Student Loan Refinancing – Advice From the Trenches

Last year, I asked 16,000 WCI newsletter readers to tell me about their experiences refinancing their student loans. Since so many docs need to refinance student loans at some point (even those going for PSLF usually have private loans to refinance), the response was overwhelming. I published part 1 last April and part 2 in July.

Refinancing Student Loans – Best Tips From WCI Readers
Student Loan Refinancing – Real Life Experiences from WCI Readers

This is part 3. I've been teaching doctors how to refinance their student loans since 2013 and begging them to do it. It's as close to a no-brainer in the physician finance world as there is. Consider a doctor with a $400,000 8% loan planning to pay it off over 10 years. Refinancing that to 4% reduces the interest paid from $196,118 to $93,164, a savings of $103K! Over $10K a year. Would you like a $10K raise? Here you go.

But wait, there's more. Imagine you made the exact same payments as you were making under the 8% loan. You pay off your loan in 8 years instead of 10. Two more years of not having the weight of your student loans sitting on your shoulders. Don't underestimate how much that will improve the quality of your life and your finances. Let's get into it:

Best Student Loan Refinancing Advice from WCI Readers

Be a Little Uncomfortable With Your Payment

Andrew (a trauma surgeon) and his wife (OB/GYN) are just a couple of years out of training. They went with SoFi due to the ease of application and most competitive rates. They initially chose a fixed 10-year loan, then a year later refinanced both to fixed 7-year loans at 3%. Why fixed? He says he wasn't willing to tolerate much fluctuation in the rate and blames his choice mostly to a lack of knowledge on the subject. He recommends:

> *Refinance early and often if a better deal comes along. Make your terms as short as you possibly can. Choose a payment that is a little uncomfortable and make your budget conform to paying the debt, not the other way around.*

The rest of his email illustrates the importance of this work.

Andrew had emailed me for advice a couple of years earlier and then subsequently read the book, followed the podcast, and even took the Fire Your Financial Advisor online course.

After years of trying to find someone else to manage my finances I decided to handle the task myself, and as my knowledge increases, my anxiety about debt and wealth management decreases.

We started with around $1.1 million of collective school debt after residency and fellowship training. I had even carried about $50,000 of undergraduate debt through medical school, residency and fellowship….Every quarter we would go to the financial aid office and sign off on some new notes and honestly be told not to worry because hey, we were going to be doctors and be fine. In residency we even consulted with a physician specific "advisor." We had started to make minimal monthly payments which we were told not to do because they were so small on a resident salary that they were "inconsequential." He said to treat the loans like a mortgage and pay them off over 30 years once we get our attending salaries. Wow. Our loans had interest rates ranging from 4-7.5%.

Fast forward to now, 3 years out of training and making a household income of >$500,000. We live off her salary and mine goes to taxes, tithing and student loans. I've grown to despise debt and the flippant attitude that we had for so long. I am far from perfect but working to educate myself and get better every day. After searching for someone else to take responsibility for my finances for so long I feel like I

> *am taking the steps to own my own decisions. Whew, sorry for the long post. It feels a bit like your first time at a support group.*

Use The WCI Bonus Discounts

"DoubleMDs" from the WCI forum applied with SoFI and Laurel Road. After SoFi rejected him, he refinanced $180,000 from 6.8% to a 3.5% fixed rate with Laurel Road, then subsequently paid the debt off over 18 months. He notes he obviously would have done fine with a variable loan over that time period but went with the fixed one as there wasn't much difference between the two at the time. His recommendation?

> *Shop around. Use the WCI discounts. Live like a resident and pay them off quickly.*

Shop Around

Alex M is an attending who had a financial advisor who recommended he apply with SoFi and Laurel Road. He went with a fixed 5 year from Laurel Road because they had the lowest rate. His recommendation? "Shop around!"

Helping newly hatched turtles get safely to the ocean in Baja, California

Watch Your Cash Flow

Kevin Lai is an attending who initially refinanced with SoFi (to get the cash back bonus) with a 5 year fixed loan and then 18 months later refinanced again with Earnest into a variable loan for a lower rate and more flexible payments. He subsequently paid that loan off over the next year. About the variable rate, he said:

> *I figured that even if the interest rate increased every month (which it did) it wouldn't get up to where it was with my SoFi loan (it didn't).*

He also recommended:

> *Shop around, consider other life factors besides the numbers (are there major changes to cash flow coming up like new kids or a job change), and be willing to refinance to lower rates and better terms if you see an better deal somewhere else.*

What About Splash! Financial?

