies employed by high-balance borrowers, a more elite group who represent a small proportion of those who refinance. Of the thousands of borrowers who used Credible to find a lender and refinance their educational debt during the period analyzed, just over one in 10 (13 percent) refinanced balances of \$100,000 or more.

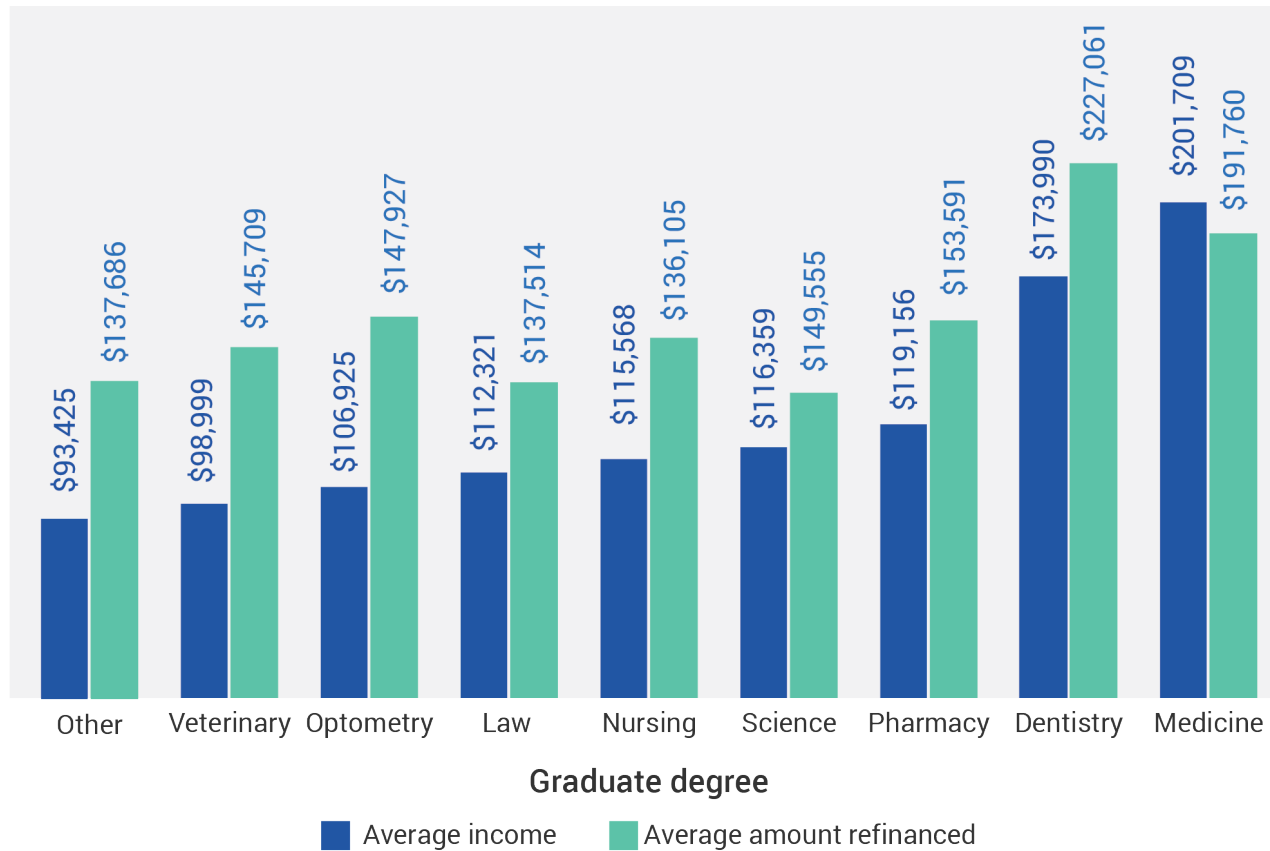
Among those with graduate degrees, 69 percent of high-balance borrowers held doctorates or professional degrees, while 28 percent held master's degrees.

