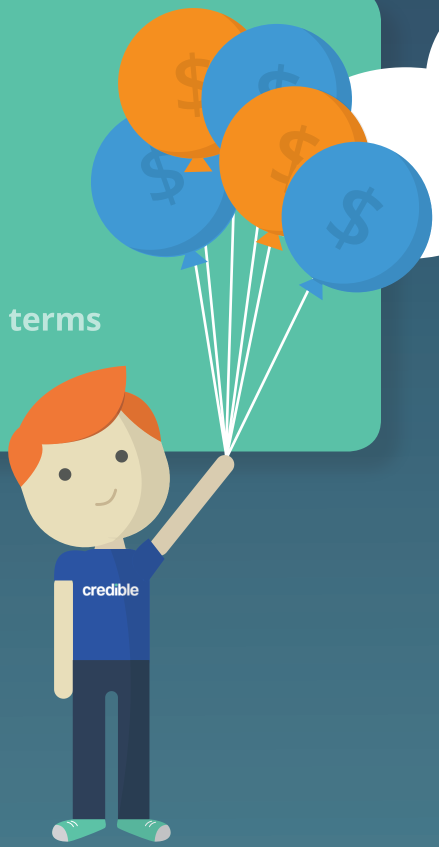
credible

Student loan refinancing guide

Student loan refinancing, explained in real terms



Your solution to student loans

Seven out of 10 seniors who graduated from public and non-profit colleges in 2015 found themselves inundated with student debt, at an average of about $35,000 per borrower. That's enough money to pay for four years of public college in some states, take more than 20 trips to Europe, or buy almost 50 iPhone 6s.

But here's the good news: along with the rapid growth of student debt has come a variety of options that can help borrowers like you save money. And with the help of marketplace experts, like us at Credible, you could soon have thousands of dollars in savings.

What are these options, you ask? If you have student debt, chances are that you've heard the term 'refinancing' being used a lot recently. But what is refinancing? Is it the same as consolidation? What does it entail? And can it really save you enough money to take that vacation you've been dreaming about? You'll find all the answers here.

Welcome to Credible's student loan refinancing guide.

Let's start saving!

" Credible was super easy. I inputted all the information and I was shown different offers. The best part about the process: I was able to save approximately $10,000 on refinancing one of my students loans. "

— **MAYRA** | CalCPA, Accountant

KNOW BEFORE YOU GO

What is student loan refinancing?

Student loan refinancing is when a new student loan lender buys out your loans, allowing you to have a single new loan at a potentially lower interest rate. This process will also combine all of the loans you refinance into one convenient payment.

Consolidation vs. refinancing: what they are and how to pick the right one for you

The topic of refinancing vs. consolidation often seems particularly confusing, and can discourage borrowers from properly exploring these options. But don't be intimidated! We're here to help. Let's start by explaining what those two terms mean.

Consolidation

Consolidation usually takes place through the Federal Direct Loan Consolidation Program, which lets you combine your government loans so you can make a single monthly payment. You can also extend the term of your loan, at the same interest rate. This could lower your monthly payments, but could mean you end up paying more in interest overall.

Refinancing

If consolidation is like getting your house professionally cleaned, then refinancing is getting a whole new house. Refinancing is when you pay off your old loan, or loans, by taking out a new loan -- typically at a lower interest rate. While a lower rate is good news, your new loan may not come with all the borrower benefits associated with government loans.

So how do you know whether consolidation or refinancing is the best option for you? That depends on how you answer the following questions: **Are you more concerned about the amount of interest you're paying, or do you need help reducing the amount you pay each month?**

I can't afford to keep paying this amount each month

If this is you: You're only just managing to scrape through each month because all your money is going towards your monthly loan payment. You hate feeling like you can never afford to go out with your friends, and you're worried about every penny you spend on something besides your loan payments.

THEN YOUR BEST BET IS CONSOLIDATION! If you feel like you're not going to be able to keep this up long enough to ever pay off all your debt, consolidation is what you need. Consolidation means you can take all your different federal student loans and lump them together into one bill. The interest rate you pay when you consolidate your loans is a weighted average of all your previous loan rates. And if you opt for a repayment plan that extends the term of your loan, you'll also be able to pay smaller monthly payments. Congratulations!

There's just one small catch (sorry). While you may be able to lower your monthly payments if you choose a repayment plan that extends the term of your loan, your interest rate doesn't change. So your interest keeps accruing over the (now longer) total term of your loan. You should also keep in mind that you might lose certain borrower benefits that are offered with your original loans if you consolidate. Borrower benefits can significantly reduce the cost of repaying your loans, and may include interest rate discounts, principal rebates, or some loan cancellation benefits. By consolidating, you might lose these benefits.

I'm not happy with the amount of interest I'm paying

If this is you: You're diligently making your student loan payments every month, and aren't really struggling to get by, but you don't feel like your payments are getting any easier.

THEN YOUR BEST BET IS REFINANCING! If you feel like you're doing everything you can, but it's still going to take decades to pay everything off, your student loan interest rates might be the problem. So if you can cut your interest rates, more of your money can be used to reduce your debt, instead of just paying off interest. This is especially true for those of you that took out loans when interest rates were higher from 2006 – 2013. Refinancing doesn't guarantee lower payments, but you'll likely be able to pay off your debt faster.

