

# PROS AND CONS OF CONSOLIDATING OR REFINANCING STUDENT LOANS



## 1 CONSOLIDATION VS REFINANCING

The main purpose of consolidating or refinancing any debt is to:

1. Obtain a lower interest rate; and/or
2. Combine your loans into one simple payment.

### WHAT IS STUDENT LOAN CONSOLIDATION?

Consolidation refers to the U.S. Department of Education's Direct Consolidation Loan. This process allows you to combine your federal student loans into one monthly payment. Consolidating your federal loans will not lower your interest rate, but may lower your payments by extending the term of your loan.

### WHAT IS STUDENT LOAN REFINANCING?

Refinancing your private student loans opens up the possibility of locking in a lower, fixed interest rate. You can refinance your federal student loans, turning them into private loans, but there are trade offs that we will cover in the section below.



## 2 CONSOLIDATION OPTIONS

**Pros:** Consolidating your student loans may help you access forgiveness programs and repayment plans. Consolidation for student loans only applies to federal loans. Federal student loan consolidation is free through the Office of the US Department of Education.

**Cons:** If consolidating your loans doesn't help you pay off your loans faster or receive loan forgiveness consider skipping the process.

Be wary of unaccredited institutions charging a fee for federal student loan consolidation. Visit [studentaid.gov](https://studentaid.gov) to learn more about your consolidation options.



## 3 REFINANCING OPTIONS

**Pros:** Refinancing can help you organize your loans into one simple payment. Depending on your credit score, you may also be able to lock in a lower-fixed interest rate. If you have a steady income and a good credit score, refinancing may be a good option to explore for your private loans as well as your federal loans.

**Cons:** Refinancing your federal student loans into a private loan eliminates any opportunities for deferral, student loan forgiveness, or income-based repayment plans offered by the federal government.

## SO WHAT DOES THIS MEAN FOR ME?

It's been 4 years since Josiah graduated from college. While he's never missed a payment, he feels as if he's not gaining any traction on paying off his student loans. Because of his income, he doesn't qualify for student loan repayment programs. After comparing rates with an accredited online lender and a local credit union, Josiah refinances his federal student loans into one private loan at the credit union. Since he's maintained a healthy credit score, the credit union is able to offer him lower payments at a better interest rate. After refinancing, Josiah is able to pay off the balance much faster.

DISCLAIMER: Information provided is for educational purposes only. This information is not intended as financial, tax, accounting, or legal advice, as an offer or solicitation of an offer to buy or sell, or as an endorsement of any company, security, fund, or other securities or non-securities offering.

