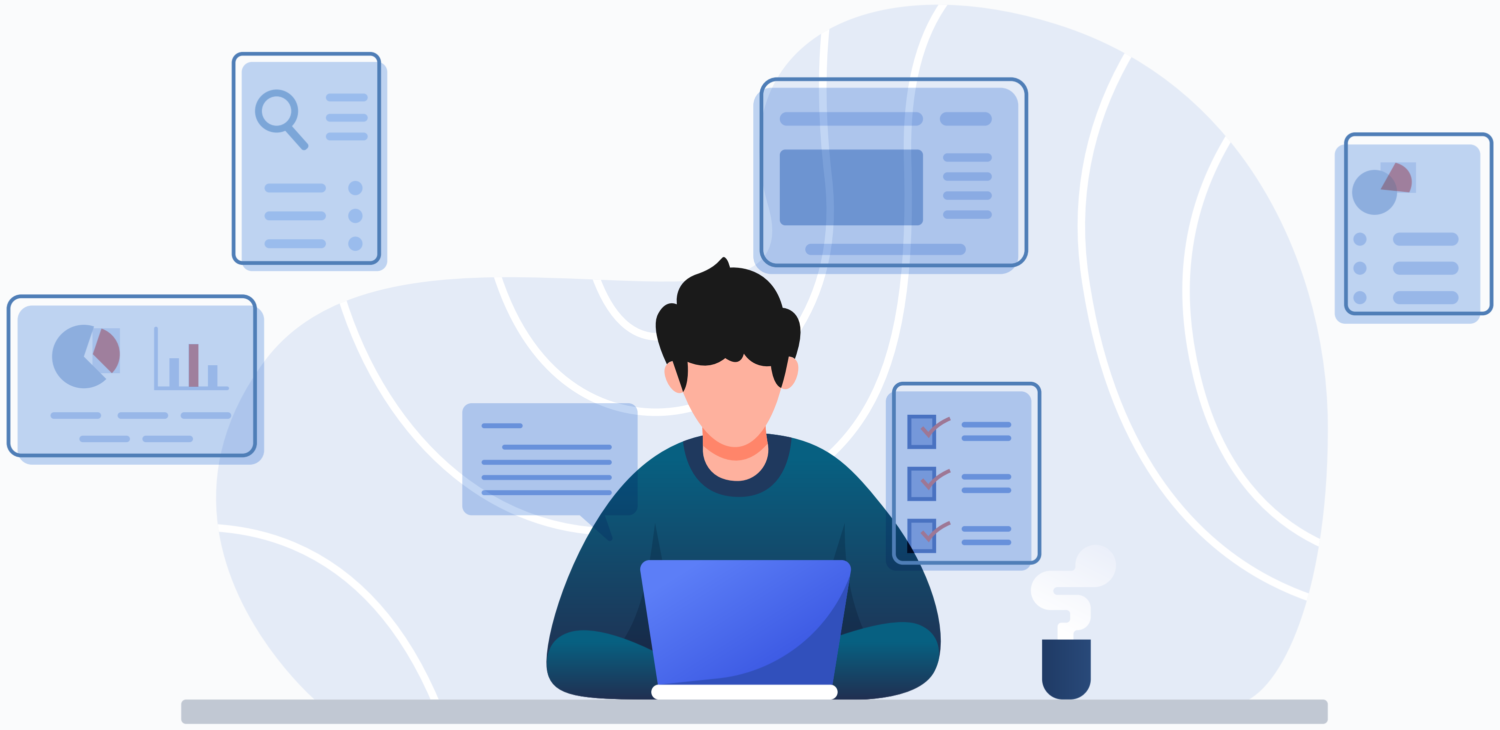
Student Loan Hero by lendingtree

Your Guide to **Student Loan Refinancing**

And Whether It's Right for Your Repayment

By Andrew Pentis

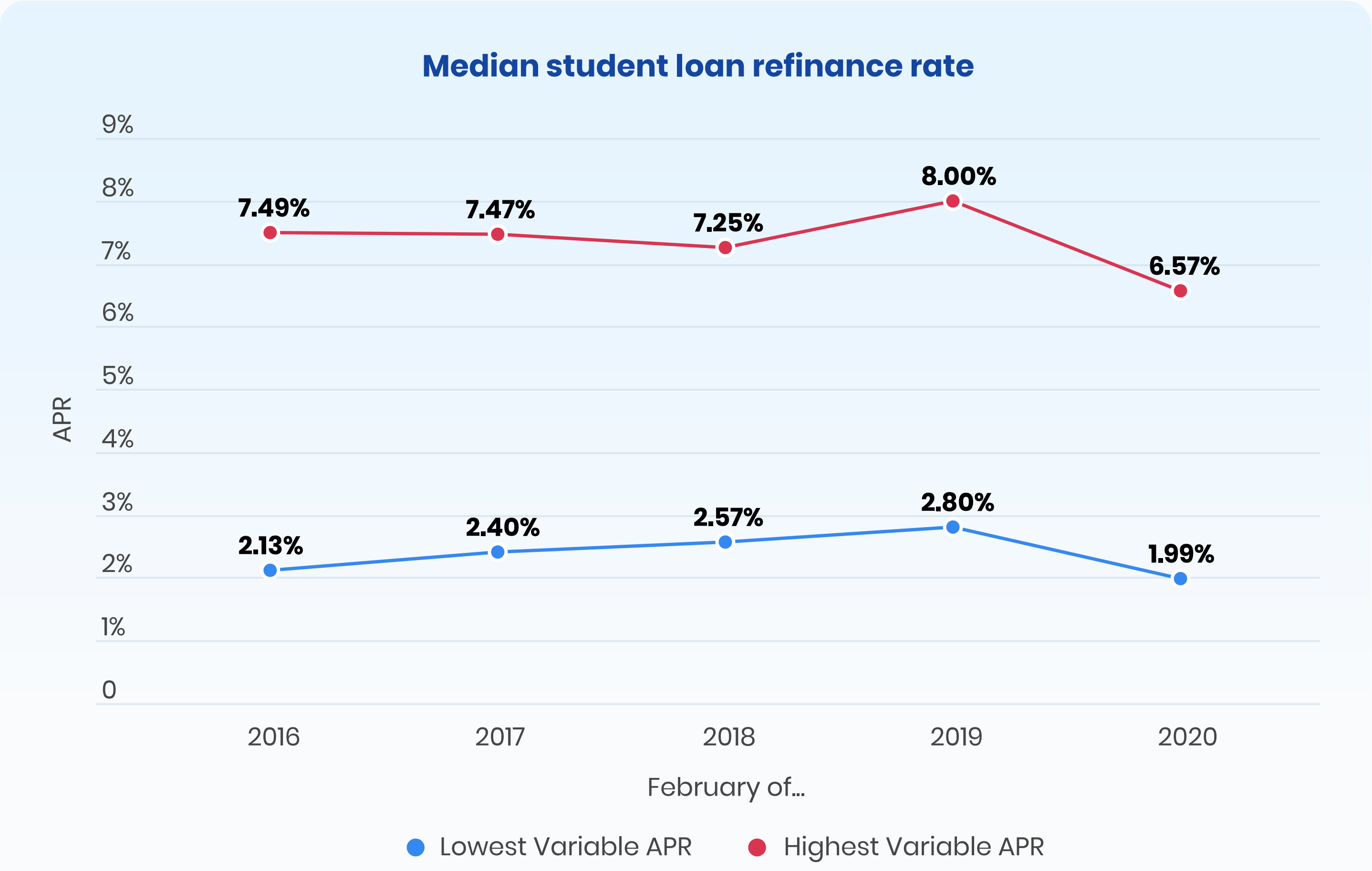
Table Of Contents



Introduction

If you're familiar with homeowners refinancing their mortgage to lower their interest rate and save money on their loan repayment, then you have a head start here. Student loan refinancing helps borrowers accomplish the same thing, only for their education debt.

Say you're facing $29,800 in outstanding student loans (which is the average for the Class of 2018). Now assume you're repaying it on a 10-year timeline, while forking over interest at a rate of 8.00%. Refinancing that same amount over the identical decade-long term — to a 5.00% rate — would net you about $5,500. And you could see even bigger savings if you're a graduate or professional student who borrowed significantly more for a second degree.



Even better, the refinancing opportunity is ripe now. As of the time of writing this book, banks, credit unions and online lenders are advertising historically low rates, starting below 2.00%.

With this guide, we'll teach you how to calculate your student loan refinancing savings. We'll also review other benefits of refinancing, including consolidating multiple student loans into one new loan — with the lender of your choice — for a more straightforward repayment. Via refinancing, you could also extend your repayment term to lower your monthly dues.

Specifically, Let's Look At:

- What are the pros and cons of refinancing?
- Is refinancing right for you?
- What are the costs to refinance?
- How can you qualify for a low rate?
- How do you start the refinancing process?
- How do you choose the right refinancing offer for you?

