A Guide to Student Loan Refinancing

Practical repayment information for everyone

(with special tips for medical professionals)

laurel road

For years student loan borrowers have felt stuck, with limited options to improve student loan interest rates or repayment terms.

But, those days are gone. As more students turn to federal and private loans to help finance their undergraduate and graduate education, additional options for repaying those loans are available – great news for borrowers.

In this guide you'll learn about:

- All Debt is Not Created Equal
- There's More Than One Way to Repay
- How to Save With Student Loan Refinancing
- Student Loan Repayment for Medical Professionals

If you're trying to figure out how to best manage student loans and their payments, you're not alone.

Today, four in 10 adults under the age of 30 have student loan debt[1] and 44 million Americans collectively owe nearly 1.5 trillion dollars.[2] This makes student loan debt the second largest source of household debt behind mortgages.[3]

So, just how much is owed by degree type?

Recent college graduates:

Owe an average of $34,000 in student loans[4]

Law school graduates:

Owed an average of $166,634 in 2017[5]

Medical school graduates:

Over 86% of graduates in the medical field carry debt, with 2016 graduates owing an average of $190,000[6]

Dental school graduates:

The class of 2017 owed an average of $287,331, with 30% carrying loan debt in excess of $300,000[7]

1. Pew Research Center (analysis of Federal Reserve Board's 2016 Survey of Household Economics and Decisionmaking)
2. https://fred.stlouisfed.org/series/SLOAS
3. Federal Reserve Board, 2016
4. https://www.npr.org/sections/ed/2017/04/04/522456671/a-new-look-at-the-lasting-consequences-of-student-debt
5. https://www.usnews.com/best-graduate-schools/top-law-schools/grad-debt-rankings
6. https://www.studentdebtrelief.us/news/average-medical-school-debt/
7. http://www.adea.org/GoDental/Money_Matters/Educational_Debt.aspx#sthash.DHawVFd0.MSM7TfCg.dpbs

All Debt Is Not Created Equal

Understanding debt and how it works is the first step towards taking control of your finances.

The Not-So-Surprising Truth

More than 54% of employees stress over finances.[9]

$13.21 trillion

U.S. household debt as of the first quarter of 2018, an all-time high[10]

$15,310

Amount the average household in America with debt owes on their credit cards[11]

$6,658

Average interest Americans pay a year, a lot considering the 2016 U.S. median household income was $57,617[12]

9. Employee Financial Wellness Survey, PWC 2018
10. https://www.newyorkfed.org/microeconomics/hhdc.html
11. http://www.schwabmoneywise.com/public/moneywise/essentials/good_debt_vs_bad_debt
12. https://www.census.gov/content/dam/Census/library/publications/2017/acs/acsbr16-02.pdf

BAD DEBT

VS

GOOD DEBT

The reality of bad debt

Bad debt is a debt incurred to purchase things that quickly lose their value and do not generate long-term income; also carries a high-interest rate, like credit card debt. Some tips for incurring debt include:

- ✓ Aim for less than 20% of your take-home salary going to interest payments.
- ✓ Try to avoid high-cost debt that isn't tax-deductible, such as auto loans, that carry higher interest rates.

A Way to Keep Debt in Check

One suggestion is no more than 36% of your pre-tax income should go to paying debt.[13]

13. http://www.schwabmoneywise.com/public/moneywise/essentials/good_debt_vs_bad_debt

Is there really good debt?

As a matter of fact, yes! Good debt is an investment that will grow in value, generate long-term income, and increases your net worth. Taking on good debt such student loans can also be a means to establishing a credit profile.

Good debt should be low cost with tax advantages.

Examples of good debt include student loans, real estate, and small business ownership. Debt that provides a reward beyond ownership, like a home improvement loan with potential financial benefits later on, is also generally considered good debt.

Student Loan Debt Impacts Borrowers' Life Plans[14]

47% delayed buying a car	**68%** delayed taking a vacation
28% delayed getting married	**34%** delayed starting a family
63% delayed buying a home	**73%** delayed saving for retirement

14. Student Debt Impact Report, July 2016

But, there can be an upside to having student loan debt.

Having a well-managed student loan can have a positive impact on your credit scores. Generally, student loans appear on your credit report from the time the loan originates until approximately seven to 10 years after each loan is paid in full.

Paying back student loans on time can help you build or rebuild your credit and credit score – if payments are consistently made on time. Just staying on top of your student loans is enough to increase your credit score, potentially up to the 700-range by the time you have to apply for a larger loan.

Learning to manage your finances wisely can help improve your credit score.

The better the credit score, the more options you have to obtain financing down the line for other investments, as well as to refinance student loans at a better rate if desired.

Build a credit profile

Having credit on your own, for which you are responsible, is key to building a strong credit profile.