Can you refinance federal and private loans together?

You cannot consolidate federal and private student loans together into a Federal Direct Consolidation Loan. If you chose to refinance federal and private loans together, you would lose certain benefits that come only with federal loans. For example, borrowers with private student loans often do not qualify for federal repayment programs like Revised Pay As Your Earn (REPAYE) when repaying their debt. If you do decide you want to refinance your federal loans with your private loans, you will have to work with a private lender.

Why does student loan refinancing exist?

You now have a sense of how refinancing student loans can be beneficial to you as a borrower, but you might be wondering why lenders are willing to let students refinance their loans. The option to refinance your loans only exists because lenders are willing to give out loans to those borrowers who are already paying back some debt, but offering those borrowers new loans on better terms (like lower interest rates).

Briefly, there are three primary reasons why lenders are willing to refinance student loans:

Lower interest rates

Market interest rates have dropped considerably over the last few years, and are often lower than a potential borrower's current interest rates.

Lower risk of default

Once a student graduates and gains employment and a work history, they become better loan candidates, because they are less at risk of defaulting. Obviously, lenders are more willing to pay out loans to borrowers who are more likely to be able to repay them.

Personalized offers

Refinancing rates are based on each individual borrower's credit and financial situation, where federal loans are largely one-size-fits-all (i.e. everyone usually gets the same rates for most loans).

What loans can I refinance?

This is probably a good time to talk about the differences between federal and private student debt, and the things you should keep in mind when you're thinking about refinancing your federal loans.

Of the $1.2 trillion of total U.S. student loan debt, federal loans comprise about $1.0 trillion of it. Which means there's a very good chance that if you're reading this right now, you have some amount of money in federal loans.

In order to mitigate defaults, Congress decided to offer borrowers who took out federal loans a few special relief options to help you repay their debt. **Here is the most important thing you need to know: when you refinance your federal student loans through a private lender, you may lose these benefits.** Some private lenders may offer deferment and forbearance, so always be sure to check what benefits your lender offers. But if you have federal loans, are taking advantage of any of the following special features, and want to keep doing so, you might be better off keeping your federal loans as they are.

Loan forgiveness programs

The most common are the Public Service Loan Forgiveness Program (PSLFP) and the Teacher Loan Forgiveness Program. If you work in either of these fields, including as a public defender or doctor at a public hospital, you'll want to see if one of these programs applies before refinancing federal loans.

Special repayment programs

Federal loans offer a few different repayment options that are not available with private lenders, including a graduated repayment plan in which payments start out low and increase over time. Another example is income-driven repayment such as Pay As You Earn, or PAYE, and Income Based Repayment, or IBR, which allow borrowers with high debt-to-income ratios to make lower monthly payments, with the remaining principal eligible for forgiveness after 20 to 25 years. Typically, a borrower who would benefit from PAYE would not also qualify for a lower rate through refinancing. It should also be noted that both graduated and income-driven repayment options typically cost the borrower more in interest over time.

Deferment and forbearance

Most federal loans will allow you to temporarily put payments on hold due to financial hardship through deferment or forbearance. Some private lenders do offer forbearance due to financial hardship. If that's an important feature for you, you'll want to check with the new lender before refinancing federal loans.

THE PROCESS OF REFINANCING

How do you refinance your student loans?

1. Find a lender willing to refinance your student loans. There are many lenders in the market that can refinance federal and private loans.
2. Submit an application to each lender. This generally requires your loan balance, income and credit score to get personalized refinancing offers.
3. Select the offer that you like, verify your personal information, and then accept the new loan.

" I lowered my student loan term from 26 years to 20 years, the monthly payments from $1,700 to $1,000, and my interest rate from 7% to 3.68%. I can finally start paying off my student loan and put money towards saving for my kids. "

— **HESAM** | MCBA, Lawyer

HOW TO GET THE BEST OFFERS

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Be in good credit standing

Your credit score is very valuable in determining how good of a refinancing offer you will receive. It is recommended to have at least a 650 credit score. If you have an average credit score, you will probably receive an average offer. Try to improve your credit score as much as possible before looking to refinance.

Have long-term work experience

Proving financial stability will help remove risk that may concern lenders. Stable employment for over a year will help validate your financial situation as well as show proof of good standing on your current loan repayments.

Be aware of current market rates

Keep an eye on current market rates. Interest rates have been at historic lows signaling a prime time to refinance. Stay current on trends in interest rates to make sure you are not missing out on the year's best offers.

Apply with a cosigner

Adding a cosigner can help most applicants receive a better interest rate on a loan. Be sure to choose a cosigner with great credit history and employment record. The idea of a cosigner is to add financial backing to your application, so the more qualified the cosigner is the better.

Have a low debt-to-income ratio

Regardless of what type of loan you are looking to take, having a good debt-to-income ratio is always important. Lenders will look at your monthly debt as a fraction of your monthly income. The lower your debt-to-income ratio the better chance you will receive the best refinancing offer possible.