## 'Extreme refinancing' by degree type

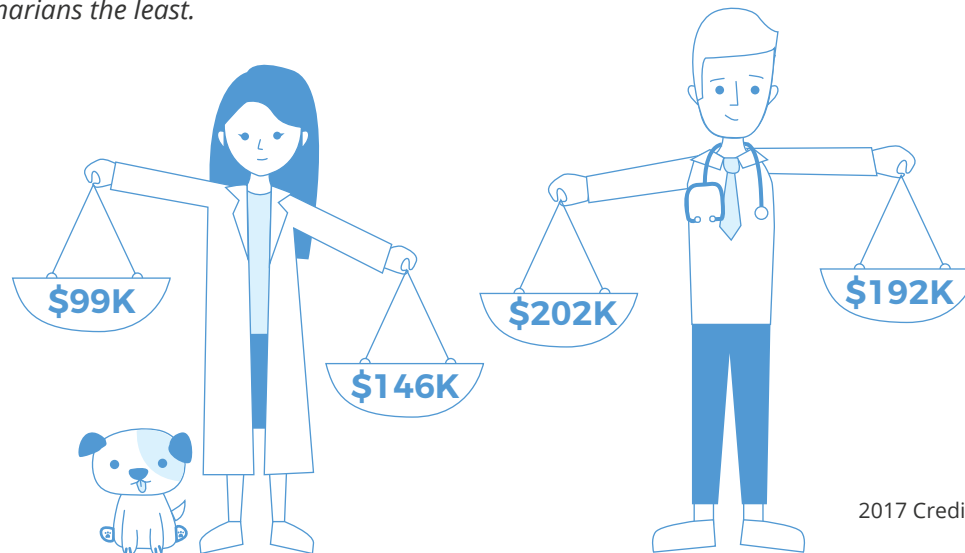


*Law, pharmacy and medicine were the most common graduate degrees held by high-balance borrowers refinancing student loans.*

## Average income and amount refinanced by degree type



Doctors refinancing six-figure student loan debt had the most favorable ratio of educational debt to average income, and veterinarians the least.



Looking at income and loan balances refinanced by degree type, doctors were the only group that had average annual income that exceeded the average debt balance refinanced. Lawyers and borrowers with graduate degrees in science were better off than pharmacists, nurses and dentists in terms of total debt-to-income ratio, while optometrists and veterinarians had the highest loan balances relative to income.

It's not unusual for doctors, lawyers, and others who earn graduate and professional degrees to finish school with \$100,000, \$200,000, \$300,000 or more in student loan debt (The largest loan balance refinanced through the Credible marketplace during the period studied was \$474,000).

According to the Association of American Medical Colleges, three out of four doctors graduate with student loan debt. For [members of the class of 2016](#), the average debt burden was \$189,000, with 13 percent owing \$300,000 or more.

About nine in 10 law school graduates take out loans, with 44 percent expecting to graduate with more than \$100,000 in debt, and 30 percent expecting to repay in excess of \$120,000, according to a [survey by Indiana University's Center for Postsecondary Research](#).

Most [lenders offering refinancing through the Credible marketplace](#) have upper limits for refinancing ranging from \$150,000 to \$500,000, high enough to cover most high-balance borrowers. The Massachusetts Educational Financing Authority (MEFA) has no maximum loan balance.

While 84 percent of high-balance borrowers pursuing refinancing had what is often described as "superprime" credit scores of 740 or above, 16 percent had credit scores below that threshold. Some lenders will approve borrowers with credit scores as low as 620 for refinancing if they have an eligible cosigner — a route taken by 14 percent of high-balance borrowers using the Credible marketplace.

Lender	Maximum loan balance
 Citizens Bank®	\$300,000
 College AVE® STUDENT LOANS	\$150,000
 earnest	\$500,000
 EDvestinU® Nonprofit Student Loan Lending & Refinancing	\$200,000
 iHELP Student Loans from Community Banks	\$250,000
 mefa	Any balance
 RISLA RHODE ISLAND STUDENT LOAN AUTHORITY	\$250,000



# Strategies and outcomes for high-balance borrowers

Recent moves by the Federal Reserve may mean that an era of historically low interest rates is finally coming to an end. Most lenders who refinance student loan debt offer a choice of variable- or fixed-rate loans.

*Credible's analysis found that seven out of 10 borrowers refinancing student loan balances of \$100,000 or more chose a fixed-rate loan.*

Borrowers who choose variable-rate loans can start out paying a significantly lower rate than they would in a fixed-rate loan with the same repayment term. But their rate can go up as economic conditions change. Variable-rate private student loans are usually indexed to the prime rate or the London Interbank Offered Rate (LIBOR), which track the Fed's adjustments to the federal funds rate closely.