A year ago, the feedback I was receiving about newer company Splash was similar to what I'd get about SoFi and the old DRB (now Laurel Road) back when the whole refinancing thing was brand new. Things like:

> *I went to apply through them, but their rates were all 1%+ higher than competitors. Then, they bombarded me with emails and phone calls.*

and

> *It's been a bit so I can't quite remember what rate they*

offered. But from what I remember they either would not refinance the entire amount I needed and for the amount they would refinance the rate was too high.

and

Splash Financial, however, has a poor online portal, difficult to understand uploading process for documentation, and weak support via phone and email. I really wouldn't recommend it and have recommended ELFI, Sofi and Laurel Road to many of my colleagues in the past.

However, based on what I'm seeing WCI readers actually doing over the last six months, something has changed and WCI readers are now using Splash fairly often. I think part of it may be that as interest rates have risen, Splash's have not risen quite as quickly. I think they also streamlined the online experience. One nice benefit they have is that you don't have to turn over your Social Security Number until you get your new rate. They have also traditionally offered one of the best cash back bonuses (see the chart below for current offer.)

Use Excess Income to Pay Down Loans

An orthodontist applied with Earnest, Laurel Road, and SoFi and went with a 10 year fixed loan with Laurel Road as they offered the lowest rate. He chose that loan because:

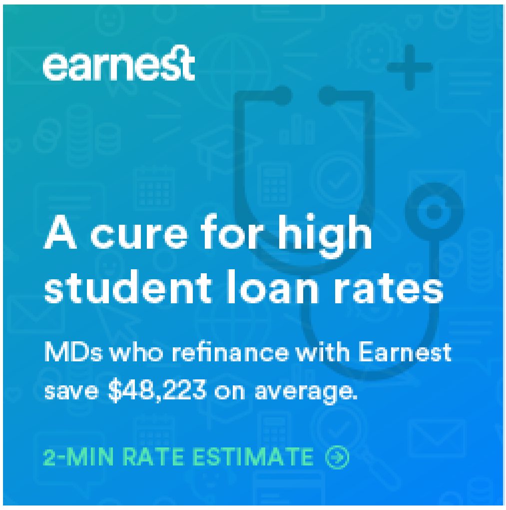
> *I wanted to give myself a little bit of leeway (I'm $460K in debt). I do plan on paying them down sooner if possible with any excess income. Do it soon, apply to multiple companies, and if you plan on paying them down right away consider variable but otherwise maybe consider fixed. Put any additional income towards loan repayment.*

There Isn't Always a Happy Ending

Rakesh Gadde, a graduating dental student with a 2X ratio of student loans to income, tried to refinance with Credible and Laurel Road. However, he found that the rates he was offered were no better than what he already had from the feds. His recommendation?

> *Start your job before refinancing.*

Don't Be Afraid to Apply to Multiple Companies



Mindy Juan may win the most persistent award. She was rejected completely at SoFi and Earnest before CommonBond not only approved her but offered her a great rate. She also loved the charitable mission of CommonBond. When asked which loan she took, she said:

> *Variable 5 year. I’m betting that interest rates won’t rise too much in the next 5 years, and I’m hoping to pay these off sooner than that! The rates were lowest for this type of loan, and I can afford the slightly higher payment.*

Which makes it really interesting to see that the other two companies rejected her! She recommends:

> *If you can afford the payment, refinance at the lowest rate! It’s like free money (compared to staying where you’re at). Another thing, watch out for the hit your credit score might take when you open up a big brand new loan and the years of good credit history you had with the old loans disappears. This is important when timing the buying of a house, for example.*

Even Residents Can Refinance

Dusty Nowotny, DO is a resident with a large and complicated student loan burden. He initially owed

- Federal – about $400,000 6-7%
- Wells Fargo – $14,000 9%
- Sallie Mae – $15,000 6.3%
- Institutional – $15,200 5%

He is also going for PSLF for those federal loans as he is planning to be a fellowship trained general surgeon. Although he looked at all the companies on my list, with his first refinance he used CommonBond.

> *I really struggled getting applications started else where and CommonBond was very helpful in completing the application and had the best rate. I also appreciated the $500 WCI referral bonus. This loan was small compared to my balance at $15,000 and decent rate at 4.9% from 9%.*

Then he realized he needed to do another refinance.

