12 Things to Know About Student Loan Refinancing

Perhaps the worst part about being a high-income professional is beginning your career with a massive debt burden hanging over your head. Eliminating your student loan debt at the beginning of your career will increase your happiness and speed your way to financial freedom, allowing you to take advantage of future opportunities, both professional and personal.

En route to debt elimination, most professionals should take advantage of the ability to refinance your debt with a private company. It is usually a no-brainer, but there are a few things to know about it.

1 You Save a Ton of Interest

If you have $300,000 in student loans at an average rate of 7%, and refinance that to 2.5%, you will spend $13,500 less in interest in the first year alone. That is $13,500 that can go toward principal instead of interest. The same monthly payment that would pay off a 7% loan in 20 years pays off a 2.5% loan in less than 10 years. A 10-year loan becomes a 6 1/2 year loan. A 5-year loan goes away in less than 4.

2 You Get Cash Back Now

Do your student loans have you in a vice? Refinance them!

As if saving tens of thousands of dollars in interest isn’t enough, WCI has negotiated a special deal with each of the main refinancing companies for you as a little extra icing on the cake. When you refinance, you get some money back (and you help support this site.) If you’re smart, you’ll throw that at your loans too.

3 Refinancing Is Usually Quick and Easy

When these companies first showed up in 2013, there were lots of kinks to work out. Well, they’ve all been worked out. Now you can get a preliminary quote from most of them online in 5 minutes or less.

If you have all your loan paperwork handy, you can usually upload it electronically in a few more minutes. Once you’ve gathered the paperwork to refinance with one lender, checking your rate with a couple of others is no big deal either (and I recommend you do so.)

I don’t know how long it takes you to make $13,500, but I guarantee refinancing your loans will take less time, especially since it is all after-tax money.

4 You Get Better Service

No company is ever perfect, but compared to the service you were getting from your federal loan servicer, these guys might seem like it. You can get people on the phone, a functioning website, and can easily make extra payments to pay your loans off even faster.

5 Unless Qualifying for PSLF, You Should Refinance Today

The only real caveat to refinancing for attendings is that you don't want to refinance if you are going to try to qualify for Public Service Loan Forgiveness. If you made lots of tiny payments during your training, PSLF is going to work out a lot better for you than paying off your loans.

Even if you're worried the program will change and you won't be grandfathered in, I still think you ought to stay in a government income-driven repayment plan while saving up a side fund to throw at the loans, just in case. While in that unlikely scenario you would end up with a bunch of extra interest, I think the likelihood of you not being grandfathered in is a pretty low risk.

Some docs worry they might need the income-driven repayment program again in case something happens to their income. I think that's silly. How many post-residency docs do you know who can't get a job paying a lot more than they were paid as a resident? Yea, I don't know any either.

Others worry about what will happen if they die before the loans are paid off. However, these loans are still student loans, and still generally go away with your death (not even being assessed against your estate,) but read the fine print. Even if they didn't, you can probably buy a $300K 5 year term life insurance policy for something like $137 a year, far less than you are saving in interest. But what about disability? Again, the companies generally offer some provision for this, but if not, you can buy a little extra disability insurance with all that interest you're saving.

6 Resident Physicians Should Refinance Private Loans

Although residents can refinance their federal loans during residency (Laurel Road and LinkCapital are your main choices) **they generally shouldn't**. The effective interest rate in the RePAYE program is usually lower than what you can expect as a resident.

However, if you have some **private loans** that aren't eligible for RePAYE, then refinance them now. These companies offer monthly payments of $0-100 as a resident and you can typically get a rate around 5.5%, which is often 1-3% lower than most private loans.

7 You Don't Have To Refinance All Your Loans

Sometimes a doc has some of his loans at a really attractive interest rate. Maybe they are from a time when rates were lower, or they're from the undergraduate years or whatever. You don't have to include those when you refinance. Just leave out any loan with a rate less than what you're being offered.

8 Consolidation and Refinancing Are Not the Same Thing

Financial terminology, like medical terminology, has a precise meaning. Sometimes docs get sloppy and say consolidate when they mean refinance. Consolidating is a process you go through with a federal lender where your loans are all bunched together into one easy payment. The issue, however, is that all of your loan interest rates are averaged (and rounded up to the nearest 1/8th percentage point) and that is the rate you pay. Refinance. Don't consolidate.