Take inventory of all debt, including student loans, credit cards, car payments, mortgage, etc. If you're using a credit card, focus on paying off the balance each month and making on-time payments.

Did you know?

The average millennial has a credit score of 625, which puts them in the "poor credit" category for lenders reviewing their applications.

Their average debt, excluding mortgages, equals 77% of their income vs. 49% for the national average.[15]

15. https://www.cbsnews.com/news/what-is-the-average-credit-score-for-millennials/

To help make your student loans work for you and improve your credit score, there are some simple things you can do:

1. Be strategic about your payments

Pay off your loans with the highest interest rates to reduce interest accrual as quickly as possible.

2. Make payments affordable

Contact your lender if you can't make a payment. There might be a repayment plan that works for you.

3. Make on-time payment

If you make a late payment it may result in late fees and/or a negative hit to your credit score.

4. Pay interest while in school

Some loans accrue interest while you're still in school. Make interest-only payments to prevent your balance from ballooning before graduation.

5. Enroll in automatic payments

This helps ensure your payments are punctual and some lenders offer rate reductions for customers who enroll.

6. Understand interest

Use this formula to calculate your daily interest: Annual Interest Rate × Current Principal ÷ Days in the Year = Daily Interest.

7. Look into tax deductions & credits

Anyone paying student loans may deduct up to $2,500 of interest on qualified loans when filing federal taxes.

8. Understand where payments go

Your loan servicer can tell you if payments are distributed evenly among loans and how much is going towards interest vs. the principal balance.

There's More Than One Way to Repay

The burden of student debt can feel overwhelming but educating yourself on your options and planning accordingly can help ease some of that stress.

CREATING A SUPER LOAN:

Direct Consolidation

You have the option of consolidating federal loans, combining individual federal loans into one loan from the government. The new loan has a fixed interest rate based on the weighted average of the interest rates of the consolidated loans. Repayment terms vary from 10 to 30 years.

You must consolidate into a Direct Loan to enroll in federal income-driven repayment plans.

For more information, go to the Federal Student Aid website at StudentAid.gov/repay

Things to consider

Keep in mind that the selected loan term when you consolidate can impact your monthly payment.

If you choose a longer loan term, you may end up paying more interest on the consolidated loan.

PLANS BASED ON YOUR INCOME:

Income-driven Repayment

Income-driven repayment plans allow you to reduce monthly payment amounts for federal loans according to your income–typically a portion of your discretionary income. Repayment periods generally range from 20 to 25 years. Eligibility depends on your graduation date and when loans were dispersed.

For more information, go to the Federal Student Aid website at StudentAid.gov/idr

Things to consider

- Unpaid interest accrues over time, which could result in you paying more over the long term.
- Any loan amount that is forgiven is taxable.
- Monthly payments are set each year based on your federal tax return.

  Example: filing as "married filing separately," means only your income, will be used to calculate monthly payments, not your spouse's.

The three types of Income-driven Repayment plans

Income-based Repayment (IBR)

An income-driven repayment plan with monthly payments set at 10-15% of discretionary income. As income rises, monthly payments increase only up to the 10-year standard repayment amount. Depending on loan origination date, any student loan debt remaining after 20-25 years of repayment will be forgiven.

Pay As You Earn (PAYE)

An income-driven repayment plan with monthly payments set at 10% of your discretionary income. As income rises, monthly payments increase only up to the 10-year standard repayment amount. Any student loan debt remaining after 20 years of repayment will be forgiven.

Revised Pay as You Earn (REPAYE)

An income-driven repayment plan with monthly payments set at 10% of your discretionary income. As income rises, monthly payments are always set at 10% and can surpass the federal 10-year Standard Repayment Plan amount. Any student loan debt remaining after 20 years of repayment for undergraduates, or 25 years of repayment for graduates, will be forgiven.

BE A DO-GOODER:

Public service loan forgiveness

Borrowers working in public or non-profit sector jobs can have loans forgiven after 10 years of service. If you are employed in certain public service jobs, such as at a not-for-profit hospital, and have made at least 120 payments on your Direct Loans, the remaining balance may be forgiven.

For more information, go to the Federal Student Aid website at StudentAid.gov/publicservice

Things to consider

Unlike an income-driven plan, the amount forgiven is not taxed. The potential money saved on loan forgiveness should be balanced against potential income lost if the public service job pays significantly less than other sectors.

FEDERAL AND PRIVATE LOANS:

Student loan refinancing

Refinancing gives you the opportunity to pay off your original student loans and obtain a new loan with different repayment terms and a lower interest rate. Refinancing also enables you to save money over time, instead of waiting for a period of forgiveness to see savings.

Each lender has its own criteria for determining eligibility and rates, such as credit history, 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 debts and monthly budgeting are more likely to be approved.

