REFINANCING YOUR STUDENT LOANS
What every responsible dental school graduate should know before they refinance their loans with a private lender

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General Information

You may want to consider refinancing your student loans as part of your overall repayment strategy after you graduate from dental school. This is a very appropriate option for some borrowers, but it is not for everyone nor will everyone who applies be eligible.

First things first, don't make it complicated, refinancing is simply trading debt for debt, in this case trading federal, private, or campus-based loans (or a combination of these) for a *new private credit-based loan*.

- The main *advantage* to refinancing is the opportunity to secure a lower rate on the loans you are refinancing and thus secure savings on interest and total repayment costs when compared with the loans you are refinancing over the same term.
- The main *disadvantage* to refinancing, at least for borrowers refinancing federal loans, is that you give up the repayment flexibility available with federal loans that you simply will not find on private loans, even with some improvement to their terms and conditions. Refinancing also takes access to income plans like the new Repayment Assistance Plan (RAP) and eligibility for Public Service Loan Forgiveness off the table.

There are a number of private lenders offering refinance not only any private loans you may have, but federal and campus-based loans as well. While eligibility requirements vary by lender, lenders generally look for borrowers with good credit, a solid employment history (even perhaps a strong likelihood of such), steady income, and a favorable debt to income ratio.

ADEA does not recommend individual lenders for refinancing. However, you can easily find a list of lenders offering refinance loans with an online search. When using a search engine or site, we suggest you type in the following, and be sure to include "consumer advocacy" in your search title: "Top Ten Student Loan Refinance Lenders Consumer Advocacy"

In general, refinance loans are only available to U.S. citizens or permanent residents. International borrowers may be able to secure a refinance loan if they have a creditworthy cosigner who is a U.S. citizen or permanent resident. Please check with your lender regarding their lending requirements for international borrowers.

Questions to Ask Before You Refinance

We encourage you to ask the following questions when selecting a lender to refinance your student loans (and note you should ask a lot more than just what interest rate you can get):

Interest rates and capitalization policies

1. What are both the fixed and variable rates you qualify for? Lenders usually offer both types of rates, and some offer hybrid rates (fixed for a period of time and variable for a period of time).
    a. You can expect fixed rates to be higher than the initial variable rates offered. If you are risk averse, consider a fixed rate so you don't have to worry about the rate ever going up.
    b. Interest rates tend to be lower when borrowers accept shorter repayment terms, but your required monthly payment might be unmanageable, so be cautious to committing to a higher monthly payment just to get a lower rate. You can always overpay with no penalty.
    c. Consider doing a preapproval to see what kind of rates you qualify for.
2. With variable rates, be sure to ask the following:
    a. Is there is maximum rate or minimum rate that can be charged?
    b. Variable rates are usually based on what is called an "index" such as LIBOR (London Inter-Bank Offered Rate) or SOFR (Secured Overnight Financing Rate) that varies over time. So, for example, you might get a variable interest rate on your refinance loan of LIBOR plus 4.0. In this case, LIBOR is the index that can change, but the 4.0 is called the "spread" and should not change unless otherwise indicated by the lender.
    c. Does the spread (the amount added to the index) change at any point during repayment?
    d. How often can the rate change (reset) and how much notice do you get regarding the impact on your monthly payment? This may happen on a monthly or quarterly basis. *This is extremely important for budgeting purposes, especially if when using ACH to make your monthly payments.*
3. Do you get any discount off your interest rate if you pay with ACH (automatic debit payments)?
    a. Lenders may offer a .25% (25 basis points) discount off the interest rate if you use ACH.
4. What triggers capitalization, where accrued and unpaid interest is added back to the principal balance?
    a. This should not be relevant if you pay on time and never request postponement.

Repayment options

1. How long do you have to repay the loan?
    a. In general, you can expect repayment to be based on a designated time period (for example, 10 years, 12 years, 15 years, etc.). This is called time-driven repayment.
    b. Similar to mortgages, usually the shorter the term, the better the rate.
2. Are there any repayment options such as interest only or options based on income?
    a. Should be rare, but some lenders may offer some kind of plan based on income.
3. Are there any penalties for aggressive payments over and above the minimum required payment each month? The answer should be no, but you should confirm anyway.
    a. Can additional payments be targeted against principal, as is often the case with mortgages? With federal student loans, payments always go to outstanding interest first.
4. For dental residents in hospital-based programs who are receiving a stipend, are there options such as "token" payments (for example, $100 per month) if borrowers go ahead and refinance during training?
    a. If the answer is yes, be sure you know how long you can make these lower payments, which is extremely important if you are doing a long residency program.

Postponement options

1. Are there any postponement options available, and if so, what are they based on and how long do they last? This is extremely important for dental residents if they refinance during training, especially if they are doing a lengthy residency program.
2. Is there a fee to postpone payments? There is never a fee to postpone payments on federal loans.
3. Do periods of postponement count against (reduce) the overall repayment term?

Cosigner provisions

1. Is a creditworthy cosigner required?
2. Can you get a lower rate on your loan if you can secure a cosigner, even if one is not needed?
3. If you have a cosigner on the loans, what are the cosigner release provisions?
    a. In general, lenders allow you to apply to drop your cosigner from the obligation to repay after you have made a designated number of timely payments (usually 24 or 36).

<u>Forgiveness and other provisions</u>

1. Is the loan forgiven in the event of death or disability as is the case with federal student loans?
    a. This is extremely important for borrowers who have a family.
    b. Do not confuse this with Public Service Loan Forgiveness (PSLF), as private loans are not eligible for PSLF.
    c. If not forgiven in the event of death or disability and if the loan has a cosigner, will the cosigner be responsible for the loan?
2. Do you have to set up an account with the lender (for example, checking or similar) in order to have the loan approved or to get a certain rate?
3. For borrowers in residency programs, if you refinance during residency, do you have to refinance again when training is complete? This is especially important for borrowers whose lender allows a token payment (for example, $100) during residency.
4. Does the lender offer any services (for example, unemployment support and counseling) that you do not need that is included in the price (the interest rate) they offer?
5. What impact, if any, does a pre-approval have on your credit?
    a. Preapprovals usually result in a “soft” pull on your credit, with no adverse impact.

You may see some low interest rates referenced in the marketing materials lenders provide for their refinance loans. When shopping for a refinance lender, don’t accept what they project as savings using a loan balance and rate that likely has nothing to do with your own, rather ask them to project your estimated savings based on your own student loan portfolio and rate they offer.

Lastly, don’t forget that for a lower interest rate to really result in significant savings, you would need to hold onto the loan for a relatively long period of time. In other words, if you plan to be aggressive on your loans when you are making significant income, having a significantly lower rate for a short period of time may not really help, as the best way to negate a high rate is to aggressively pay. In other words, it may be safer to keep your loans federal and simply overpay on the highest interest rate loan as opposed to refinancing with a private lender.

2026.2027