The Student Loan Refinancing Process

When you refinance your student loans, you're essentially taking out a new loan and using it to pay off your existing student loans. Refinancing may allow you to secure a lower interest rate or reduce monthly payments.

Student loan refinancing may also allow you to change your repayment term. If you took out a private student loan to pay for your education, the repayment terms were set when you borrowed the loan.

If you borrowed federal loans, there are eight repayment plans you can choose from, including the Standard 10-year Repayment plan, or one of four income-driven repayment plans. If you refinance, you can choose a shorter or longer repayment term.

A shorter repayment term will mean that your monthly payments will increase, but that you'll most likely pay less in interest over the life of your loan. In contrast, a longer repayment term will mean that your monthly payments will decrease but that you might pay more in interest over the life of your loan.

Wondering about the interest rates on your refinanced loan? Interest rates on federal loans are set by the government and are fixed for the life of the loan. For example, federal undergraduate loans for the 2018 to 2019 school year have a 5.05% interest rate, you might qualify to pay less in interest if you decide to refinance at a later date.

When it comes to private or refinanced student loans, the interest rate and loan terms will depend on several factors including your income and credit score—or the income and credit score of your co-signer.

What Types of Student Loans Can Be Refinanced?

Both federal or private student loans can be refinanced, but some lenders only refinance private student loans—if you want to refinance federal student loans, take a look at each lender's policy. At SoFi, we refinance both private and federal student loans.

If you currently have a few different loans with different lenders, refinancing could mean a simplified repayment plan, with only one monthly payment to track. However, you'll lose out on some federal benefits if you choose to refinance with a private lender.

You would no longer be eligible for protections like forbearance, deferment, or Public Service Loan Forgiveness if you refinance. If you plan on taking advantage of these protections, you may be better off keeping your federal loans as is, or consolidating them with the government with a Direct Consolidation Loan.

Many private student lenders—including SoFi—are starting to offer more benefits to their borrowers. As a SoFi Member, you could qualify for unemployment protection, which would allow you to temporarily pause your loan payments in the event you unexpectedly lose your job through no fault of your own. As you're shopping around for a refinancing loan, be sure to review all of the lender's policies to see what benefits are available.

Is It Worth It to Refinance Your Loans?

You might be wondering whether it makes sense to go through all the hassle of refinancing your student loans. You might be surprised by how much you can save and how little work it takes to refinance your student debt. Take a look at this student loan refinance calculator to see how refinancing your student loans could change your interest rate or monthly payments.

Can your student loan application be filled out on your lunch break? Yes! It can take just a few minutes to apply online to see if you qualify and get a quote.

Once you're pre-qualified, you will have to send in some scanned documents and sign a form to finish the process. It can take anywhere from a few days to a few weeks for everything to be completed.

And if you're approved for a lower interest rate, you could stand to seriously reduce the amount of interest you pay over the life of the loan—provided you don't extend your loan term.

Depending on how much you have in student debt, reducing your rate by just a few percentage points could save you thousands of dollars over the life of your loan. Student loan refinancing lenders that offer low rates, like SoFi, could help you significantly reduce your interest rate.

The Pros of Student Loan Refinancing

When it comes to student loan refinancing, it isn’t always an easy decision. Here are some of the most notable pros for student loan refinancing:

Getting a Single Monthly Payment

When you refinance your loans, you’ll combine them into a new loan with one single monthly payment. This can make your student loan payments easier to manage.

It’s important that you make your payments on time every month, and having just one loan to pay off can make that much easier. And, when you refinance through a private lender, like SoFi, you can sometimes combine both federal and private student loans.

Lowering Your Interest Rate

One of the biggest potential benefits of refinancing student loans is securing a lower interest rate than the ones your loans currently have. If you’re paying a high interest rate, refinancing could be worth considering.

Since you’ve graduated, you may have significantly improved your earning potential, thanks to that new degree. If you took the opportunity to build credit while you were in college, you could qualify for a lower interest rate when you refinance. And, when you refinance to a lower interest rate, you could end up reducing the amount of money you spend over the life of the loan. This is not necessarily true if you end up extending your loan term—but if you do opt to extend your repayment timeline, you could instead lower your monthly payments.

Customizing Your Repayment Term

When you refinance your existing student loans, you are given the option to adjust your repayment term. Instead of the standard 10-year plan for federal loans, you could shorten or lengthen the term of the loan, giving you more control over your repayment plan.

Lowering Your Monthly Payment

When you refinance, you could potentially to lower the monthly payments on your loan by extending the term of your loan. Note that extending the term of your loan could mean you pay more money in interest over the life of the loan.

Choosing Between Variable and Fixed Rate Loans

When you refinance your loans, you might have the option to choose a fixed or variable rate loan. If you prefer the security of a stable rate over a longer period of time, you might consider choosing a fixed rate loan.

If you plan on repaying your student loans ahead of the term (just make sure there are no prepayment penalties), you might consider choosing a variable rate, which may start lower than the fixed rate loans, but could increase over time.

You Can Apply with a Cosigner

If you've recently graduated and haven't built up much credit yet, you could potentially benefit from applying with a cosigner. If your cosigner has better credit and a higher income than you do, they may look more favorable to the lender, which could ultimately help you qualify for a lower interest rate. Even if you aren't required to borrow with a student loan cosigner, some lenders might still give you the option to have one on the loan.

The Cons of Student Loan Refinancing

While refinancing your student loans might end up lowering your interest rate or making payments easier to manage, it's not the right decision for everyone. Here are some of the downsides to consider before you refinance your student loans:

Losing Access to Federal Repayment Plans

When you refinance your federal student loans with a private lender, you will lose access to federal repayment plans. This includes the Standard, Graduated, and Extended Repayment plans. This could be especially important if you are planning on taking advantage of any income-driven or income-sensitive repayment plans, which you also won't be able to access.