Check out multiple lenders

Be sure to compare multiple lenders to find the best offer on the market. Lenders have different underwriting models that determine your loan eligibility, so your degree of qualification may differ between lenders. Check out Credible's student loan marketplace to compare lenders and find the best offer possible.

PICKING THE RIGHT LENDER

Which lender is best for me?

Not all student loan refinance lenders are alike. Here is a list of things to consider when you are trying to decide which lender is right for you.

Interest rates	Is the lender offering a competitive rate? What will your total savings be?
Flexibility	Can the lender refinance private and federal loans? Do they offer fixed and variable rate loans? Do they offer a choice between shorter term and lower monthly payments?
Additional benefits	Does the lender offer forbearance options in case of sudden financial hardship? Can they help with career and networking needs? What other benefits do they offer?
Process	Is the lender's application online? How long does the application take on average? Do they offer a dedicated client service contact to answer questions?

Long term vs. short term repayment

Interest rates are typically higher for longer repayment terms, but monthly payments are higher for shorter terms.

Take a look at a sample set of repayment options once offered by one of our lenders. The monthly payment may be higher for a 5-year loan, but the borrower would save almost $10,000 in interest over the life of the loan.

Years	APR	Monthly payment	Total payment
5	3.14%	$740	$44,393
10	3.54%	$404	$48,450
15	3.91%	$300	$53,942

Fixed vs. variable rate loan repayment

	Fixed	Variable
Interest rate	Rates will not change throughout the loan's duration	Interest will increase or decrease periodically due to changes in a base rate set by large financial institutions
Monthly payments	Monthly payments remain constant throughout the loan's duration (payments can increase with income in income-driven plans)	Monthly payment will fluctuate periodically with changes to the interest rate of the loan
Pros	Predictability and certainty of monthly payments and interest rate over time	Generally offers a lower interest rate in short term. If long term interest rates remain low, variable rates an provide lower overall repayment in comparison
Cons	Fixed interest rates are in general, currently higher than variable rates in the short term	Interest will increase or decrease

HOW CREDIBLE CAN HELP

Here's where Credible comes in

Credible can make this process of finding a refinancing offer easier and more efficient. You can compare multiple personalized offers and find out if you can save in **30 seconds**!

Request pre-qualified offers

Find out if you're paying too much for your existing loans. It takes just 30 seconds.

Select your preferred lender

Complete our single offer request form. We've simplified the process of refinancing.

Choose the best offer

Receive personalized offers from multiple lenders. Select the one that's right for you.

To find out more visit Credible.com

	credible	DIRECT LENDER
Broadest selection of repayment options	Fixed and variable rate products with 2, 3, 5, 8, 10, 12, 15, 20 and 25 year terms	Fixed and variable rate products with 2, 3, 5, 8, 10, 12, 15, 20 and 25 year terms
Number of lenders	Get offers from up to 12 lenders	Get one offer from one lender
Broader eligibility and increased conversion	Higher conversion rate as a result of greater selection and eligibility, with loan products for every state	Lower conversion as a result of fewer choices and more stringent eligibility
Transparent view of borrowers options	Borrowers can compare multiple offers, from multiple lenders	Single lender products only
Access to new lenders entering the market	As new lenders enter the market, new products can be made available on Credible	Committed to a single lender for the term of the affinity partnership

REPAYING STUDENT LOANS

How much income should go towards repayment?

General rule of thumb

Under most income-driven repayment plans, the monthly payment due is typically between 10–20% of your income. This can be a good guideline to follow when trying to determine how much you should expect to pay towards your student debt.

Concerned about saving ?

If you are concerned about saving for investment purchases, such as a car or a home, minimizing your monthly payment may be the ideal solution. Although your total lifetime repayment will likely increase, you will have more monthly cash available to you to jump-start your future. You can also maximize your overall student loan savings by prepaying your student loan debt.

Income-driven plans

These plans tie your monthly payment to your income and are only available on federal loans.

Pay As You Earn: 20–Year repayment plan that requires 10% of your discretionary income, but never more than the 10–Year Standard Repayment Plan amount.

ICR (Income-Contingent Repayment): 25–Year repayment plan that requires the lesser of what you would pay on repayment plan with a fixed payment over the course of 12 years, adjusted according to your income or 20% of your discretionary income.

Note: We are not advisors! Please be sure to consult with your financial advisor to see what repayment options are best for you.

THANK YOU!

We'd love to hear from you!

Credible is here to help you with all your student loans needs. See how much you can save by refinancing your student loans with Credible at www.credible.com! If you have any questions about refinancing, or you just want to chat about what options are available to you, please contact us directly at **415.801.0482** or email us at support@credible.com.

We look forward to hearing from you!

—The Credible Team

About Credible

Credible's founding principle is to provide borrowers the level of transparency they deserve.

As a multi-lender marketplace that allows borrowers to receive competitive loan offers from its vetted lenders, Credible empowers consumers to take control of their student loans. Borrowers can fill out one form, then receive and compare personalized offers from numerous lenders and choose which best serves their individual needs.

Credible is fiercely independent, committed to delivering fair and unbiased solutions in student lending.

@credible   /crediblelabs   +crediblelabs