Should I Refinance My Student Loans?

CREDIT UNION Student Choice

Presented by: Tricia Poplicean | College Access Counselor

Presentation Highlights

- Understand your student loans
  - Federal vs. Private
- Student loan consolidation
- Student loan refinance
- Student loan consolidation and refinance options
- What to consider before making a decision
- Borrower savings

Federal Student Loans

- Loans are funded by the federal government
- Fixed interest rates (federal loans disbursed after July 2006)
- No co-signer is required – student or parents loan
- Subsidized loan for undergraduate students with financial need
- Types of federal student loans –
  - Stafford subsidized or unsubsidized
  - Direct subsidized or unsubsidized
  - Graduate PLUS or Parent PLUS
  - Perkins
  - Direct consolidation
- Benefits –
  - Three years deferment after graduation (subsidized loans do not accrue interest)
  - Loan cancellation for death and disability
  - Forgiveness programs for teaching and public service
  - Repayment options including income based
  - Consolidation and refinance options available
  - Default rehabilitation
- National Student Loan Data System (NSLDS)
  - Warehouse for all federal student loans
  - https://nslds.ed.gov

Private Student Loans

- Loans are funded by credit unions, banks or finance company’s
- Fixed or variable interest rate
- Established positive credit history, employment and income required
- Student’s loan and a co-signer may be required
- Deferment or forbearance options – check with lender
- Refinance options available
- Borrower benefits are lender specific
- To locate private student loans
  - Contact the school the borrower attended
  - www.annualcreditreport.com

Consolidation vs. Refinance

Consolidation –

The process of combining multiple federal loans into one new loan. The federal consolidation program does not allow borrowers to include private loans and the interest rate is a weighted average of all federal loans included in the consolidation. Consolidation offers an extended loan term, lower monthly payment and one convenient monthly payment. Consolidation may provide a lower, more comfortable payment, but if years are added to the loan terms, consolidation can result in thousands of dollars of more interest over the life of the loan. There is no credit check required for a federal consolidation.

Refinance –

This process is very similar to consolidation in combining multiple loans and combining them into one. Refinancing may allow the borrower to select lower interest rates and loan terms and gives the borrower a lower monthly payment and reduces the total repayment amount over the life of the loan. A borrower may include both federal and private student loans in a refinance. Federal loan benefits may be forfeited if refinanced with a private lender. Refinancing may be based on a borrowers financial status, income, credit score, comfort level, and beyond.

Consolidation and Refinance Options

- Federal Direct Loan Consolidation
  - US Department of Education is the lender
  - Interest rate – weighted average of loans you are consolidating
  - 10 – 30 year repayment term depending on total balance
  - Income driven repayment plans
  - Public service loan and teacher forgiveness included
  - Death and disability forgiveness included
  - Only federal loans may be included
  - May qualify for education tax deduction

- Student Loan Refinance
  - Credit Unions, Banks, Finance Company is the lender
  - Fixed and variable interest rates offered
  - 5 – 25 year repayment term
  - May have a maximum loan amount
  - Qualified borrower may refinance parent PLUS loan
  - Qualified borrower may refinance to remove co-borrower
  - Federal and private student loans may be included
  - May qualify for education tax deduction

Consolidate or Refinance?

- Understand your current student loans
  - Types – federal or private
  - Interest rates and repayment terms
  - Payoff amounts
- What is your main goal
  - Lower monthly payments
  - Lower interest rates
  - Remove co-borrower
  - Transfer a parent PLUS
  - Pay debt faster
- Things to consider
  - Will I need federal loan benefits
  - Do I meet the lender credit requirements
  - Lender repayment options
  - Savings over life of loan

Should I Refinance?

Borrower had $23,440 in federal student loans with an interest rate of 4.19% fixed. Loans included two federal graduate direct loans. Borrower had been in repayment one year and had nine years left until maturity. Main goals were to lower interest rate, lower term and pay less interest over life of loan.

A. 10 year repayment plan with 9 years remaining

Monthly Payment	$261
Total Interest	$4737

B. Refinanced for 5 years at 4.0% fixed interest rate

Monthly Payment	$418
Total Interest	$2461

Savings $2276

Should I Refinance?

Borrower and parents had $94,847 in federal student loans with interest rates 6.8% - 7.9%. Loans included three direct loans and two parent PLUS loans. Borrowers had been in repayment two years and had eight years left until maturity. Main goals were to lower interest rate, lower term and take over responsibility of PLUS loans from parents.

A. 10 year repayment plan with 8 years remaining

Monthly Payment	**$1311**
Total Interest	**$30,998**

B. Refinanced for 5 years at 3.45% variable interest rate

Monthly Payment	**$1723**
Total Interest	**$8552**

Savings $22,446

Should I Refinance?

Borrower had $32,445 in federal student loans with interest rates 3.6% - 6.125% and $35,282 in private loans with interest rates 8.25% – 10.5%. Borrower had just entered repayment. Main goals were to lower monthly payments and lower interest rates.

A. Federal loan 10 year repayment plan (level)

Monthly Payment	$344
Total Interest	$8851

B. Federal consolidation loan 20 year repayment plan

Monthly Payment	$213
Total Interest	$18,730

C. Private loan 18 repayment plan

Monthly Payment	$342
Total Interest	$38,595

D. Refinanced for 15 years at 7.25%

Monthly Payment	$312
Total Interest	$20,917

Savings **$7799**

Monthly payment lowered by $161

($525 vs $686)

Should I Refinance?

Borrower had $29,254 in federal subsidized and unsubsidized student loans with interest rates 3.6% - 6.125% and $25,690 in private loans with interest rates 3.5% and 4.72%. Borrower had just entered repayment. Borrower is planning to return to graduate school in one year. Did not refinance. Why?

- Federal loans may be deferred when they enter graduate school
- If payment is deferred in graduate school, government will pay interest on subsidized loans
- Private lender will allow two years of deferment during graduate school
- Private loan interest rates are competitive and fixed with a comfortable monthly payment

Borrower had $32,552 in private student loans with interest rates 4.8% - 7.2%.Borrower had been in repayment one year. Borrower's main goal was to remove co-borrower and lower interest rate. Did not refinance. Why?

- Borrower applying alone did not qualify for a lower interest rate due to current FICO score and financial situation.

Thank You for Attending

Tricia Poplicean

College Access Counselor | Student Choice

Please contact us with any additional questions:

scholarhelp@studentchoice.org

http://www.studentchoice.org/college-access-counselor

iGrad – modern financial wellness
for students and parents

www.studentchoice.org/igrad