

Student Loan Refinancing

What You Need to Know

For a long time borrowers were stuck.

They had no way to improve their student loan interest rates or repayment terms.

But as more students have had to rely on federal and private loans to help finance their undergraduate and graduate education, more options for repaying those dollars have also become available.

For working professionals with good credit and income, student loan refinancing may be the ideal way to save money, create a monthly payment plan that better suits your situation and reduce interest rates.

What Is Student Loan Refinancing?

Student loan refinancing enables borrowers to pay off their original student loans and obtain a new loan with different repayment terms and a lower interest rate. You can choose to refinance all or just some of your federal and private loans.

What to Consider Before Refinancing

There are many benefits to refinancing your student loans, but before you start the process, here are some things to consider:

- **Achieve your financial goals.** What is your primary reason for refinancing? Are you looking to lower your monthly payment? Pay off the loan more quickly? Reduce the total cost of the loan?
- **Set your budget.** How much you can afford to pay each month will be determined by your income. Federal income-based repayment programs take 10-15 percent of your discretionary income (difference between your adjusted gross income and 150 percent of the poverty line for your family size and state of residence), while student loan refinancing offers the opportunity to customize a repayment plan that suits your financial situation.
- **Know your credit score.** The better your credit, the easier it will be to qualify and get favorable terms.
- **Consider your ability to consistently repay.** You will need to make a determination about whether you might have to use federal protections in the future, specifically deferment options.

When to Refinance

Typically, student loan refinancing is an opportunity for those looking to:

- Lower their interest rate(s) and save money
- Change from a fixed rate to a variable rate or vice versa
- Pay off their loans faster
- Reduce the number of loans in repayment
- Lower their monthly payments

Refinancing allows you to take advantage of lower interest rates and reduce the total amount you owe over the life of the loan. Some private lenders, such as Laurel Road, offer support should the need arise.

Refinancing Is Not Consolidation

Consolidation simply combines two or more loans into one loan with one interest rate. When federal student loans are consolidated into a Direct Consolidation Loan, the new interest rate is based on the weighted average of the original loans' rates. Consolidation does not offer any interest savings, and private student loans cannot be consolidated with federal student loans.

The key benefit of refinancing is the potential to save thousands of dollars in interest over the life of the loan. This savings can be used toward paying down the principal balance, investing or starting an emergency savings fund.

The average Laurel Road customer saves \$20,000+ over the life of their loan by refinancing to a lower rate.

Maximizing Your Savings

Federal student loans come with some provisions that can offer relief should your financial situation change for the worse any time during repayment. These include income-based repayment options, deferment and forbearance. While deferment and forbearance can help you avoid default, they do not save you money over the life of the loan. In some cases – as with forbearance – you would increase the total amount you owe. The best way to save money on a federal loan is to have your student loans forgiven, an option which is only available under certain circumstances.

Evaluating Your Options

Once you've decided that refinancing is right for you, look at more than just interest rates. Of course, interest rates are important, but as you shop around, make sure the rate isn't just a "teaser," but a real offer based on your information. You also want to evaluate the lenders, including their overall reputation and customer base (i.e., do they focus on borrowers similar to you). And you want to look at other benefits, such as whether they offer economic hardship support should the need arise.

Determining Eligibility

While each lender has its own specific qualification criteria, the key factors in determining eligibility and rates typically include your credit profile, total monthly debt payments and income. Those who are in good financial standing, demonstrate a strong career trajectory, have good credit scores and have shown they are responsible with other debts and monthly budgeting are more likely to be approved.

Borrowers who choose student loan refinancing have worked hard to complete their degrees and establish their careers. It is time to reap the rewards of those efforts. Seize the opportunity to reduce your interest rates, pay down your debt faster and save more. Use your hard-earned money to fund your future, not your past.

Check your rates instantly
at **LaurelRoad.com**
(no hard credit pull required)

Laurel Road is the national online lending division of Darien Rowayton Bank. FDIC-insured and established in 2006, Darien Rowayton Bank has helped thousands of professionals with graduate and undergraduate degrees across the country to refinance and consolidate over \$2.5 billion in federal and private school loans, saving these borrowers thousands of dollars each.

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