And you won't have the opportunity to qualify for the Public Service Loan Forgiveness program. It's best practice to review your student loans in detail and determine which plans you qualify for and which plans you intend to take advantage of before you considering refinancing.

No Longer Eligible for Federal Repayment Protections

You won't be eligible for federal repayment protections like deferment or forbearance when you refinance your federal student loans with a private lender. Both deferment and forbearance might give you the opportunity to temporarily pause or lower your monthly payments.

When your loan is in deferment you may or may not be responsible for paying the accrued interest on the loan. However, if your loan is in forbearance you will be responsible for paying the accrued interest on the loan.

Some refinancing lenders, including SoFi, do offer unemployment protection which allows qualifying borrowers to pause their monthly loan payments in the event they unexpectedly lose their job. At SoFi, members also gain access to a career coach who can help as they search for their next job.

Losing Any Remaining Grace Periods

Most federal student loans have a grace period—usually the first six months after you graduate—where you don't have to make any loan payments. If you refinance your loan shortly after graduation, you might lose out on that benefit if the private lender doesn't honor existing grace periods.

Steps To Refinance Student Loans

Prepare Your Personal Financial Information

If you decide that refinancing is right for you, or you just want to give it a shot and see if you qualify for a better rate, it's a good idea to shop around at different lenders to check their rates. But before you do that, you'll want to have your basic personal financial information ready. In general, potential lenders need some combination of the following information about you to give you a quote:

-Name

-Address

-University

-Degree

-Total Student Loan Debt

-Income

-Total Housing Costs

-Credit Score Estimate

The information a borrower needs to provide varies from lender to lender, but this is the basic idea.

Check Rates and Terms with Multiple Lenders

Because student loan refinancing companies set their own rates and terms, it is important to do some shopping around. Not only will you want to get rate quotes, but you may also want to ask questions like the following:

-Are there other fees, such as origination fees?

-Is there a prepayment penalty if I want to pay my loan off early?

-Can the lender refinance both federal and private loans?

-Is there a forbearance program if I am laid off from my job?

-How do I access customer service?

-What is the loan application timeline?

If a company interests you, you can submit the information that you gathered from Step 1. With this information, the lender will likely run a soft credit check. This should not affect your credit score, but make sure the lender guarantees it won’t.

If you meet a lender’s eligibility requirements, they’ll generally provide you with multiple offers, including offers with different term lengths and interest rates (both fixed and variable rates).

Choose a Lender and a Loan

After you’ve had the chance to review both the loan offers and the lenders themselves, it’s time to decide.

While many borrowers gravitate toward the loan with the lowest rate of interest, it is worth remembering that the lowest rate might not amount to the lowest amount of total interest paid on a loan.

The longer the loan’s term, the more interest a borrower will pay. For example, if you have a loan term of 10 years, you’ll have to pay off the entire loan balance plus the interest that was accrued over the 10 years. But, if you extend your loan term to, say, 20 years, that means 10 more years of interest accruing on your loan.

Also, a loan that charges an origination fee could end up costing more than a loan with a higher rate of interest that does not charge an origination fee. Often, an origination fee is added to the balance of the loan, with the interest rate calculated on top of this new figure.

Again, weigh all of the information you discover.

Gather Your Documents

Once you’ve chosen a lender and a loan, you’ll probably submit documentation that supports the information you provided during the initial rate check, as well as identifying information.

Although it will vary by lender, you’ll likely need some combination of the following:

-Proof of citizenship

-Valid ID number

-Paystubs, tax returns, or other income verification

-Statements for all of the loans you are planning to refinance

If you are applying for a refinance with a co-signer, they will need to provide this information as well.

Upon turning this information into the lender, they typically run a hard credit check and send the application through a final approval process. How long this process takes will depend on the lender, but it could be as short as 24 hours and as long as a couple of weeks. Check with each lender to be sure.

A lender should inform you if any of your documentation is missing, but you may want to check back in after a few days if you haven’t heard from a customer service representative.

Wait for Your New Loan to Be Approved

Continue making all payments on your existing loans while you wait. Soon, you should hear from your new lender about the status of the refinance application, including information on where new payments are to be directed.

Once your loan is approved, consider signing up for auto-pay (if they offer it and you haven’t already). Many lenders offer a discounted rate for borrowers who allow payments to be automatically deducted from their accounts.

And there, you’ve done it! You’ve learned how to refinance student loans. If you ultimately decide that refinancing is right for you and venture down this path, good luck and enjoy your new, shiny student loan.

How Soon Can I Refinance?

Many people want to know when is the soonest they can refinance. Is it possible to refinance while in school? Most likely not. Most students may not have the financial track record required for refinancing; they lack a payment history, a degree, or a robust income. If you’re a graduate student with a good job, you might be able to refinance the loans you took out for your undergraduate degree.

Otherwise, you’ll probably have to wait until after you graduate. And remember: If you find that refinancing will result in significant interest savings, every month you put it off could be costing you money.

Student Loan Refinancing With SoFi

Everyone’s financial situation is different and it’s important that you make the best decisions for your individual circumstances. When you refinance, lenders will review your current financial situation, earning potential, and credit score (among other financial factors) to determine your new interest rate.

If you’ve decided to move forward with student loan refinancing, consider SoFi, the leading student loan refinancing provider. When you refinance with SoFi, there are no origination fees or prepayment penalties. See what you could save by refinancing with the SoFi student loan refinance calculator.