Just as importantly, we'll also help you gauge your fit for refinancing — it's not the right move for some borrowers. As we'll discuss in the pros and cons section below, for example, borrowers who are worried about defaulting on their loans should probably wait to refinance until they're back on track with repayment.

All personal financial decisions are just that — personal. What's good for your fellow alumni might not suit you. So keep reading to determine whether you could individually reap the rewards of student loan refinancing while mitigating the risks.

11 Pros And Cons Of Student Loan Refinancing

Like many things in life, refinancing can be a lifesaver for some people, but a possible mistake for others. Figuring out whether it's right for you is an important first step because refinancing, once undertaken, is irreversible. You can't suddenly call for a redo, return your new loan and recover your original federal or private loans.

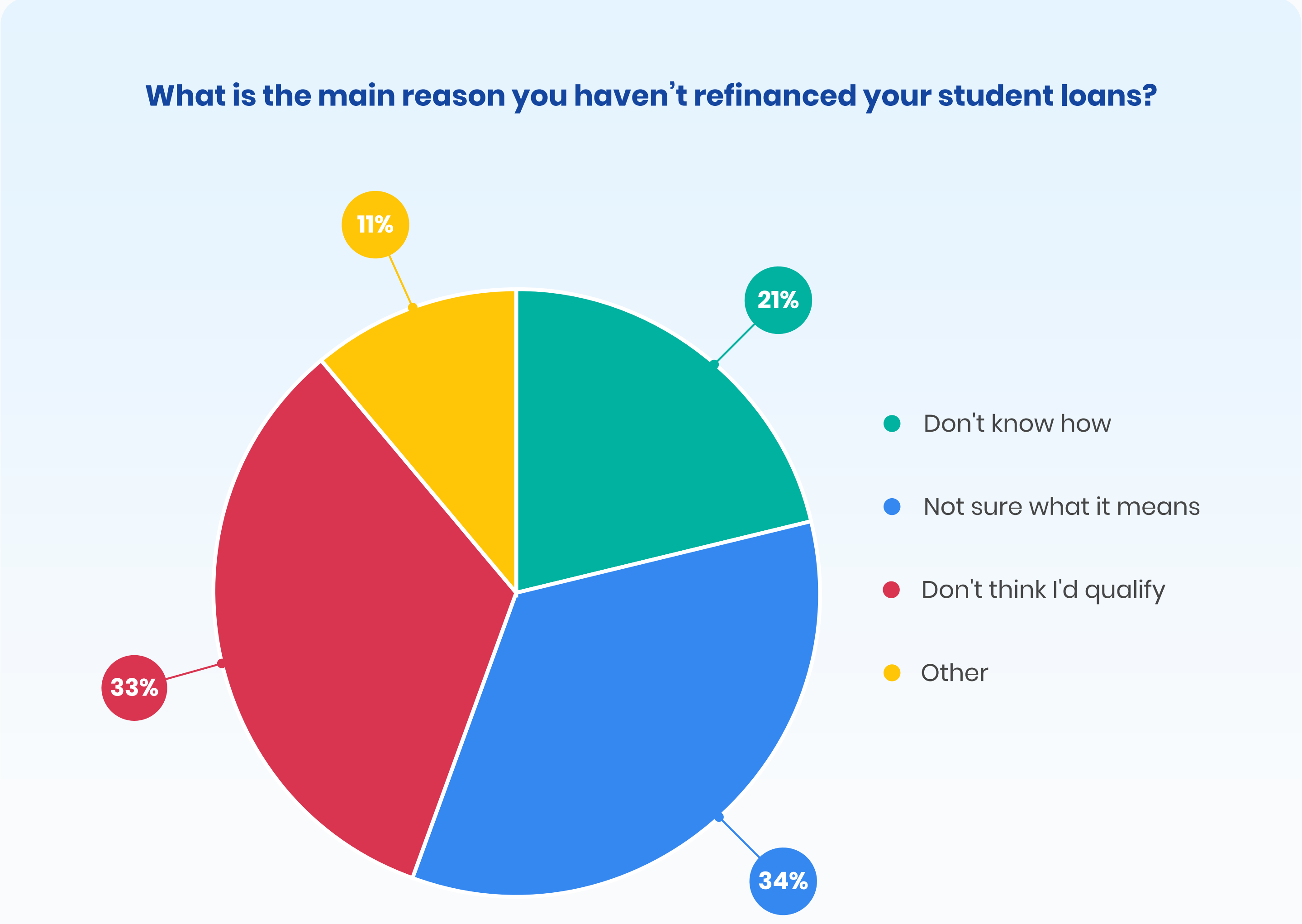
With that in mind, let's examine the potential pros and cons to figure out whether refinancing will help your finances.

7 Pros Of Refinancing Your Education Debt

For many borrowers, the advantages of student loan refinancing remain something of a mystery. A **2019 Student Loan Hero survey** found just 22% of borrowers had refinanced within five years of graduating, and of those who didn't, more than a third admitted they didn't know what refinancing was.

Here are seven significant benefits to student loan refinancing.

1. **Reduce Your Interest Rate:** Chances are that you received a one-size-fits-all rate on your federal loans and a potentially higher rate on any private loan. While you could lower those rates modestly by enrolling in autopay (typically a 0.25% discount) or through a bank's loyalty or on-time payment rewards, refinancing is the only way to decrease your rates significantly.



The math of your potential savings is simple, and you don't even have to do it yourself. Figure it out automatically by using our **refinancing calculator**. You simply plug in your current loan terms, along with any refinancing quotes you receive while shopping around. A lower rate (and a repayment term that shrinks or stays the same) means you'll pay less interest over the long haul — sometimes a lot less.

If our recent grad refinanced $29,800 worth of loans from 8.00% to 5.00%, for example...

	Orignal Loan	New Loan	Savings
Total Interest	$13,587	$8,129	**+$5,458**
Monthly Payment	$362	$316	**+$45/Month**
Interest Rate	8%	5%	**+3%**
Term in Years	10 Years	10 Years	—

2 **Afford Your Monthly Payment:** Many borrowers comparison shop just for lower interest rates, while not always realizing that refinancing could also deliver a more affordable monthly payment.

Consider that example above about the Class of 2018 grad who refinances their near-$30,000 debt from 8.00% to 5.00%. They would see their monthly bill shrink by $45, which is no small chunk of change if you're fresh out of school and still carving out an income, or even if you're experienced in your career but waiting on a raise.

So regardless of whether you can qualify for a lower rate, refinancing can deliver a lower monthly payment if you elect to extend your repayment term.

If our 2018 grad refinances $29,800 at the same 8.00% rate but prolongs their repayment by five years, their monthly payment would fall by $77. On the downside, however, they'll pay more interest over time. Still, that could be a worthwhile trade-off for borrowers looking for breathing room in their budget.

	Orignal Loan	New Loan	Savings
Total Interest	$13,587	$12,461	-$7,874
Monthly Payment	$362	$285	+$77/Month
Interest Rate	8%	8%	—
Term in Years	10 Years	15 Years	-5 Years

3 **Consolidate Your Loans:** Some benefits of student loan refinance might not directly affect your bankroll, but they'll undoubtedly ease your repayment. And nothing will do more to simplify it than consolidation.

Let's say you left school with four federal loans serviced by four different Department of Education contractors — also known as loan servicers — plus one or two private loans. Your head might spin every month when your due dates arrive and you have to make a half dozen separate loan payments.

With refinancing, all of that goes away. Your newly consolidated debt would call for you to submit a single monthly payment to a single lender. Also, having to wrap your mind around just one loan rather than a collection of them can help you better visualize the finish line for repayment.

Student Loan Language: What's The Difference Between Consolidating And Refinancing?

Consolidation typically refers to grouping your federal loans through the Department of Education. In the case of a **direct consolidation loan**, your multiple loans would be replaced by one new loan handled by a single servicer. The interest rate of this consolidated loan would be the average of your previous loans' rates, rounded up to the nearest one-eighth of a percentage point.

Refinancing takes place when you consolidate some or all of your federal and private loans with a private lender. Banks, credit unions and online lenders pay off your old loans for you and hand you a new loan for the same amount — ideally at a reduced interest rate, depending on the creditworthiness of your application.

Use our **"Student Loan Consolidation vs. Refinancing"** calculator to compare the dollars and cents of these two measures.

4 **Remove A Cosigner:** It's standard fare for undergraduates to attach cosigners to their private student loans — in fact, 92% of such loans for the 2019-2020 school year carried a guarantor. Even 63% of private loans for graduate students included cosigners.

Refinancing would allow you to shed that cosigner from your loan agreement. If one of your parents cosigned your private loan, for example, you could view releasing them as a show of thanks, sending them on their way and taking the reins of repayment on your new, refinanced debt.