> *The second time, I had just checked on one of my deferred variable rate loans and was surprised to see the rate at just over 7%. I knew I needed to get this rate lower so I checked for updates on your website and settled on ELFI which had the best rates. I included my previous CommonBond loan into this application as well, which will again help me save on interest. This loan was about $29,000 at 3%.*

Despite being in residency, he still went with 5-year loans.

I choose the 5 year fixed because I would like to clear this balance prior to the payment increase for my federal loans. I also have another private loan where the interest is deferred for 4 years during residency. When payments come due on this loan I may consider refinancing again if rates are still low because it is currently at 5%.

He recommends:

> *First evaluate your financial status and know how much you are willing to pay on a monthly basis. This can be an important factor in picking the length of the loan. Shorter time frame = larger payment. Then I would research which companies would provide you with the best interest rate. I was able to preliminarily see what the rate estimates would be and it helped me choose which companies to use.*

Coordinate With Employer Programs

Joe Shurtz DO, a physiatrist in Montana, came out of residency in 2017 and applied with SoFi, CommonBond, and Laurel Road because “multiple sources rated these companies highest.” He went with Laurel Road because

> *They were the most transparent and open about the physician specific terms of the loan agreement. They seemed to be the most “physician savvy” and the interest rate was slightly lower than the other two.*

He ended up with a 10 year fixed loan and explains why that was important for him.

> *My employer will pay up to $150,000 toward my loans over 7 years so I went with the 10 year plan. We are also saving up for a down payment on a home over the next year or so. Once we have saved enough for a 20% down payment then we will likely refinance again to a 7 year plan and benefit from a lower interest rate but yet still utilize the full 7 years of loan payments by my employer. Consider who your employer might be when looking into refinancing and see what their policies are for loan repayment assistance. For example the VA will only do loan assistance on FedLoans. Consider stability of your job. FedLoans has excellent repayment plan options in times of financial hardship. Other private lenders have good financial hardship options as well but not as flexible as FedLoans.*

> *If refinancing is a viable option for you, don't spend too much time weighing in all the pros and cons. I spent way too long evaluating every possible scenario with each possible lender, all the while making large payments on my FedLoans, hardly staying on top of the interest, and let alone even touching the principal. Once I refinanced I was finally able to start seeing the principal move in a downward direction! The truth is, all the top lenders are good, and if you have Fedloans, you could possibly cut your interest rate down a third to half of what the FedLoan rate is. In other words, don't waste thousands of dollars spinning your wheels, especially early on in your attending career where that money could be used more profitably.*

And that seems like a great place to end this post on. If refinancing is right for you, just do it! Get that lower rate. Get into as short of a term as you can handle. Realize that the financial muscles you develop paying off your student loans are the exact same ones you will use to build wealth afterward. You can do this. Thousands of white coat investors before you have managed it and they were no smarter or harder working than you are.

Realize that the financial muscles you develop paying off your student loans are the exact same ones you will use to build wealth afterward.

Click To Tweet

What do you think? Who did you refinance with and why? What length loan did you choose? Variable or fixed? How long did it *take you to pay them off? What advice do you have for those considering refinancing? Comment below!*

Company
Cash Back
Rates
Residents?

$500
Variable 3.14% - 7.88%
Fixed 3.75% - 7.03%
No
Refinance Now!

$500
Variable 2.57% - 6.97%
Fixed 3.89% - 7.89%
No
Refinance Now!

$300
Variable 2.70% - 8.77%
Fixed 5.23% - 8.97%
No
Refinance Now!

$300-1000
Variable starts 2.57%
Fixed starts 3.35%
No
Refinance Now!

$350

Variable 2.80% -6.01%
Fixed 3.39% - 6.69%
No
Refinance Now!

$300
Variable 2.470%to 6.990%
Fixed 3.899% to 7.979%
Yes
Refinance Now!

$200
starts at 1.95%
No
Refinance Now!

$300
Variable 3.24%-6.66%
Fixed 3.50%–7.02%
Yes
Refinance Now!

$400
Variable 3.24%-5.19%
Fixed 4.19%–6.20%
No
Refinance Now!

$500

Variable 2.48% -6.25%
Fixed 3.20% - 6.25%
No
Refinance Now!