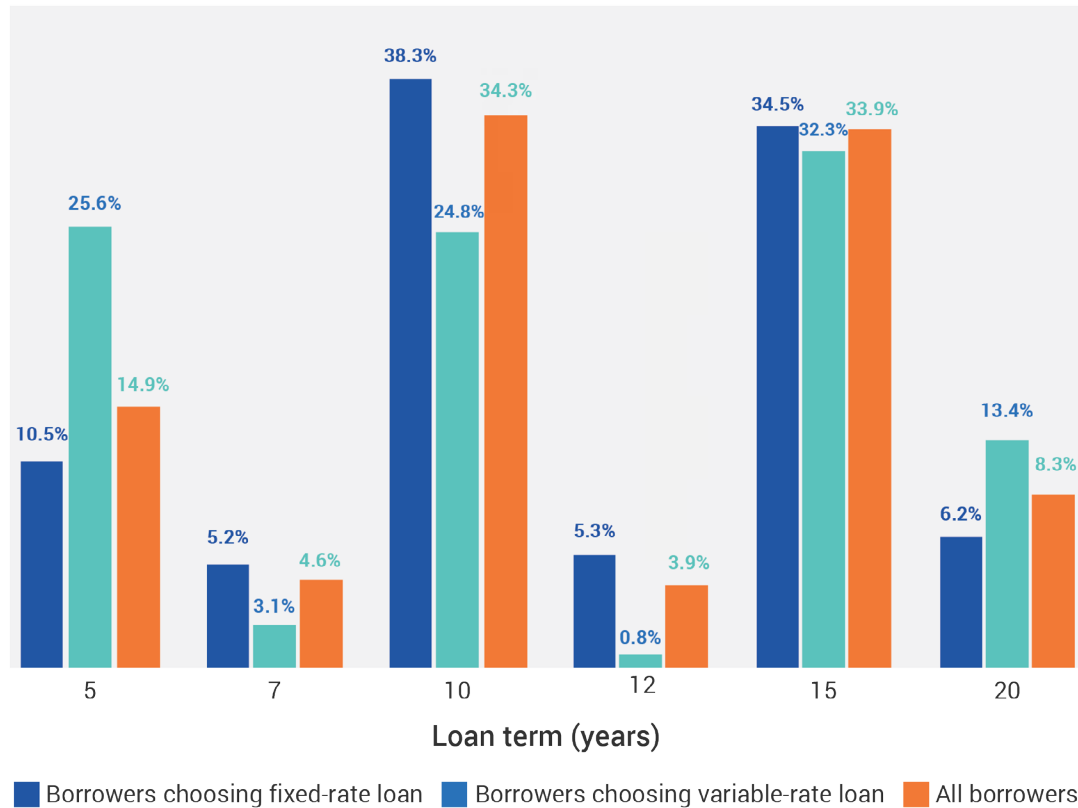
Borrowers who refinance student loans can often choose from a range of repayment terms — from as little as 5 years to as many as 20 years. Loans

with shorter repayment terms carry lower interest rates, and variable-rate loans carry the lowest rates of all.

Some lenders on the Credible platform offer variable-rate loans with 5-year repayment terms and starting rates that are below 3 percent. That gives borrowers who take loans out at or near those rates leeway if rates keep heading up.

Looking at high-balance borrowers who chose a variable-rate loan, 54.2 percent also selected a loan term of 10 years or less — one in four picked a loan that will pay off their debt in just 5 years. Only one in 10 borrowers who chose a fixed-rate loan were comfortable paying off their debt that fast, although 44 percent chose loans with 7- or 10-year terms.

### Loan repayment term by loan type



More than half of borrowers (54 percent) refinancing more than \$100,000 in student loan debt chose loans with repayment terms of 10 years or less.

Refinancing into a loan with a longer repayment term to get a lower monthly payment can increase overall repayment costs, although not as much as would be the case if the timeline were stretched out without an interest rate reduction.