4 Remove A Cosigner: It's standard fare for undergraduates to attach cosigners to their private student loans — in fact, 92% of such loans for the 2019-2020 school year carried a guarantor. Even 63% of private loans for graduate students included cosigners.

Refinancing would allow you to shed that cosigner from your loan agreement. If one of your parents cosigned your private loan, for example, you could view releasing them as a show of thanks, sending them on their way and taking the reins of repayment on your new, refinanced debt.

With that said, you could piggyback on the same cosigner — or recruit a new one — when applying to refinance. The underwriting requirements for refinancing can be stiff (more on that in the cons section below), and a cosigner could help you qualify or secure a lower interest rate.

You might also inquire about lenders' cosigner release policies that would allow you to remove your parent or other benefactor from the refinanced loan, usually after making a set number of consecutive timely payments.

5 Combine or take ownership of your family's education debt: Parents borrowed $10 billion to $13 billion annually in federal loans over the last decade. These parent PLUS loans allowed Moms and Dads to borrow from the government on behalf of their students, albeit at a higher interest rate than for loans taken by undergrads themselves.

Unfortunately, research shows that a majority of parents, like their sons and daughters, struggle in repayment. Here, too, refinancing could be a solution.

Many refinancing companies advertise the chance for borrowers to refinance loans taken in their name by a parent or other cosigner. For instance, if your mother borrowed $10,000 to help you attend school, you could lump that debt into your own refinancing application and let her off the hook. You'd just want to be certain that you could handle the heightened challenge of solo repayment.

If you like the idea of consolidating your family's debt and you're married, refinancing could also help you to combine your and your spouse's education debt. So-called spousal consolidation loans aren't as widely available, but they can be found at a top-ranked lender like **Splash Financial**. With a single family debt — perhaps you're the borrower, and your partner is the cosigner — you might find it easier to team up in repayment. (Though in a worst-case scenario, combined debt would be harder to untangle in a divorce situation.)

6. **Switch to a better lender:** Unfortunately, not all lenders were created equal, and it's not uncommon for federal loan servicers and private loan companies to face criticism and even lawsuits over their service. Perhaps yours has been difficult to reach, unhelpful or worse, misleading when dispensing advice. Whatever the cause for the breakup, you could latch on with a more service-oriented lender via refinancing.

View the borrower-lender relationship as a partnership, one that could either help or hinder your path to becoming free from your education debt. Put competing lenders through the wringer by perusing reviews and seeking out other information.

You can even take lenders' customer service for a test-drive, tossing them any burning questions you have about their product or company. If they're not helpful before you refinance, it's unlikely they will change their ways after you sign on the bottom line.

The impact a lender can have on your student loan repayment can be huge, making it all the more important **to shop around carefully** for a good one when you refinance.

Student Loan Hero's Top-rated Lenders As Of March 18, 2020

	Variable APR	Loan Types	Terms	Eligible Degrees	Eligible Loans
earnest	2.31% to 7.77%	Variable & Fixed	5 to 20	Undergrad & Graduate	Private & Federal
SoFi	2.31% to 7.77%	Variable & Fixed	5, 7, 10, 15, 20	Undergrad & Graduate	Private & Federal
laurel road	1.99% to 6.65%	Variable & Fixed	5, 7, 10, 15, 20	Undergrad & Graduate	Private & Federal
splash financial	1.99% to 7.06%	Variable & Fixed	5 to 25	Undergrad & Graduate	Private & Federal
College AVE Student Loans	2.62% to 6.12%	Variable & Fixed	5 to 20	Undergrad & Graduate	Private & Federal
commonbond	1.76% to 6.24%	Variable & Fixed	5, 7, 10, 15, 20	Undergrad & Graduate	Private & Federal
LendKey	2.39% to 6.01%	Variable & Fixed	5, 7, 10, 15, 20	Undergrad & Graduate	Private & Federal
Education Loan Finance — Empowering a brighter future	3.64% to 6.74%	Variable & Fixed	5, 7, 10, 15, 20	Undergrad & Graduate	Private & Federal

7. **Retain The Option To 'Re-refinance':** Just as with refinancing a mortgage, you can refinance your student loans more than once, particularly if your repayment is going swimmingly and you could stand to reduce your interest rate a second or third time.

   Alternatively, you might want to refinance on multiple occasions to switch from a rising variable rate to a risk-averse fixed rate, or to lower your monthly payment (more on this below, under "**How to choose the right refinancing offer for you**").

   Of course, you might have to improve your credit score for "re-refinancing" to be possible and worthwhile. While there's no hard-and-fast limit on the number of times you can refinance, each time you apply, you'll have to meet your (new) lender's qualifying criteria. The stronger your financial record, the lower the rate you could be quoted.

   There are potential downsides of refinancing multiple times, however. It could prolong your repayment (if you extend your term), and while it shouldn't come with any fees, a shady lender might try to charge you anyway.

4 Cons Of Refinancing Your Education Debt

If student loan refinancing were the perfect solution for every borrower, then this guide would be a lot shorter. But unfortunately, refinancing doesn't benefit every borrower — it can even be damaging if you do it at the wrong time or for the wrong loans.

Refinancing private loans into a new private loan is almost always a no-brainer. However, there are additional factors to consider once you throw federal loans into the equation. And that's assuming you can qualify for refinancing in the first place.

1. **Strict Eligibility Requirements:** Just as you need to meet specified criteria to borrow your original student loans, you'll need to clear a few hurdles to refinance them. Some rules are pretty clear, such as a lender requiring that you earned your degree. Others are more complex, casting a bright light over your financial records.

   To try to determine how dependable a borrower you are, lenders will review your credit report, looking for black marks like a recent delinquency or default. Top-rated banks, credit unions and online lenders typically require you to have a credit score of 650 to 700 just to get in the door. You would need an even higher score to unlock the lowest rates these lenders list on their websites.

   If you apply with a cosigner, some lenders set a lower bar since two people — you and your guarantor — will become legally responsible for repayment.

   Refinancing companies will also put your debt-to-income (DTI) ratio under the microscope to certify you'll have the cash flow to afford your new loan. We'll discuss your DTI in greater detail further along.

   On the plus side, student loan refinancing companies are seemingly innovating continuously to modernize their eligibility criteria. Lenders like **Earnest**, for example, have dropped employment and income requirements, making refinancing more feasible for a generation of self-employed or freelance workers. Whatever makes your refinancing application unique, there's probably a trustworthy lender out there waiting to serve your needs.

2. **Lose Access To Federal Loan Forgiveness, Cancellation And Discharge:** Here's where it gets rougher: Once you refinance a federal loan, you lose certain benefits that only Uncle Sam can furnish, like having your loan's balance erased through any of the government's loan forgiveness programs.

The Department of Education provides nine ways for its borrowers to receive forgiveness. Your career, health and relationship with your school are all factors in whether you'd want to avoid refinancing and pursue federal loan forgiveness instead.

Federal Loan Forgiveness Program	Key Eligibility Rules
Public Service Loan Forgiveness	Make 10 years' worth of qualifying payments while working full time for a public or nonprofit employer.
Teacher Loan Forgiveness	Teach full time for five consecutive years in a low-income or high-need school or educational agency.
Perkins Loan Cancellation and Discharge	Serve four to seven years in one of 13 community-oriented professions, including police officer and firefighter.

The six other, more self-explanatory forgiveness programs fit borrowers facing the following circumstances:

- **Closed School Discharge:** If the school closes before or shortly after you leave
- **Total and Permanent Disability Discharge:** If the borrower suffers a major disability
- **Discharge Due to Death:** If the borrower dies
- **Borrower Defense to Repayment:** If the school defrauds the borrower
- **False Certification Discharge:** If the school wrongly certified the loan
- **Unpaid Refund Discharge:** If the borrower or their school didn't receive the funds

Evaluate your federal loans — along with your life and career plans — to forecast whether you might lean on one or more these forgiveness programs in the future. If you think you might, consider postponing refinancing, or ditching the idea altogether, rather than giving up possible forgiveness.

You might also be wary of rushing into refinancing in light of presidential campaign promises around mass student loan forgiveness. Refinancing is a more realistic option than politically-driven loan cancellation en masse (which, by the way, would wipe out federal and private education debt, refinanced or not). Still, refinancing might inhibit you from pursuing the existing forgiveness programs described above.`

For the record, even if you do refinance, there are more than 120 **loan repayment assistance programs** in which you could still qualify. But at the same time, these programs — run by state governments, employers and other organizations — are typically less generous and often limited to high-need professions. Many involve trading years of employment in a field or geographical area for a much-needed dose of repayment aid.

3 **Give Up The Option Of Income-driven Repayment (IDR):** Another big government benefit you'll lose on loans that turn private is access to income-driven repayment plans, which cap your monthly payment at a (hopefully affordable) percentage of your discretionary income.