9 You Have To Qualify

Unlike the federal government, which will loan you ghastly amounts of money just for having a pulse and getting into medical school, these are all for-profit companies that are making a bet that you will actually repay them. The worse of a bet that is, the less attractive terms they will offer you. In fact, there are some doctors who won't be able to refinance at all. I'm talking about a pediatrician with terrible credit who owes $550,000. Obviously, the orthopedist with a credit score of 810 who owes $150K is a much better bet.

10 Variable, Short Term Loans Are the Best Deal

If you want the lowest rate possible (sub 3%) that means you're going to have to commit to a 5-year term and run the interest rate risk yourself. That means if interest rates go up dramatically soon, you may end up paying more in interest than if you had taken a fixed rate loan.

However, I think that’s a risk worth running for anyone willing to commit to living like a resident for 2-5 years until the loans are gone. If rates only rise a little, or rise slowly, or don’t rise for a few years (or at all) you’re going to come out ahead. Once you run the numbers on just how much and how quickly rates have to rise for you to lose this bet, you will likely be much more comfortable with it.

Also if you’re committed to living like a resident and getting out of debt quickly, you likely have A LOT of slack in your budget and can easily cover the worst case scenario. Plus, you now have a little more motivation to live efficiently and get out of debt. A variable rate loan not only gives you a mathematical tailwind to speed you to financial independence but a behavioral one as well.

11 Refinancing Doesn’t Eliminate Your Debt

While I can understand if you shift your financial priorities a little after refinancing from 7% to 3% (perhaps maxing out retirement accounts before paying extra on the loans) don’t fall into the trap of thinking you’ve actually done something about your debt just because you refinanced. That is just the first step. The problem isn’t the $13,500 in interest you’re accumulating each year, it’s the darn $300,000 you’re going to have to pay off eventually. The way you kill your debt is by throwing $5,000, $10,000, even $15,000 a month at your loans.

12 You Can Refinance Multiple Times

Perhaps you didn’t get the best rate when you refinanced due to your credit score. Or perhaps interest rates have dropped. Or now you qualify for a 5-year term or I’ve talked you into changing to a variable rate loan. There is absolutely nothing stopping you from refinancing again.

In fact, it's probably a lot easier since you now only have one loan to enter the information for. And yes, you (and I) get the bonus money every time you do it. In fact, probably even the refinancing companies like it when you do this. They've already sold your previous loan off to investors. Doing it all again means more business for them.

If you're still not sure if refinancing student loans is the right move for you I recommend contacting one of our Student Loan Advisors. They know the rapidly changing student loan programs inside and out and can keep you from making costly mistakes.

Get off your duff and refinance your student loans already! Then get busy paying them off and get your net worth back to broke!

Company
Cash Back
Rates
Residents?

$300
Variable 1.99%-6.65%
Fixed 3.50%-7.02%
Yes
Refinance Now!

$750*
Variable 1.99%-7.10%
Fixed 2.88%-7.27%

Yes
Refinance Now!

$350
Variable 2.39%-6.01%
Fixed 3.21%-6.69%
No
Refinance Now!

$400-750
Variable 2.01%-8.38%
Fixed 3.23%-8.38%
No
Refinance Now!

$300-750
Variable 2.7%-6.75%
Fixed 3.39%-7.75%
No
Refinance Now!

$300
Variable 3.21%-6.67%
Fixed 3.49%-6.67%
Yes
Refinance Now!

$750-1500*
Variable 3.60%-7.37%

Fixed 4.00%-7.38%
No
Refinance Now!

$500
Fixed 3.25%-7.78%
Yes
Refinance Now!

$600
Variable 2.65%-4.24%
Fixed 3.50%-5.26%
No
Refinance Now!

$300-550
Variable 2.02%-6.30%
Fixed 3.21%-6.45%
No
Refinance Now!

$500
Variable 3.21%-8.72%
Fixed 3.21%-8.77%
No
Refinance Now!

What do you think? Have you refinanced your student loans? How many times? Any regrets? Any tips for others? How quickly did you (or do you plan to) pay off your student loans? Comment below!