PGPresents, LLC
Independent Student Loan Consulting

Celebrates 10 YEARS
Helping Borrowers Manage Their Student Loans!

REFINANCING YOUR STUDENT LOANS

How to know if you're a candidate for refinancing and tips on selecting a lender

You may want to consider refinancing your student loans as part of your overall repayment strategy.

- The main *advantage* to refinancing is the opportunity to secure a lower rate and thus subsequent savings on interest and total repayment costs.
- The main *disadvantage*, at least for borrowers refinancing federal loans, is giving up the repayment and postponement flexibility inherent with federal loans that you simply will not find on a private loan.

There are many private lenders with whom you can refinance both federal and private student loans. While eligibility requirements vary by lender, in general, you can expect each to want to see the following:

- Evidence of good credit
- Solid employment history with steady income
- Favorable debt to income ratio
- Some lenders may consider your degree program and school

There is no doubt the cost savings can be significant in terms of lower rates for some borrowers. However, we encourage you to use caution when refinancing federal student loans with a private lender if you are currently a dental, medical, podiatry, veterinary, or other resident in training who may have limited income when compared with total debt during these training years, as it is during that time when the repayment and postponement flexibility offered by federal loans may prove most useful.

In short, refinancing during residency can be risky unless there are other stable resources available to help you maintain timely payments.

We are aware that some lenders offer payments during residency as low as $100, but some first year residents can actually secure a $0 calculated payment with an income plan during their first year of repayment (which counts towards eligibility for Public Service Loan Forgiveness, assuming other eligibility criteria are met). In addition, it is not unusual for some residents to see low monthly payments when they renew (recertify) their income plan as a second year resident, as their payment is likely to be based on a prior year tax return which at that point only reflects six months of income.

We respectfully suggest that borrowers who are ready to begin active, perhaps aggressive, repayment of their student loans and are not overly concerned about needing payments tied to income or needing to postpone payments at some point, as well as those not interested in Public Service Loan Forgiveness, may be the strongest candidates for refinancing.

Student Loan Refinancing (continued)

IMPORTANT REMINDER: Lenders will show you potential cost savings on their website or reference them in other marketing materials. Be sure you know what assumptions they are making behind their estimated savings and be sure to ask them to run potential savings based on your own student loan portfolio, projected interest rate(s), and various repayment term(s). In other words, don't make a decision based on "boilerplate" information that may not apply to you. The Federal Trade Commission recently (October 2018) accused a major private refinancing lender of misleading borrowers with regard to promised savings, hence another reason to be cautious when considering refinancing.

Should you decide to pursue refinancing, we encourage you to ask the following questions of any private lender before you apply:

Interest rates and capitalization policies

1. What are both the fixed and variable rates you qualify for? Many lenders offer both types of rates, and some now offer "hybrid" interest rates on their refinance loans (fixed for a period of time, variable at other times). You can expect fixed rates to be higher than the initial variable rates offered. If you are risk averse, consider a fixed rate. Consider doing a preapproval to see what rates you might qualify for.
2. With variable rates, is there a maximum the rate can go to should the "index" that the rate is based on (usually a marker called LIBOR or Prime Rate) increase and is there a minimum rate you can get should the rate index drop? The latter is called a "floor". *This is especially important now, as there have been multiple rate increases during 2018.*
3. If the rate is variable, how often is it reset (may be monthly or quarterly), how does that impact subsequent payments, and how much notice do you get about the change in payments? This is extremely important for budgeting purposes, especially if you are paying with ACH (automatic debit).
4. Does the rate change if you are late with payments or if you ever need to postpone payments for a time period? This may not be immediately evident in the materials you see and is extremely important in order to avoid surprises.
5. Are there any interest rate discounts you are eligible for, such as ACH (automatic debit)?
6. What is their capitalization policy, meaning how often and when would any accrued and unpaid interest be added back to the principal borrowed? In general, this should not be a concern once you are making regularly scheduled payments. Capitalization is what often causes balances on private loans to grow dramatically. This is also extremely important with any lender who may allow small token payments during residency, as some are now doing.
7. Does the interest rate change after a designated period of time of low payments if low payments are offered during residency?

Repayment options and term

1. How long do you have to repay these loans? Do postponement periods (if allowed) reduce your repayment term? Can you get a substantially lower rate if you agree to a substantially shorter term?
2. Are there repayment options such as "interest-only" for a designated period of time, if you need short term help reducing your payments? What is the long term impact of interest-only plans on your balance and repayment term, if interest-only plans are even allowed?
3. Are there any repayment options based on your income and if so, how are payments calculated?
4. Can you target any additional payments against the principal of your loans? *This is extremely important for borrowers who may eventually adopt an aggressive repayment strategy.*
5. Can you aggressively pay without penalty?

Student Loan Refinancing (continued)

Postponement options

1. Are there any postponement options on the new refinance loan, and if so, what is postponement based on?
2. If postponement is allowed and is based on "hardship", how does the lender define hardship and what do you have to do to prove you are in a hardship condition?
3. If allowed, how long can you postpone payments and is there a fee to postpone payments? *This is extremely important for medical school graduates doing lengthy residency programs.*
4. How does postponement impact the overall repayment term?
5. How does postponement impact capitalization?

Cosigner provisions

1. Is a creditworthy cosigner required? Can you get a lower rate and improved terms with a creditworthy cosigner even if you don't need one to have your loan approved?
2. Is there what is called a "cosigner release" provision and if so, how does it work? Is there a minimum credit score and minimum DTI (debt to income ratio) you must meet in order to have your cosigner dropped from the loan? If you are denied your request to drop your cosigner, can you reapply at some point?
3. If you die or become disabled, is the cosigner liable for the loan?

Forgiveness and other considerations

1. Is the debt forgiven in the event of borrower death or disability? *These loans are not eligible for Public Service Loan Forgiveness (PSLF), so do not confuse any forgiveness reference they make with PSLF.*
2. As mentioned above, if you die or become disabled, is the cosigner liable for the loan?
3. Do you have to set up an account with them (for example, a checking or savings account) in order to have the loan approved and to secure a certain rate?
4. *If you refinance during residency, do you have to refinance again after you complete training? Be sure you ask this if you are interested in a lender that allows token payments during residency, as this could impact your overall interest rate.*
5. Do they provide any services such as career counseling you may never need that you are indirectly paying for with a higher rate or fee?
6. What impact, if any, does a preapproval have on your credit? In other words, does preapproval result in what is called a "soft" pull or a "hard" pull on your credit?

Be sure to document who you speak with and when, and what you are told, any time you call and speak with a private lender regarding refinancing.

This document is provided as a courtesy for current and former clients of PGPresents.
We greatly appreciate your support.

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