There are **four different IDR plans**, and you could opt into any of them at a moment's notice, free of charge. And even better, when the plan's term ends — after 20 or 25 years — you can get any remaining balance wiped away.

On the other hand, not everyone wants to lengthen their debt repayment to two decades or more. And you can adjust your monthly payments with a refinancing loan by changing the total length of the loan to a longer term (for lower payments) or a shorter term (with higher payments).

You can pick the new term when you refinance, taking your 10-year standard repayment plan that all federal loans initially have and trading it for a term of five, seven, 10, 15 or 20 years. (In fact, the lender Earnest has 180 possible terms to choose from.)

But giving up IDR to refinance has to be a decision you make with your eyes wide open. You won't find that offering among private lenders that perform refinancing.

4 **Forgo Generous Deferment And Forbearance Options:** If you struggle in repayment on federal loans, the Department of Education has a safety net to catch you. Beyond income-driven repayment discussed above, there are seven ways to qualify for a deferment — a temporary pause on your repayment in certain cases.

These deferments could postpone your repayment for up to three years:

1. Economic Hardship Deferment
2. Graduate Fellowship Deferment
3. In-School Deferment
4. Military Service and Post-Active Duty Student Deferment
5. Parent PLUS Borrower Deferment
6. Rehabilitation Training Deferment
7. Unemployment Deferment

There are also two types of forbearance available for federal loans, each spanning one year of relief:

1. **General forbearance:** Awarded on a case-by-case basis by loan servicers to borrowers complaining of financial difficulties, such as a loss of income or increased expenses.

2. **Mandatory forbearance:** Awarded automatically by servicers when the borrower's monthly loan dues equate to at least 20% of their annual gross income. Servicers must also grant this forbearance when the borrower participates in AmeriCorps, National Guard duty, the Department of Defense Student Loan Repayment Program, the Teacher Loan Forgiveness program or a medical or dental internship or residency.

To be sure, **deferment and forbearance** are stopgap measures with consequences, such as racking up interest (except on federal direct subsidized loans) while you take a break from repayment. Neither is an ideal recourse for your repayment, but they're nice options to have on the table, especially if you foresee a disruption to your finances, whether it arrives in the form of a job loss, a stack of medical bills or other debt.

While you lose access to these options when you refinance federal loans, refinancing companies typically award an economic hardship forbearance of their own. This is similar to federal loans' general forbearance, but it's only offered on a case-by-case basis, so there's no guarantee that your lender will empathize with your situation.

Also, reputable lenders sometimes provide a deferment if you return to school, are on active military duty or in public service. Top-rated lenders including **SoFi** even extend career services and unemployment protection should you lose your job through no fault of your own. Under a program like theirs, you could pause your repayment for up to a year (in three-month increments) until you're back on your feet.

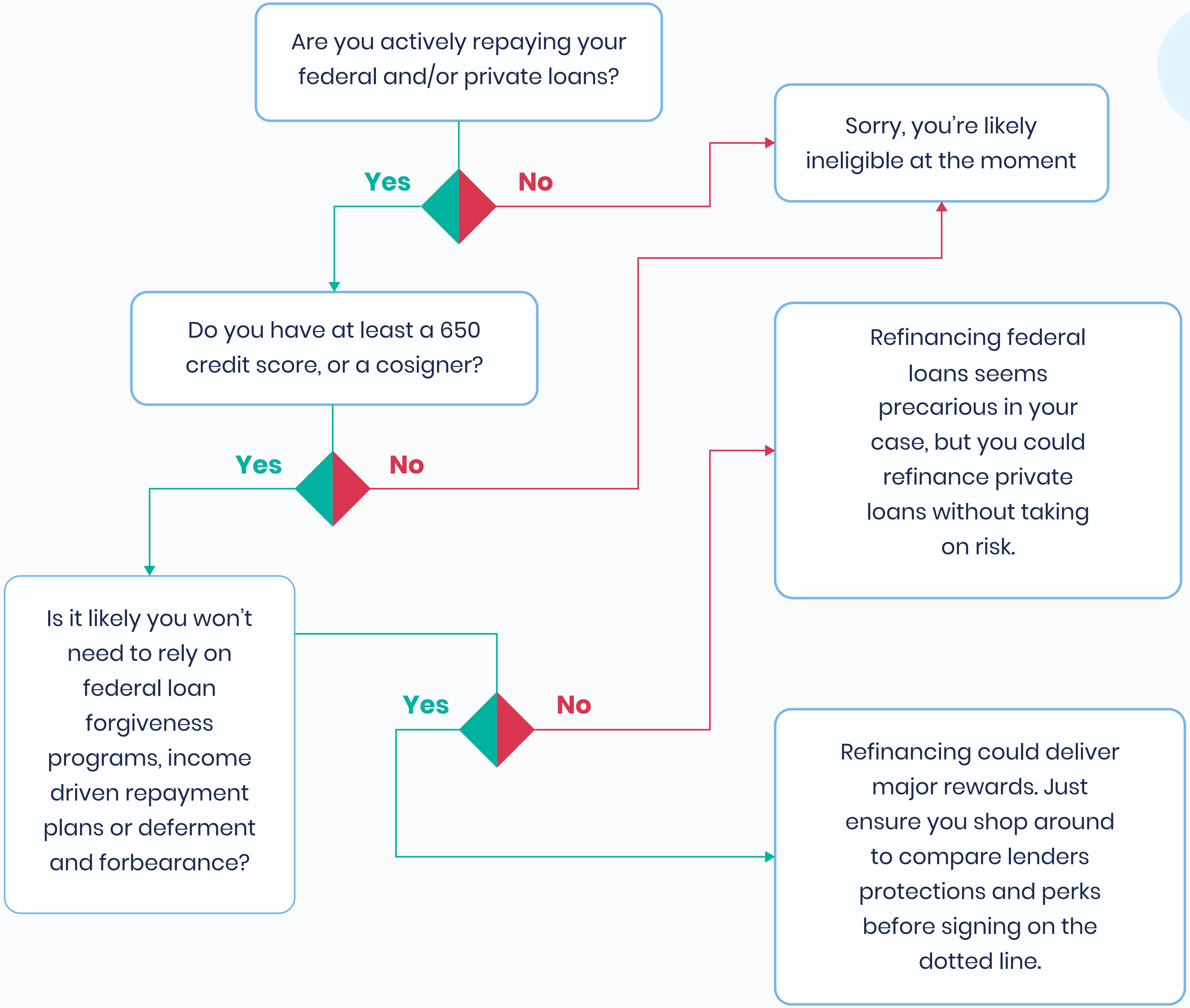
Federal Loan Benefit At Risk	Next-best Alternative After Refinancing
Loan forgiveness, cancellation	Seek out relief from your state government or employer
Income-driven repayment	Extend your repayment term by refinancing again
Mandatory forbearance	Apply for an economic hardship forbearance

Is Student Loan Refinancing Right For You?

Pros and cons can seem black and white, but there's a lot of gray area in student loan refinancing. To better understand where you fit in, you can ask yourself some questions that are unique to your repayment situation.

Your loan type is the first indicator of your fit for refinancing. It's almost always the right choice to refinance private loans — they're already private. By consolidating them with a new lender, you might give up a good relationship with your current lender, or perhaps a unique benefit that it extends, but if the rate and term of the new loan look like a better deal, then it's probably worth refinancing.

But the script takes a turn when you consider refinancing federal loans. Of course, you could decide to refinance only your private debt, but if you're thinking of including federal loans, try taking our "Should I Refinance" quiz first:


Are you actively repaying your federal and/or private loans?
Yes
No
Sorry, you're likely ineligible at the moment
Do you have at least a 650 credit score, or a cosigner?
Yes
No
Refinancing federal loans seems precarious in your case, but you could refinance private loans without taking on risk.
Is it likely you won't need to rely on federal loan forgiveness programs, income driven repayment plans or deferment and forbearance?
Yes
No
Refinancing could deliver major rewards. Just ensure you shop around to compare lenders protections and perks before signing on the dotted line.

To get a sense whether you're a good fit for refinancing, let's review three specific examples of when it's a good idea and three examples of when it's not. You might identify with one of our imaginary borrowers below …

Case Studies: 3 Times When Refinancing Could Be Right For You

SALLY'S AIMING TO DITCH HER HIGH RATES AND FREE HER COSIGNER.

Debt load:	3 private loans
Average interest rate:	8.50%
Credit score:	725
Career status:	Newly-promoted
Primary goal:	Cosigner release

Bottom line: Sally's determination is simpler than most, as she has no federal loans in repayment. Her problem is that her remaining trio of private loans carry high interest rates. Thanks to her strong financials, she's a good bet to reduce her interest rates and release her parent from her original loan agreements. For her, refinancing is the obvious answer.

LENNY SEES REFINANCING AS A SHORTCUT.