*Credible's 2016 Student Loan Refinancing Report found that borrowers refinancing \$100,000 or more into loans with shorter repayment terms reduced their interest rate by 1.52 percentage points and will pay \$50,690 less over the life of their new loan, on average.*

Those who chose to extend their loan term reduced their interest rate by 1.10 percentage points, on average, and cut their monthly payment by \$439 a month. As a result of extending their term by an average of 4 years, 3 months, they could expect to pay \$11,653 more to repay loan balances averaging \$140,338.<sup>3</sup>

# Refinancing versus government repayment plans

Although some borrowers may qualify for loan forgiveness after 20 or 25 years of qualifying payments in an income-driven repayment (IDR) plan, the amount forgiven in such plans is currently considered taxable income (government and non-profit employees who qualify for Public Service Loan Forgiveness after 10 years of payments are not subject to taxation).

A borrower paying back \$210,000 in graduate PLUS loans at 7 percent interest <sup>4</sup> would pay \$2,438 a month if they enrolled in the government's standard 10-year repayment plan, racking up \$292,593 in total repayment costs. Stretching out payments over 25 years in an extended graduated repayment plan makes monthly payments more manageable, but total repayment costs rise to \$481,723 (see chart below).

**Repayment strategies for \$210,000 in graduate school debt**

Government plans	Repayment plan	First monthly payment	Last monthly payment	Total amount repaid	Projected loan forgiveness	Monthly payments
	Standard	\$2,438	\$2,438	\$292,593	N/A	120
	Graduated	\$1,409	\$4,228	\$315,531	N/A	120
	Extended fixed	\$1,484	\$1,484	\$445,271	N/A	300
	Extended graduated	\$1,225	\$2,095	\$481,723	N/A	300
	PAYE	\$349	\$1,027	\$152,728	\$351,272	240
	REPAYE	\$349	\$1,347	\$225,475	\$279,975	300
	IBR	\$524	\$2,020	\$338,213	\$239,287	300
	Refinance into 5-year loan at 4.2%	\$3,886	\$3,886	\$233,187	N/A	60
	Refinance into 10-year loan at 4.9%	\$2,217	\$2,217	\$226,055	N/A	120
Refinance into 20-year loan at 5.6%	\$1,456	\$1,456	\$349,548	N/A	240	

Cost to repay \$210,000 in graduate PLUS loans. Calculations for IDR plans assume borrower has starting adjusted gross income of \$60,000 year. Source: Department of Education [repayment estimator](#).

Standard and graduated repayment programs for federal loans

Income-driven repayment (IDR) programs for federal loans

Refinancing options (select repayment terms – other options, such as 7- or 12-year repayment, available from some lenders)

Refinancing that same debt with a private lender into a 10-year loan with a 4.9 percent interest rate not only cuts the monthly payment to \$2,217, but saves the borrowers nearly \$30,000 in total repayment costs (total repayment costs after refinancing total \$266,055, compared to \$292,593 for staying in the standard 10-year repayment plan).

For borrowers who are able to afford a bigger monthly payment, refinancing into a 5-year loan at 4.2 percent interest would boost the monthly payment to \$3,886, but slashes nearly \$60,000 from the total repayment cost (\$233,187 vs. \$292,593).

The chart above shows a borrower starting out with \$60,000 in adjusted gross income would qualify for loan forgiveness in the income-driven repayment plans REPAYE, PAYE, and IBR. But the amount forgiven through such plans is currently considered taxable income. Depending on their income and tax bracket when they qualify for loan forgiveness, an IDR plan could end up being more costly than refinancing.

## Political uncertainties

Projections that the government could end up forgiving more than \$100 billion in student loan debt to borrowers enrolled in IDR plans<sup>5</sup> have raised concerns about the cost and fairness of such programs.<sup>6</sup> Some observers think the benefits provided by these programs could be scaled back or eliminated.<sup>7</sup>

The Trump administration's proposed 2018 budget would eliminate Public Service Loan Forgiveness for new borrowers, and require that those with graduate school debt make 30 years of payments before qualifying for forgiveness in an IDR plan. If implemented, both measure taken together would generate an estimated \$104 billion in savings over 10 years.<sup>8</sup>

In previous budget negotiations, the Obama administration had proposed limiting at \$57,500 the amount of debt eligible to be discharged through Public Service Loan Forgiveness, and also put forward a proposal to cut loan forgiveness to graduate students enrolled in IDR programs by nearly \$49 billion over a decade.<sup>9</sup> Congress did not adopt either proposal.