Some private lenders, such as Laurel Road, also offer support should the need arise from a change in your financial situation. As a borrower, you want to balance lower rates with terms and payments you are comfortable with.

Things to consider

Laurel Road has saved its customers thousands on student loan debt.*

To see how much you may be able to save, visit laurelroad.com/student

*Savings vary based on rate and term of your existing and refinanced loan(s). Review your loan documentation for total cost of your refinanced loan.

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.

Not sure if you'd benefit from Income-driven Repayment or Student Loan Refinancing?

Use our free student loan assessment tool at **laurelroad.com/loantool**

How to Save With Student Loan Refinancing

Refinancing your student loans to a lower rate can save you thousands over the life of the loan.

The Benefits of Refinancing

Student loan refinancing allows individuals to take advantage of lower interest rates and reduce the total amount owed over the life of the loan. Conversely, refinancing allows borrowers to change the terms of their loan, creating a plan that fits their circumstances.

Get an instant rate quote in 2 minutes with no impact on your credit score. Apply online at laurelroad.com/student.

- Pay off loans faster
- Lower monthly payments
- Shorten the loan term
- Reduce the number of loans in repayment
- Change between a fixed and variable rate
- Save money with a lower interest rate

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 debt and monthly budgeting are more likely to be approved.

Are you a good candidate?

- ✓ Employed with federal or private loans and completed undergraduate and/or graduate programs
- ✓ Current on loan payments
- ✓ Good credit and income: Most lenders look for a minimum credit score of 650. If your score is below that, refinancing with a co-signer could be an option.

How much could you save?

A 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. For example, if we were to lower your interest rate by 2% on $170,000 in student loans, you could potentially see savings like:

	Federal Direct PLUS loan with a 10-year standard repayment	Sample refinancing option: Laurel Road's refinanced 10-year loan
Interest Rate	7.6% fixed	5.6% fixed
Monthly Payment	$2,027	$1,853
Yearly Payment	$24,324	$22,236
Total Paid	$243,218	$222,406

This adds up to a **$20,000+ savings** over the life of the loan by refinancing to a lower rate.*

*Information provided in the table is hypothetical. May not be current rates.

Student Loan Tools & Resources

What are my repayment options for student loans?

Compare your student loan repayment options with Standard repayment, Direct Consolidation, IDR, PAYE, REPAYE, and Refinancing.

laurelroad.com/loantool

What would my monthly payments be with refinancing?

Quickly see what your monthly payments would be with various rates and loan terms.

laurelroad.com/calculator

How can I check my rates and apply for loan refinancing?

Get an instant rate quote in just 2 minutes, choose a loan that meets your needs, and complete your application in 5 minutes.

laurelroad.com/apply

Student Loan Terms to Know

Accrued interest
Amount of interest that has accumulated since your last payment

Capitalized interest
Accrued interest that is added to principal at the end of forbearance or deferment period

Consolidation
Combining multiple federal education loans into a single loan

Debt-to-income ratio
The amount of debt you have compared to your overall income

Deferment
A temporarily period when repayment of principal and interest is delayed

Forbearance
Deferment granted at a lender's discretion in the event of economic hardship

Grace period
Period of time after you graduate, leave school, or drop below half-time enrollment before you must begin repayment on your loan

Interest rates
- A fixed interest rate stays the same for the life of the loan. Federal loans offer only fixed interest rates
- Variable rates may go up or down due to an increase or decrease to the loan's index

Loan origination fee
An upfront fee charged by a lender upon entering into a loan agreement to cover the cost of processing the loan; not all loans charge origination fees

Prepayment penalty
Charged to borrowers who pay off their student loans early or pay more than their required monthly payment; not all loans charge prepayment penalties

Principal balance
The amount borrowed

Student loan refinancing
The process of consolidating student loans into a new loan at a new interest rate through a private lender

Student Loan Repayment for Medical Professionals

Medical professionals are uniquely positioned to benefit from refinancing.

FEDERAL REPAYMENT OPTIONS

Consolidation and Standard Repayment

Given the balance minimums and the high average debt of physicians, most qualify for up to 30-year repayment terms which will result in a significant amount of interest accrual.

Income-Driven Repayment

Consider future earning potential when enrolling in IDR. While it might be a great plan while in training, monthly payments will likely match those of standard repayment plans once practicing, making refinancing an attractive option.

Public Service Loan Forgiveness

Most physicians need to begin pursuing Public Service Loan Forgiveness during residency to benefit. The low payments generated by their training income allows for significant amounts forgiven at the end of 10 years. Those who had not set themselves up for PSLF during residency would likely be better off refinancing.

Know Your Options

Unsure if you would benefit from Income-driven Federal Student Loan Repayment Plans?