Debt load:	4 federal loans, 2 private loans
Average interest rate:	6.75%
Credit score:	660
Career status:	Earning big bucks
Primary goal:	Become debt-free ASAP

Bottom line: As a math-savvy investment banker, Lenny knows that he could let his debt linger and rely on the interest on his stock portfolio to help make loan payments. However, he prefers the peace of mind that would come with dispatching his debt for good. He can't foresee needing to access income-driven repayment (he makes a six-figure salary) or loan forgiveness programs (he plans to spend his career in the private sector). As a result, refinancing his federal loans is a relatively safe bet for him. It would behoove him, however, to clean up his credit report or maybe find a cosigner before seeking rate quotes.

SOFIA IS OPTIMIZING HER MONTHLY BUDGET.

Debt load:	5 federal loans
Average interest rate:	6.00%
Credit score:	820
Career status:	Successful entrepreneur
Primary goal:	Reduced monthly payment

Bottom line: With a business to run, Sofia has a wide array of financial goals. Repaying her student debt is just one of them. She is confident she won't need to rely on federal loan protections like deferment and forbearance. And with her tip-top credit score — thanks to zeroing her credit card balance each month and recently paying off personal loans to get her company up and running — she could access refinancing companies' lowest promoted rates. For her, giving up the federal status of her education debt would help lower her monthly dues without extending her repayment.

Case Studies: 3 Times When Refinancing Might Be Wrong For You

1

ERNIE CRAVES THE SIMPLICITY OF A SINGLE MONTHLY PAYMENT.

Debt load:	8 federal loans, 1 private loan
Average interest rate:	6.25%
Credit score:	735
Career status:	In transition
Primary goal:	Consolidation

Bottom line: With eight federal loans assigned to four different servicers, plus a private loan taken out at his local bank, Ernie's least favorite time of the month is his payment due date — or, more accurately, dates. He has to submit so many different payments to so many different places (even though **plans are underway** to streamline the system). Tired of the hassle, Ernie desires the ease of a single loan. With his career path in flux, however, he's wary of yielding federal loan protections like income-driven repayment and mandatory forbearance. His best choice is to apply for a direct consolidation loan via the Education Department, grouping his federal debt and leaving his private loan right where it is. Once his career path comes into focus at a later date, Ernie could always reconsider refinancing.

2

BETTY SURE LIKES THE SOUND OF A 2.00% INTEREST RATE.

Debt load:	4 federal loans
Average interest rate:	5.00%
Credit score:	770
Career status:	Teaching science
Primary goal:	Pay less

Bottom line: Betty has seen commercials and billboards for refinancing, and was surprised to see that rates were so low. Her federal loan rates aren't especially high, but she's done the math and she knows how much dropping her rate could save every month. As a science teacher in a low-income school, however, Betty is also aware that pursuing some combination of Public Service Loan Forgiveness and Teacher Loan Forgiveness is likely her best option. Instead of refinancing, she should probably enroll in income-driven repayment. Her modest teacher salary will keep her monthly dues low — and, after just a few more years in the classroom, she can get the remainder forgiven by Uncle Sam.

FINN IS NEW TO REPAYMENT AND LOOKING FOR WORK.

Debt load:	3 federal loans, 3 private loans
Average interest rate:	7.25%
Credit score:	600
Career status:	Applying around
Primary goal:	Start repayment right

Bottom line: Finn is in the midst of his postgraduate grace period before repayment on his six outstanding student loans kicks into gear. His older siblings struggled with student debt, so he's looking to avoid following their example. Refinancing would offer him a single loan to repay, instead of a half-dozen. Unfortunately, his thin credit file and lack of a cosigner make him ineligible in the eyes of the reputable lenders he's looked at. Given his lack of income, he's better off holding on to his federal loans' repayment protections, as he might need to file an Unemployment Deferment Request. Refinancing his trio of private loans could be possible, but only after improving his finances.

What Are The Costs Of Refinancing Your Student Loans?

Perhaps you've determined that student loan refinancing could be a boon to your debt repayment, but you might still be worried that there's a catch. The good news is that the act of refinancing itself is supposed to be free (unless you elect to refinance with a credit union that charges a nominal joiner's or recurring membership fee).

In fact, if you see a lender listing federal loan-like origination fees or other costs, you're either dealing with a subpar refinancing company or, worse, a scam. Head in a different direction.

Sticking with reputable lenders will help you avoid any hidden charges, such as a prepayment penalty that would ding you for paying down your debt ahead of schedule. Also, be mindful that refinanced loans have standard expenses — such as late payment fees or collections costs if you end up in default — that typical student loans also share. Unfortunately, there's no avoiding those bills.

5 Myths Of Student Loan Refinancing

MYTH

- The fees to refinance are excessively high
- The application process takes a long time
- Applying for quotes harms your credit
- Refinancing can only be undertaken once
- You lose all relief options when refinancing

REALITY

- Refinancing is generally free
- You could have your new loan within two to three weeks, from the time you start the application until you get the funds
- Just receiving quotes won't affect your credit
- You can refinance again and again
- Some private lenders have protections, toov

For what it's worth, refinancing lenders don't rely on fees for their bottom line. They generally offer refinancing free of charge — and attempt to outmaneuver their competitors by granting unique benefits — because they make money on your money. Like a traditional bank, they transact your refinanced loan at a different interest rate than you were awarded. The difference is their profit.

What student loan refinancing won't cost you personally in money, it could cost you in time (although hopefully consuming this guide will speed up the pace). It's crucial to take the hours or even days to verify that refinancing is the right measure for your repayment.

You'll also want to confirm that you can afford your potential refinanced loan's monthly payment. By choosing the right repayment term (which we'll review down below) and overall loan, you can give yourself the best possible chance to make refinancing truly worthwhile.

Are You Eligible (Yet) For Student Loan Refinancing?

Now that you've found student loan refinancing to be a fit for your repayment — and you've learned it should usually be free to undertake — you might be asking where to sign your name. But there are some hurdles you'll need to clear. Refinancing companies have strict requirements for applicant borrowers, particularly when it comes to finances. Specifically, banks, credit unions and online lenders are most concerned with your marks in three financial benchmarks …

3 Primary Criteria Of Refinancing Companies

On the bright side, if you're currently falling short in any of these areas, you could always take the time to improve your finances, and then resume your refinancing applications at a later date.

1. **Credit score:** Besides having a relatively clean credit report (such as no recent delinquency or default), a top-notch credit score should help you secure the loan at an attractive interest rate. The minimum credit scores required by lenders recommended in **Student Loan Hero's marketplace**, for example, range from 650 to 700.

   Some lenders post a different minimum if you apply with a cosigner (which, as mentioned above, is a quasi guarantor who agrees to be just as legally responsible for repayment as you are). At **PenFed Credit Union,** for example, a 700 score could likely gain you a stamp of approval, but you might be able to slide in with a 670 when attaching a cosigner to your loan.

   For the most part, you would need a pretty strong score, perhaps upward of 800, to be quoted a given lender's lowest-advertised fixed or variable interest rates.

   Score too low? The quickest possible solution is to try to piggyback on a cosigner. The longer road is to improve your own credit report and score. Making on-time payments on your debt and even looking into a credit-builder loan are strategies to consider.

2. **Income:** Your salary or combined earnings could also help (or harm) your refinancing applications. While many top-rated refinancing companies are doing away with minimum income requirements, they're still fairly common.

   The required range depends on where you apply. **College Ave**, for example, asks that applicants prove an annual intake of at least $65,000, but **Citizens Bank** sets its threshold at just $24,000.

   If you prefer a lender despite its rules, a cosigner with a higher income could always help you seal the deal. You might also qualify on your own when working with a lender that counts side hustle income.

Income too low? Besides recruiting a cosigner, you could also shop around exclusively for lenders that don't harp on traditional salary numbers. Earnest is one of those lenders that evaluate a greater portion of your financial picture, including your bank accounts and potential earning power.

3. **Debt-to-income ratio:** Having some impressive pay stubs can help your case, but lenders still want to confirm you earn enough to cover your new, refinanced loan. That's where **debt-to-income** (DTI) comes into play.

   Your DTI speaks to the percentage of your income that's applied to debt every month. It's literally your total monthly debt — including your housing, credit cards and other recurring payments — divided by your monthly income.

   Refinancing companies like to see a DTI below a cutoff of roughly 36% to 45%, and the lower, the better. To get a handle on your DTI, figure your cash flow using our **DTI calculator**.

   DTI too high? The levers here are fairly obvious: Increasing your income or decreasing your debt should push you in the right direction. But again, including a cosigner in your application could shorten your route to approval.

Do You Need A Cosigner?

On the bright side, if you're currently falling short in any of these areas, you could always take the time to improve your finances, and then resume your refinancing applications at a later date.

Some lenders might notify you immediately that this guarantor will make or break your application. Other lenders might request that you first complete the application on your own before bringing aboard help.

