

# A Guide to Refinancing or Consolidating Your Student Loans

Surprise! (Not.) Americans are drowning in student debt, but these options may help.



"For borrowers with private student loans at high interest rates, refinancing is basically a no-brainer," one expert says.

By [Geoff Williams](#) May 5, 2016, at 12:34 p.m.

The national [student debt](#) numbers are scary. The Federal Reserve Bank of New York estimates that Americans owe \$1.2 trillion in student loans.

And about 3.6 million Americans, or approximately 1 in 6 borrowers, are defaulting on their student loans and haven't made a payment in at least a year, according to the most recent numbers from the U.S. Department of Education.

Of course, if you are lugging around [student debt](#), your personal numbers are likely what frighten you the most, especially if you're struggling to keep up with your payments. Which is why you may

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have found yourself wondering if you should refinance or consolidate your student loans. Here's what to know before pulling the trigger.

**Understand the difference between consolidating and refinancing student loans.** First, make sure you actually know what you want before talking to a lender, since these terms are often confused.

*Consolidating student loans.* In this scenario, you're combining two or more existing loans into one new loan. Usually, your interest rate will stay the same, or if it goes down, it'll generally be nominal. So why do it? The main benefit is simplicity. If you're paying, say, three different loans every month, you might find it's easier to make one payment.

*Refinancing student loans.* The process is similar, you're converting an existing loan or loans into a new one, but in this case, your interest rate generally will go down. And it better. After all, that's the main reason anyone refinances – to get a lower interest rate, make smaller monthly payments and ultimately, fork over less money long term.

**Pay attention to the interest.** It may have seemed like a decent loan when you first took it out, or perhaps it was the best you could do at the time. But if you've come to realize that you could refinance and get a loan with a significantly lower interest rate, then obviously, that's a party you want to be invited to.

Unfortunately, it isn't always easy to refinance student debt, especially if your credit score is something close to your shoe size. Now, if you do have good credit, and your loan is through a private lender, then it's definitely worth trying, according to Andrew Josuweit, CEO of StudentLoanHero.com, which aims to help people pay off student loans.

"For borrowers with private student loans at high interest rates, refinancing is basically a no-brainer," he says.

What's more, refinancing won't likely change your repayment terms, he adds. If you were slated to pay the loan off in 15 years, you probably still will. But, again, your interest rates, and thus your monthly payments, should drop significantly.

"Lenders we work with report savings of \$11,000 to \$17,000 on average for borrowers over the course [of] repaying the refinanced loans," he says.

So when isn't refinancing a no-brainer? If you have federal student loans. While there's been talk of changing the laws, currently, you can only refinance a federal loan into a private loan.

What's wrong with that? Experts say the government historically has been much easier to work with than private lenders when it comes to repayment plans. If you're someone who [struggles with repaying debt](#), you may rue the day you refinanced a federal government loan into a private one.

But there are other reasons you may want to stick with your federal student loan. For starters, are you considering refinancing into a variable-rate private loan? While the interest rate might initially be lower than what you're paying now, it could increase exponentially down the road.

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Another potential pitfall: You may lose some of the perks that come with federal student loans.

"Borrowers who refinance federal student loans lose access to programs like income-based repayment, federal deferment or forbearance, forgiveness and more," Josuweit says.

**Consider the time factor.** Maybe the interest is fairly low, but you realize you won't be done repaying your loans until your kids (or grandkids) are college graduates.

The length of your repayment plan can be a good reason to refinance or consolidate, particularly if you are having trouble making your payments, according to Cathy Fuller, director of financial aid at Marlboro College in Vermont. "If the student can't afford payments using the 10-year repayment option, then they should look at both consolidation or other repayment options," she says.

Still, the key question remains: Are you struggling to make payments?

If not, "I'm a fan of going as long as you can go," says Michael Chadwick, a certified financial planner based in Unionville, Connecticut.

The caveat: The payment shouldn't be high, and the interest rate shouldn't be variable. If you're going to stretch out the duration of your repayment plan, the sweet spot, he says, is where "the payment is small but you always have the option to pay more every month to pay it off quickly."

**Start the process.** If you have federal loans you want to consolidate, Fuller suggests checking out [StudentLoans.gov](http://StudentLoans.gov).

You might also check out [PrivateStudentLoans.guru](http://PrivateStudentLoans.guru), which has a comprehensive list of lenders that offer private consolidation loans.

Finally, check in with your [local bank](#) or financial planner, if you have one, to discuss your options for relief. In any case, don't rush. You may desperately need a financial life raft, but if you end up with a loan that you later regret, you'll feel anything but relieved.