

QUESTIONS TO ASK WHEN CONSIDERING REFINANCING YOUR STUDENT LOANS

You may want to consider refinancing your student loans as part of your overall repayment strategy after you graduate from dental school and enter repayment.

- The main *advantage* to refinancing is the opportunity to secure a lower interest rate on your debt and thus subsequent savings on 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 will not find with private loans.

There are a number of private lenders and other organizations offering to consolidate or refinance both federal and private student loans for eligible borrowers. While eligibility requirements vary by lender, lenders generally look for borrowers with good credit, a solid employment history and steady income, and a favorable debt to income ratio.

There is no doubt the overall repayment savings can be significant due to the lower interest rates with these programs. However, we encourage you to use caution when consolidating federal student loans into a private loan, especially if you are a dental resident who may have limited income and might possibly need the repayment and postponement flexibility offered by federal loans, at least while you are in an advanced dental education program.

Borrowers who are ready to begin active, perhaps aggressive, repayment of their student loans (due to steady income, another source of income, or both) may be the strongest candidates for refinancing. We also encourage you to ask the following questions, not only when considering whether or not to refinance with a private lender, but when choosing one as well:

Interest Rates and Capitalization Policies

- What are the fixed and variable rates you qualify for? Many lenders offer both types of rates.
- With variable rates, is there a maximum the rate can go to if the “index” that the rate is based on (usually LIBOR or Prime Rate) increases, and is there a minimum rate you can get should the rate index drop?
- If the rate is variable, how often is it reset and how does that impact subsequent payments? *This is extremely important for budgeting purposes.*
- 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.*
- Are there any discounts on the rate you might be eligible for, such as ACH (automatic debit)?
- How often is accrued and unpaid interest added back to the principal of your loans (which is called *capitalization*), and is this more frequent during times of postponement (if allowed)? *This is also extremely important, as this is what often causes balances on private loans to grow dramatically.*

Refinancing Questions (continued)

Repayment Options and Term

- How long do you have to repay these loans? Do postponement periods reduce your repayment term?
- 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 on your balance?
- Are there any repayment options based on your income and, if so, how are payments calculated?
- 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.*

Postponement Options

- Can you postpone payments if needed, and if so, is there a fee to postpone payments?
- How often does interest capitalize during postponement, if postponement is allowed?
- How does postponement impact the overall repayment term?

Cosigner Release (for borrowers who have a creditworthy cosigner on their loans)

- Is a creditworthy cosigner required? Can you get a lower rate and improved terms with a cosigner?
- 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 to have your cosigner dropped from the loan? If you are denied your request to drop your cosigner, can you reapply at some point?
- If you die or become disabled, is the cosigner liable for the loan?

Other Considerations

- 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.*
- Do you have to set up an account with them (for example, a checking or savings account) in order to have your application for a refinance loan approved?
- Do they provide any services, such as unemployment counseling, that you may never need but are indirectly paying for with a higher rate or fees?

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