If your parent, sibling or partner is willing to stake their credit on your refinanced student loan, your cosigner choice might be a cinch. Lenders also accept cosigners outside your family — so lifelong connections could be candidates to cosign, as long as you both accept the reality that debt repayment could complicate your relationship if difficulties arise.

8 Mistakes To Avoid When Refinancing

MISTAKE

- Yielding federal loan protections if you'll need them
- Thinking you have to refinance all of your loans
- Failing to recruit a cosigner
- Borrowing from the first lender you contact
- Misunderstanding variable interest rates
- Not comparing repayment term lengths
- Assuming you can afford your new monthly payment
- Prematurely stopping repayment on your original loans

REASONING

- Refinancing loans have protections, but they're not usually as robust
- You can cherry-pick just the loans that are worth refinancing
- Unless you have outstanding credit, a cosigner could help you get approved at a lower interest rate
- By shopping around, you'll have more options to compare
- Variable rates can rise over time, making them riskier than fixed rates
- Think about how much you want to pay a month and how long you're willing to stay in debt
- Make sure you run the numbers to avoid a nasty surprise
- Stay current on your loans until refinancing is complete

Whatever lenders thought was missing in your application, they'll need to see in your cosigner's credentials. A strong credit score and report, income and DTI are all good indicators of a creditworthy cosigner. A guarantor who has worked in the same job and lived in the same place for years further speaks to their reliability, at least in the eyes of banks, credit unions and online lenders.

As long as you're looking for lenders that allow cosigners, you might also want to narrow your list of competitors to those that also feature cosigner release. Such a policy would allow you to remove the cosigner from your loan agreement after you've made a certain number of consecutive and on-time monthly payments.

To clarify whether you meet lenders' general criteria, with or without cosigner assistance, take our "Are You Eligible for Refinancing" quiz.

Interested in refinancing but not yet eligible? Try our checklist ...

1. Identify the weakness in your application
2. Look for reputable lenders that will consider your application despite any such weakness
3. Bring a cosigner onto your application
4. If you're willing to be patient, clean up your credit and monitor it
5. Keep making on-time payments on your student loans and other debt
6. Reapply once you've improved your chances

How To Apply For Student Loan Refinancing

Is it the right move? Check. Are you eligible? Check. Now you might be wondering about the best time to apply for student loan refinancing ...

For some, it could be soon after graduation. For others, it will come after you've taken the time to clean up your credit report and boost your credit score. Whatever your timing, applying for refinancing in the right way can ensure you receive your greatest possible benefit.

Design Your Ideal Loan

Before checking to see what refinancing companies are offering, it's wise (though not always necessary) to first design your ideal loan. This way, you'll have a handy guide with you as you comparison shop. Having it all down on paper will help you hold refinancing companies accountable, until they deliver exactly what you desire.

Take this self-assessment before going on to the next step in the application process.
And don't worry if you're not 100% sure about your answers — we'll review the key terms of loan agreements in our section below about comparing quotes.

1. Which of your student loans are you planning to refinance? (Grab some pen and paper, if it helps.)

Loan Type	Balance	Interest Rate	Loan Servicer Information

2. What goal/s do you hope to achieve through refinancing?

3. What approximate monthly payment (as allowed by your budget) will help you achieve your goal?

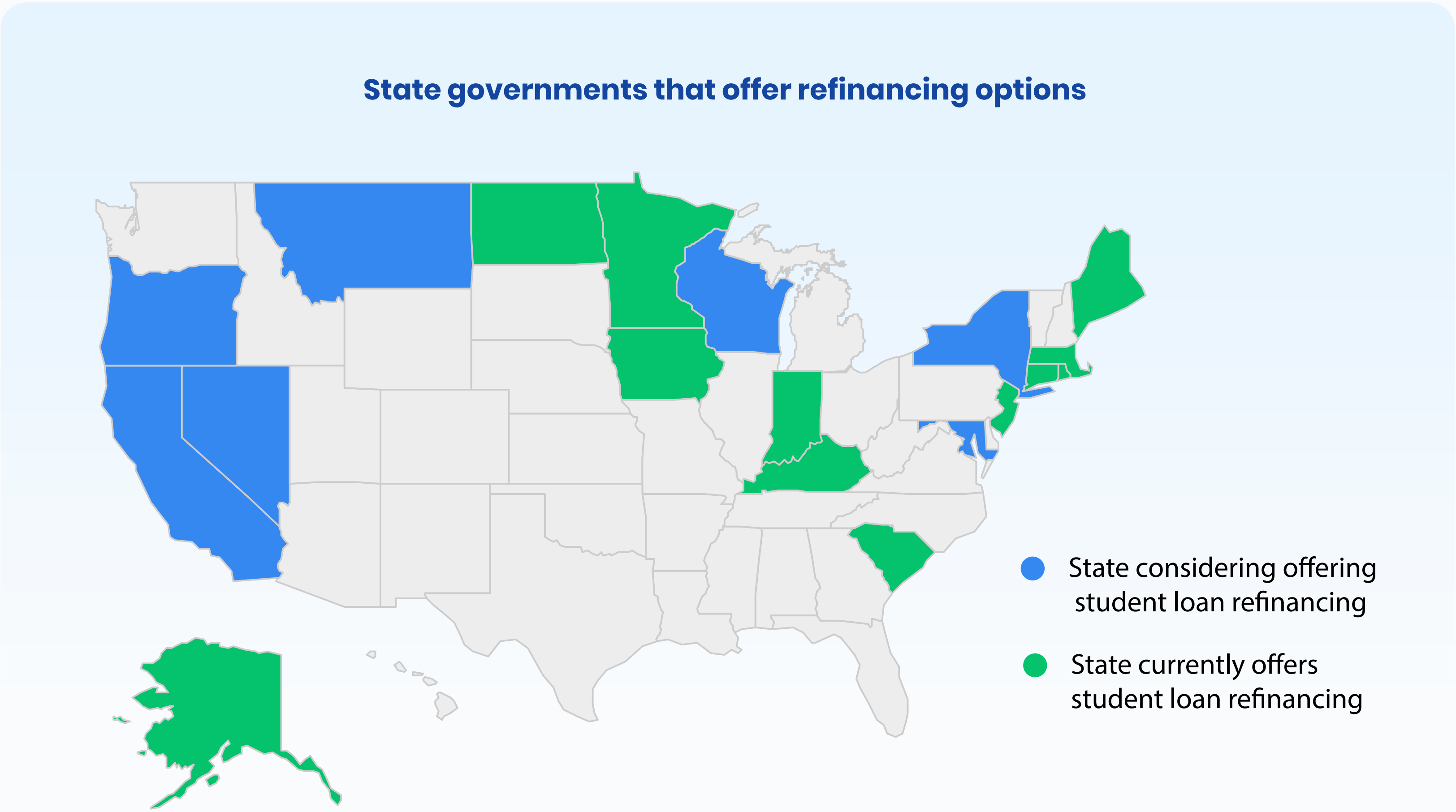
4. What interest rate and loan term (based on our refinancing calculator) will deliver that monthly payment amount?

5. What are you missing from your current lender(s) that you'd want included in your next loan? (Consider features, such as helpful customer service, no fees, forbearance, etc.)

Shop Around

Now that you know what you're looking for, shop around until you find it. Our **best banks to refinance your loans in 2020**, a list of top refinancing companies we've vetted, is a great place to start.

Keep in mind that some seemingly national lenders don't serve refinancing customers in every state or graduates of every school. Also, review your local options, whether it's a credit union down the street from your home or **your state-run refinancing outlet**.



Student Loan Hero recommends shopping around with at least three lenders. Just like when you built a college list as a wide-eyed teenager, you might not gain approval everywhere you apply. But by seeking approval from a few to a handful of refinancing companies, you'll have multiple options left to choose from.