## Conclusions

- Government programs that reduce monthly payments by stretching them out over a longer period of time can provide relief to struggling borrowers. But they may also dramatically increase repayment costs — particularly for borrowers who will not qualify for loan forgiveness, or who will face a large tax bill on forgiven debt.
- For borrowers who are confident that they will not need to rely on an income-driven repayment plan, refinancing high-interest debt with a private lender can save thousands in total repayment costs.
- Borrowers can reduce their overall repayment costs by paying down their loans on an accelerated timetable. Refinancing high-interest loans at lower rates will maximize these savings.
- For borrowers who need to extend their repayment term in order to reduce their monthly payment to fit their budget, refinancing at a lower interest rate can reduce or eliminate the additional repayment costs they would incur if they pursued this strategy without an interest rate reduction.
- Although they owe considerably more than most student loan borrowers, most high-balance borrowers refinancing student loan debt of \$100,000 or more will pay off their loans in 10 years or less. Refinancing into loans with shorter repayment terms allows these borrowers obtain loans at lower rates and maximize their overall savings.

# Footnotes

1. As of Dec. 31, 2016, 42.4 million federal student loan borrowers owed the government \$1.3 trillion in student loan debt. A little more than half of those borrowers — 24.42 million, with \$782.1 billion in loan balances — were in repayment (this figure includes borrowers granted temporary deferment or forbearance on their payments, but excludes borrowers who were still in school, and borrowers classified as delinquent or in default on their payments). Among borrowers in repayment, 8.53 million (35 percent) were enrolled in income-driven repayment (IDR) plans or in extended repayment plans that will spread their payments out over more than 10 years (see breakdowns below). Those borrowers were repaying \$423.4 billion in loans — 54 percent of the total dollar volume of loans in repayment — with each owing \$49,637 on average. Source: "Federally Managed Portfolio by Repayment Plan," National Student Loan Data System (NSLDS), [office of Federal Student Aid](#).

2. As of Dec. 31, 2016, there were 6.5 million borrowers repaying \$333.1 billion in federal direct student loans under the following income-driven repayment (IDR) plans:

- 600,000 borrowers repaying \$24.7 billion in student loan debt in the Income-Contingent Repayment plan (ICR)
- 3.61 million borrowers repaying \$194.3 billion under Income-Based Repayment (IBR)
- 1.06 million borrowers repaying \$52.3 billion under Pay-As-You-Earn (PAYE)
- 1.23 million borrowers repaying \$61.8 billion under Revised Pay-As-You-Earn (REPAYE)

In addition, 2.03 million borrowers were enrolled in extended repayment plans that will collect \$90.3 billion in loans on timelines of 10 years or more. Included in this group are 1.74 million borrowers paying back \$77 billion in fixed repayment plans, and 290,000 borrowers repaying \$13.3 billion in loans in graduated repayment plans. Source: "Federally Managed Portfolio by Repayment Plan," National Student Loan Data System (NSLDS).

3. ["2016 Credible Student Loan Refinancing Report,"](#) Nov. 15, 2016

4. Rates on federal direct PLUS loans are fixed for life, but rates for new loans are recalibrated annually, based on yields for 10-year Treasury notes auctioned in May. Interest rates on PLUS loans disbursed from [July 1, 2006 through June 30, 2017](#) have ranged from a low of 6.31 percent to a high of 7.9 percent. PLUS loans disbursed from July 1, 2017 through 2018 [will be 7.0 percent](#).

5. ["Education Needs to Improve Its Income-Driven Repayment Plan Budget Estimates,"](#) U.S. Government Accountability Office, Nov. 15, 2016.

6. Delisle, Jason. ["The coming Public Service Loan Forgiveness bonanza,"](#) The Brookings Institution, Sept. 22, 2016.

7. Kreighbaum, Andrew. ["U.S. Underestimates Cost of Loan Programs,"](#) Inside Higher Ed, Dec. 1, 2016.

8. ["Budget of the U.S. Government: A New Foundation For American Greatness,"](#) White House Office of Management and Budget.

9. Delisle, Jason. ["Another Student Loan Bombshell in Obama's Latest Budget,"](#) New America, Feb. 10, 2016.

# Thank you

Please direct any questions to [press@credible.com](mailto:press@credible.com)