Use our free student loan assessment tool at **laurelroad.com/loantool**

Consider future income levels

Because of the high earning potential, medical professionals Income-based Repayment plans can have monthly payments higher than Standard repayment.

Here's a glimpse into medical specialties with the highest average compensation packages for 2017

Orthopedics: $489,000

Plastic surgery: $440,000

Cardiology: $410,000

Urology: $400,000

Otolaryngology: $398,000

In addition, here are the five specialties with the highest salary increases from 2016 to 2017

Plastic surgery: Up 24%

Allergy and immunology: Up 16%

Otolaryngology: Up 13%

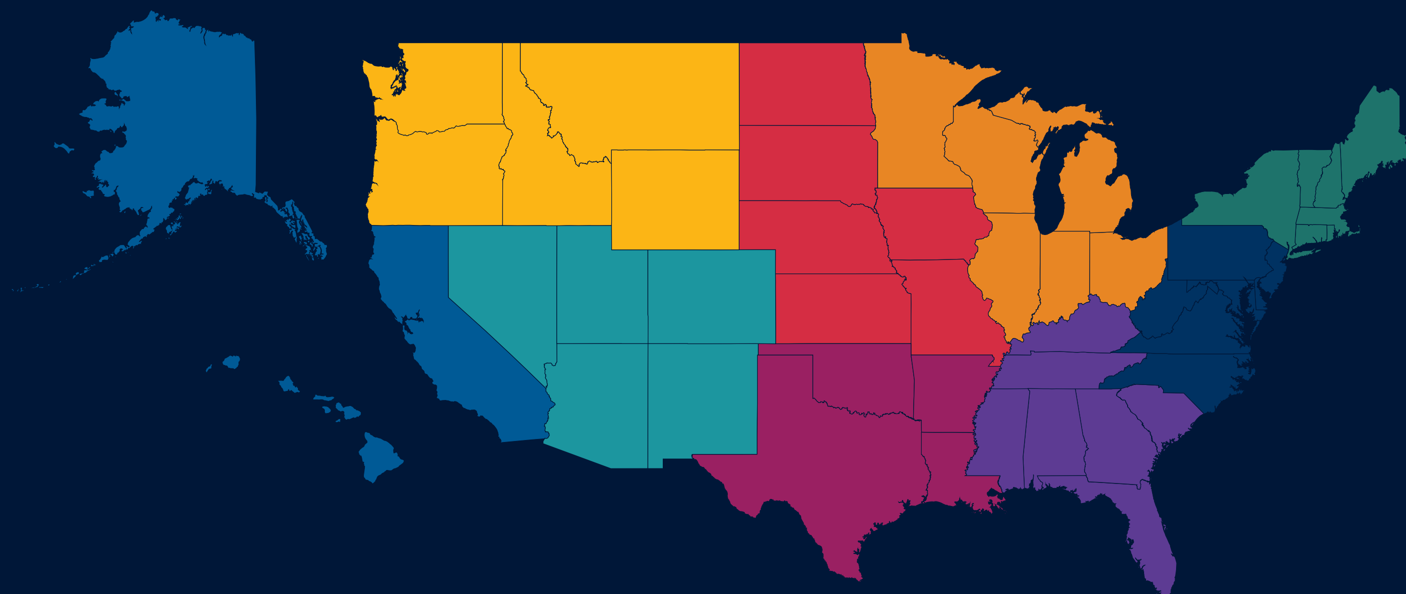
Ophthalmology: Up 12%

Pulmonary medicine: Up 11%

Source: Medscape's Annual Physician Compensation Report, April 2017

Geography also impacts income potential for medical professionals, but don't forget to factor in the estimated cost of living, as compensation packages can be offset by higher living expenses.

- $317K North Central
- $303K Great Lakes
- $301K Northwest
- $300K South Central
- $297K Southeast
- $296K Northeast
- $292K Southwest
- $290K West
- $282K Mid-Atlantic



Source: Medscape's Annual Physician Compensation Report, April 2017

Medical Specific Savings With Refinancing

Medical professionals have the potential to save even more over the life of their loans. Loans taken out to attend medical school are typically higher, leading to greater savings over the life of the loan when refinancing. For example, if we were to lower your interest rate on $200,000 in student loans, you could potentially see savings like:*

	Federal Direct PLUS loan with a 10-year standard repayment	Sample refinancing option: Laurel Road's refinanced 10-year loan
Interest Rate	7.6% fixed	5.2% fixed
Monthly Payment	$2,384	$2,141
Yearly Payment	$28,614	$25,691
Total Paid	$286,138	$256,910

This adds up to a **$29,000+ savings** over the life of the loan by refinancing to a lower rate.*

*Information provided in the table is hypothetical. May not be current rates.