When researching lenders, award extra points to those that allow you to check your potential interest rates via soft credit check and free of charge. Typically, you'll be shown rates within minutes after inputting basic information, such as:

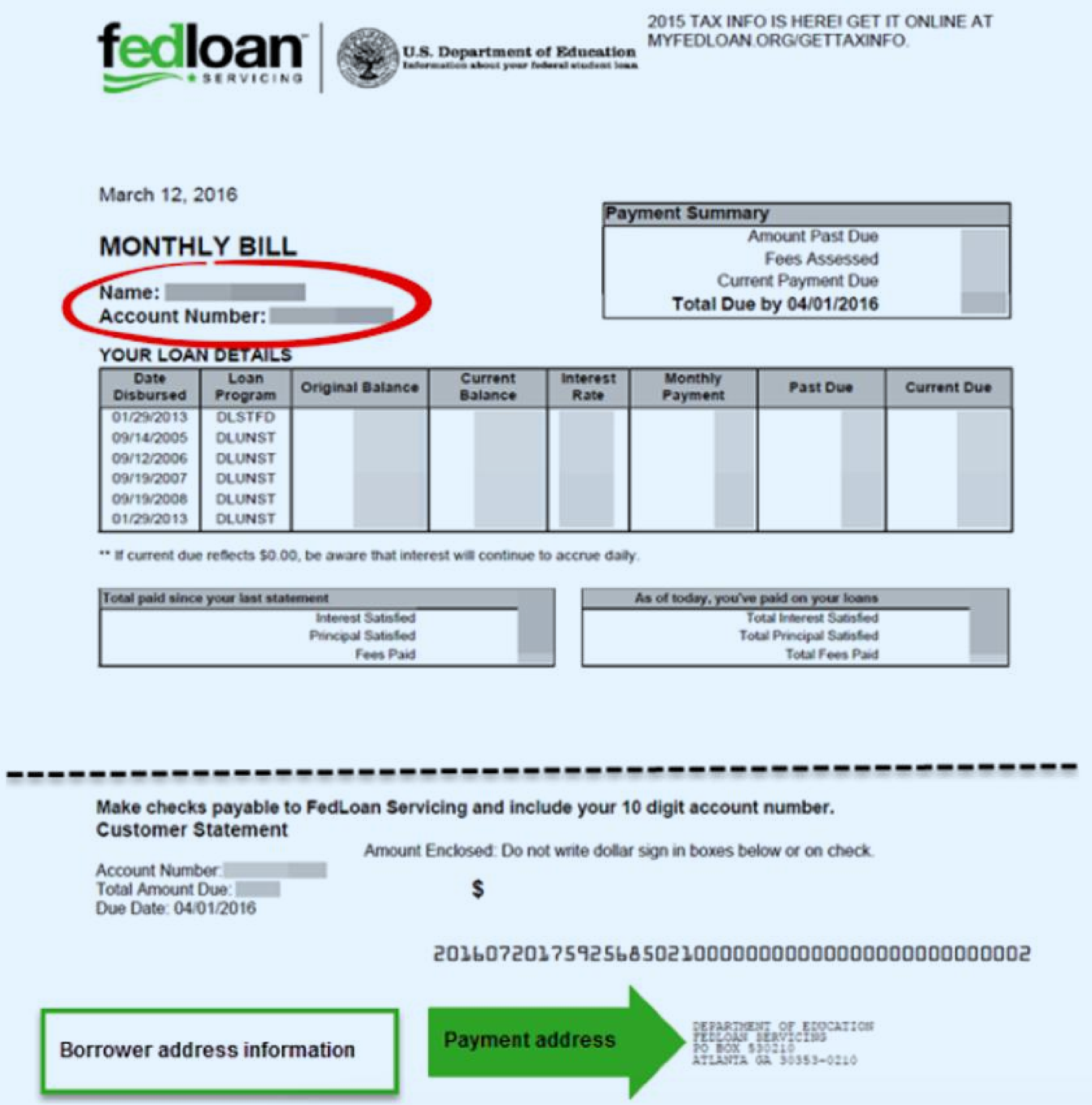
- School
- Graduation year
- Loan amount
- Credit score range
- Income level
- Monthly housing expense

Gather Your Application Materials

Once you have a shortlist of lenders — likely those that quoted the rate or terms you were seeking — you can speed toward the formal application by gathering some materials.

Like with the initial request for quotes, lenders generally ask for the same information on the full applications. Have the following on hand and ready to upload to each lender's application:

- **Personal:** Social Security number, driver's license or other government ID numbers
- **Professional:** Proof of income, such as pay stubs, W-2s or an employment offer letter
- **Financial:** Recent loan statements for each of the loans you're seeking to refinance



fedloan SERVICING | U.S. Department of Education — Information about your federal student loan

2015 TAX INFO IS HERE! GET IT ONLINE AT MYFEDLOAN.ORG/GETTAXINFO.

March 12, 2016

MONTHLY BILL

Name:
Account Number:

Payment Summary	
Amount Past Due	
Fees Assessed	
Current Payment Due	
Total Due by 04/01/2016	

YOUR LOAN DETAILS

Date Disbursed	Loan Program	Original Balance	Current Balance	Interest Rate	Monthly Payment	Past Due	Current Due
01/29/2013	DLSTFD						
09/14/2005	DLUNST						
09/12/2006	DLUNST						
09/19/2007	DLUNST						
09/19/2008	DLUNST						
01/29/2013	DLUNST						

** If current due reflects $0.00, be aware that interest will continue to accrue daily.

Total paid since your last statement	
Interest Satisfied	
Principal Satisfied	
Fees Paid	

As of today, you've paid on your loans	
Total Interest Satisfied	
Total Principal Satisfied	
Total Fees Paid	

Make checks payable to FedLoan Servicing and include your 10 digit account number.
Customer Statement

Amount Enclosed: Do not write dollar sign in boxes below or on check.

Account Number:
Total Amount Due:
Due Date: 04/01/2016

$

2016072017592568502100000000000000000000000002

Borrower address information

Payment address

DEPARTMENT OF EDUCATION
FEDLOAN SERVICING
PO BOX 530210
ATLANTA GA 30353-0210

Student Loan Language: What's A Payoff Verification Statement?

The statement, which can be retrieved from each of your original loan servicers or lenders, that lists the amount you would need to pay — and the date by which you'd need to pay it — to end your debt. Your selected refinancing company will request this statement once your application has been approved, and it will use the information to zero your old balances.

How To Choose The Right Refinancing Offer For You

If you took **our self-assessment above**, picking your best choice from a pack of student loan refinancing offers should be easy. You already did the work of coming up with your ideal loan, so now ask yourself: Which lender comes the closest to matching it?

In reality, your ideal loan may have changed after looking deeper into refinancing. You might have discovered new options available from some lenders, such as:

Unique features of recommended student loan refinance companies	
Earnest	• Skip one payment a year • Choose from among 180 repayment terms
SoFi	• Career services, entrepreneurship program • Wealth management advisors
Laurel Road	• Accessible to graduates holding any of 13 different associate degrees • Refinance parent PLUS Loans in the student's name
Splash Financial	• Combine your debt with your spouse's • Make $1 monthly payments while in medical residency
CommonBond	• Each refinanced loan pays for the education of a child in an impoverished country • Hybrid interest rates
LendKey	• Compare offers from credit unions, community banks and online companies • Make interest-only payments for up to four years

Wherever you stand in the selection process, let's re-examine the terms you should be comparing to make your final determination.

Interest Rate: Fixed Or Variable?

Simply put: Lower is better. Going with the lender that provides your best rate — and includes additional rate deductions through programs like **automated payments** — is likely the route to go. Just clarify that the new rate is actually an improvement over the average rate of your original loans. You can calculate the difference using our **refinancing calculator**.

The tougher part of choosing a loan rate is whether to go fixed or variable. There's no general rule of thumb that works for every borrower when choosing between rate types. To decide what's best for your repayment, remember that:

- **Variable rates** are usually the lowest but could rise over time according to market forces
- **Fixed rates** tend to start higher but won't change over time, making them less risky
- **Hybrid rates** are a combination of both (they're fixed for a limited period) but not available via most lenders

If you're considering the riskier route of variable rates, ask your potential lenders about their rate cap. That's the maximum amount your rate could rise — Splash Financial's ceiling, for example, is 9.00% or 10.00% as of March 3, 2020, depending on your loan term. To truly prepare for the worst, input that highest possible rate into our **monthly payment calculator** to confirm you could afford that heightened monthly payment.

If rising rates make you nervous, you might be better suited to a less risky fixed rate.

Term: What's The Right Length For Your Repayment?

Lending institutions, whether brick-and-mortar banks or fintech refinancing companies, usually display a wide array of repayment terms. Earnest has become famous in the industry for providing up to 180 — any month interval between five and 20 years. More commonly, lenders will list far fewer options, such as "five, seven, 10, 15 or 20 years."

That might not matter if you already have a repayment term in mind. Say you're not unlike the **typical recent graduate,** holding $29,800 worth of student loans tagged at an average rate of 8.00%. The maximum monthly payment you can afford on a refinanced loan should dictate your term choice.

You can get a sense of how your different options would play out by plugging your loan details into our **loan term comparison calculator.**

	5 Years	10 Years	15 Years	15 Years	15 Years
Loan Balance	$29,800	$29,800	$29,800	$29,800	$29,800
Interest Rate	3.5%	5.5%	6%	6.5%	7%
Monthly Payment	$542/mo	$323/mo	$251/mo	$222/mo	$211/mo
Total Interest	$2,727	$9,009	$15,464	$23,523	$33,386
Total Payment	$32,527	$38,809	$45,264	$53,323	$63,186

The last word on refinancing ...

- Consolidation via refinancing isn't often worth yielding federal loan protections
- Shopping around will help you find the best lender for your situation
- Scoring a lender's lowest advertised rates requires having top-notch credit
- Refinancing more than once could lower your interest rate further
- Always be strategic about choosing a fixed or variable rate

Student Loan Hero senior writer advice from **Rebecca Safier**, who **refinanced a $20,000 Navient loan** with Citizens Bank in 2017.

