What Residents should know about Student Loan Refinancing

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Now that you are about to complete your residency, it's time to revisit all that student loan debt you accumulated.

Over the past few years, more people have become aware that it's possible to refinance federal student loans. As of today, there is no way to refinance federal loans with the government. But you can refinance both federal and private student loans with certain private lenders and save significant amounts of money on interest payments.

So should you? The answer depends on a number of factors including financial savings and the impact on the benefits available.

The main advantage of refinancing is savings – if you can lower your interest rate, you can save thousands on interest over the life of the loan. Specifically, physicians save around $30,000 on average when they refinance their student loans with SoFi. Borrowers typically are able to choose between lower monthly payments at the same term or a shorter term, which equates to higher payments but lower total interest (not to mention being done with your loans sooner). You will also be able to switch out your fixed rate loan for a variable rate loan.

When you refinance federal loans with a private lender, you lose the benefits and protections that come with a government-issued student loan. Those benefits fall into three main categories:

1. DEFERMENT/FORBEARANCE
   In many cases, you can put your federal loans on hold due to financial hardship. Deferment allows you to do so without accruing interest in the case of subsidized loans, but unsubsidized loans continue to accrue interest while in deferment. Loans in forbearance also accrue interest. It's important to understand that accrued interest is capitalized, or added to the loan's principal, when repayment begins. SoFi offers forbearance to its borrowers on a per need basis. If this is an important feature for you, check with us about our policies before refinancing.
2. SPECIAL REPAYMENT PLANS
   Federal loans offer extended, graduated and income-driven repayment plans (such as Pay As You Earn, or PAYE), while private lenders only allow a standard repayment plan. It's important to note that paying less than the standard amount typically means spending more on total interest over the life of the loan. For high earners such as physicians, this can be a very expensive way to pay of your student loans.
3. PUBLIC SERVICE LOAN FORGIVENESS
   The government offers a very attractive program for physicians (and all other borrowers) who work full-time for public service or non-profit organizations. After ten years (making 120 payments), the government will forgive any outstanding student loans, tax-free. Only by using a qualified federal income-driven loan repayment program WHILE employed by a qualifying entity are you eligible. For many ACEP members, this benefit may far exceed what any private lender can offer with refinancing.

How is the ACEP helping its members?

The ACEP recently launched a partnership with SoFi. By applying through www.sofi.com/ACEP, you can get an additional 0.125% rate discount. Here's why you should refinance -

- SoFi saves borrowers thousands over the lifetime of their loans
- Variable rates start as low as 1.9% APR and Fixed rates as low as 3.50% APR (w/Autopay)
- Consolidate and refinance both federal and private student loans
- A 0.125% rate discount when you refinance through sofi.com/ACEP
  (Please note you must use this link in order to receive the rate discount)
- No application or origination fees.

Wait there's more!

In January of 2016, the government is expected to start subsidizing up to 50% of excess accruing interest for student loan borrowers whose payments in the new program do not cover all of the accruing interest. This represents the majority of physicians in training. This benefit would reduce the effective interest rate of your federal loans during training, and existing Housestaff should evaluate its potential value before refinancing. We recommend you speak with a financial advisor such as Doctors Without Quarters that specializes in these matters. If you completed your residency/fellowship and will not be eligible for Public Service Loan Forgiveness, you should consider refinancing your loans with SoFi (This link will also give you an additional 0.125% rate discount).

Before you refinance, you should first decide if you are going down the public service "path" or going to work for a for-profit employer. While PSLF is very attractive, you should confirm that you will benefit from it. For example, borrowers with relatively small debt to income ratios who will end up paying off their student loans before the 10 year are up will not enjoy the loan forgiveness. In this specific case, they should consider refinancing their student loans once this option is available to them after residency.

When comparing job offers, one should consider the financial effect of PSLF. Debt forgiveness has a dollar value to it and that should be added to the salary offered to make an appropriate comparison with a for profit employer. We strongly recommend that you speak to a financial advisor to get an accurate financial picture before deciding on this aspect of your contract.

Don't forget that you should always consider refinancing your private loans if you can obtain a lower rate or better terms as these loans are not eligible for income based repayment or government subsidies.

If you are or become eligible for loan repayment through NHSC, NIH or other repayment programs, loans you've refinanced through Sofi will still be eligible to have their balances paid down with funds received by these programs.