Faqs: The Long And Short Of Student Loan Refinancing

On the surface, refinancing should be simple. Your lender pays off your old debt, replaces it with a new loan of a different term length or perhaps at a lower rate. Then, you move into repayment more confident than before. Everyone's happy.

But even when it seems to be the right move, refinancing can trip up borrowers, whether it's while shopping, applying or selecting the loan. To avoid any missteps, consider these specific details of refinancing with our frequently asked questions.

Can I refinance both federal and private loans?

Yes, you can refinance any type or number of your student loans. Just keep in mind that refinancing would strip federal loans of their government-granted protections.

Can I refinance some (not all) of my loans?

Yes, you can elect to refinance your private loans but keep your federal loans where they are, for example.

Can I refinance if I'm a noncitizen?

Some refinancing companies limit their products to U.S. citizens, permanent residents with a green card and, in some cases, certain visa holders. Other lenders simply require noncitizen borrowers to apply with a citizen cosigner. International students can find greater accessibility at specialized lenders like **Prodigy Finance**, while **Citizens Bank** has also recently opened its doors to noncitizens.

Can I refinance while in my grace period?

Yes, although not all lenders will honor what's left of your grace period and could call on you to start making payments right away.

Should I refinance if I'm considering going back to school?

Refinancing always requires careful planning — particularly in this case. If you're employed now but plan to quit your job upon returning to your studies, for example, you have a better chance of gaining approval while your income is consistent. Also, reconsider giving up the government protections on your federal loans. For instance, you might want access to income-driven repayment if your graduate degree leads to a relatively low-paying career. If refinancing does make sense despite your potential return to school, you might prioritize lenders that offer a back-to-school deferment.

Can I refinance a student loan in default?

A default would have probably sent your credit score tumbling, making refinancing an unlikely proposition. However, rehabilitating the loan and latching onto a cosigner would improve your prospects.

Can I refinance with a criminal record?

A conviction in and of itself shouldn't affect your eligibility (unless it resulted in financial sanctions). Still, a criminal record might have affected your employment history and bill-paying, which would hamper your refinancing application.

What are the minimum and maximum loan amounts I can refinance?

The majority of lenders in Student Loan Hero's marketplace require you to refinance at least $5,000 of eligible debt, with LendKey demanding the least ($2,000) and FirstRepublic Bank with the highest minimum ($25,000). Many of these refinancing companies also allow borrowers to refinance as much as $300,000 worth of student loans, with more leeway for applicants carrying graduate or professional degrees.

Is it worth refinancing if I only have less than $10,000 left to repay?

If refinancing, which is free and not especially time-intensive, helps you accomplish a goal of your repayment, then it's worthwhile no matter how little you have left on your account balance. Just keep in mind that if your goal is to reduce your interest rate, your savings on a relatively small amount won't be as much as for a borrower who has significantly more debt.

How can I review my credit history?

Start by visiting AnnualCreditReport.com, where you can request one free copy annually from each of the three major credit bureaus (Experian, Equifax and TransUnion).

How do I calculate my debt-to-income ratio?

Divide your total monthly debt by your monthly income — or just let our **DTI calculator** do the math for you.

What if I earn my salary as a self-employed freelancer?

You could still be eligible for refinancing, with your best chance for approval being at lenders that don't require you to hold traditional employment. If your income is sporadic, working with a cosigner could improve your application.

Are the requirements any different for my cosigner (if I apply with one)?

Lenders judge cosigners similarly to borrowers, evaluating their credit history and debt-to-income ratio, among other factors. If you're falling especially short in one area or another, you can bet that lenders will be critical of your cosigner in the same category.

See Our Best Refinancing Lenders For ...

Six-figure debt | Parent PLUS Loans | Shaky job status | Cosigner release

What's the difference between APR and interest rate?

APR, or annual percentage rate, accounts for the interest and fees you'll be responsible for per year. A simple interest rate, meanwhile, doesn't account for any fees you might also pay. It's crucial to understand this distinction so that you can make apples-to-apples comparisons of lenders' rates.

Can I negotiate rates with a lender?

It's unlikely that haggling will get you a lower rate on a refinancing application. More likely, lenders will stand firm on their rate quotes — then distinguish themselves from competing lenders by pointing out autopay or loyalty discounts, among other benefits.

Will checking rates harm my credit score?

Many top-rated lenders allow you to check rates while submitting to a "soft credit check" which doesn't impact your credit score. With the formal application, you'll generally submit to a hard check — which can have a minor, temporary negative impact. Student Loan Hero recommends trying to make all your formal applications within a single 14-day period, as this can lead to all the hard checks counting as one, limiting the effect on your credit.

How do I choose the length of my new repayment term?

Just as when choosing a rate type, there's no blanket approach here that works for every borrower. To find the term that's uniquely beneficial to you, comb through your budget to come up with your ideal monthly payment. Then employ our term comparison calculator to see which term will deliver that payment amount.

Would it make sense to choose a higher rate on a shorter term?

Typically, increasing your interest rate doesn't make fiscal sense — it'll increase your lender's profits, not your savings. Instead, it's best to keep your lower rate and instead shorten your time in debt by making extra payments (as you can see with our prepayment calculator). With that said, it could make sense to refinance to a higher rate on a shorter repayment term if consolidation or escaping an unruly loan servicer outweighs what the math says to do.

How long does it take to close a refinanced loan?

It can take as long as two weeks (after you've been approved) for your new lender to pay off your old debt and issue your new, refinanced loan. It's imperative to keep making payments on your original loans until directed otherwise — any overpayment would be refunded to you.

Is refinancing really irreversible?

Once your original loans have been paid off, there's no turning back. There is a timespan between approval and closing, however, when your lender might allow you to cancel your refinancing application.

Can I refinance my student loans multiple times?

Yes, just be wary of extending your repayment term (unless it's necessary) or incurring fees (from less reputable lenders).

What happens if I default on my refinanced loan?

If you think you'll miss a payment on your new, refinanced loan, talk to your lender to review your options, which could include forbearance. Keep in mind that if your loan agreement includes a cosigner, they will become legally responsible for repaying the loan — and their credit report would also reflect a delinquency or default. (For what it's worth, private student debt, unlike a federal loan, carries a **statute of limitations**, which varies state to state.)

Is there any way to lower my rate without refinancing?

There's no other way to reduce your interest rate significantly, but you could trim it by a modest 0.25% to 0.50% with autopay and loyalty programs, if offered.

Where can I go with more questions about student loan refinancing and its alternatives?

Visit **Student Loan Hero** and type your question in our search bar. There's a good chance that we have a piece of free content, a calculator or some other tool to help you take the next step of your repayment, whether it's refinancing or something else entirely.

About Student Loan Hero

Student Loan Hero, a subsidiary of LendingTree, combines easy-to-use tools with financial education to help the millions of Americans living with student loan debt manage and pay off their loans. The website provides information about repayment options, including refinancing, income-driven repayment and deferment. Student Loan Hero has helped more than 200,000 borrowers manage and eliminate over $3.5 billion in student loan debt since 2012 and assists over 3.5 million people in becoming more financially healthy every year.

Founded in 2012 by CEO Andrew Josuweit, who himself had over $100,000 in student loans, Student Loan Hero operates on the belief that all loan help and recommendations should come with honesty and no hidden agenda.

For more information, visit **Student Loan Hero.**

About LendingTree

LendingTree (NASDAQ: TREE) is the nation's leading online marketplace that connects consumers with the choices they need to be confident in their financial decisions. LendingTree empowers consumers to shop for financial services the same way they would shop for airline tickets or hotel stays, comparing multiple offers from a nationwide network of over 500 partners in one simple search, and can choose the option that best fits their financial needs. Services include mortgage loans, mortgage refinances, auto loans, personal loans, business loans, student loans, insurance, credit cards and more. Through the My LendingTree platform, consumers receive free credit scores, credit monitoring and recommendations to improve credit health. My LendingTree proactively compares consumers' credit accounts against offers on our network and notifies consumers when there is an opportunity to save money. In short, LendingTree's purpose is to help simplify financial decisions for life's meaningful moments through choice, education and support. LendingTree, LLC is a subsidiary of LendingTree, Inc. For more information, visit **LendingTree**, dial 800-555-TREE, like our Facebook page and/or follow us on Twitter.

About the author

Andrew Pentis is a senior writer at LendingTree, the parent company of Student Loan Hero. Andrew has covered the cost of higher education and other personal finance topics since 2015 and earned his student loan counselor certification in 2018. In addition, Andrew previously worked in marketing for a leading online lender where he got to see behind the curtain. He's also been quoted as a student loan expert via NBC News, CNBC, Fox Business and Yahoo Finance, and regularly tweets news and analysis **@andrewpentis.**