

Strategize student loan debt repayment through consolidation and refinancing

ADA News

July 14, 2014

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When Dr. Edgar Radjabli, of Baltimore, graduated from dental school in 2010, he had eight different loans from six different lenders totaling about \$265,000.

Today, he has one bill to pay after consolidating and refinancing all his loans in November 2013 through Darien Rowayton Bank.

"It's much easier to deal with!" said Dr. Radjabli. "I did it for simplicity."

In addition, he estimates to save about \$75,000 in interest over the next 15 years.

For many dentists coming out of dental school, loan consolidation and refinancing may be options worthy of consideration as part of a repayment strategy.

The average dental student leaves school with \$221,000 in student loan debt, according to the ADA's ["Survey of Dental School Seniors, 2013"](#).

But like all major financial decisions, consolidation or refinancing comes with potential advantages and disadvantages.

Consolidation vs. refinancing

First, while they're often used interchangeably, there is a difference between consolidation and refinancing.

Federal loan consolidation combines multiple government-sponsored loans into just one loan. It simply takes the weighted average interest rate of the loans being combined.

When it comes to consolidating private loans, interest rates are not based on a weighted average of the existing loans' rates. Instead, a private lender will typically use a borrower's credit score and other financial information to provide a new interest rate on the consolidated loan.

"Essentially, if you're consolidating loans with a private lender, you are also in fact refinancing those loans," according to SoFi, a peer-to-peer lender based in San Francisco.

In other words, refinancing is when a borrower applies for a loan under new terms, and uses that loan to pay off one or more existing student loans. Unlike consolidation, refinancing is only available from private lenders.

Both options have their pros and cons.

Consolidation advantages, disadvantages

One good reason to consolidate federal loans is convenience, said Paul S. Garrad, consultant for American Dental Education Association, senior advisor for Student Financial Services.

"One loan, one loan servicer, one payment, one place to file forms," he said.

Consolidating federal loans also allows borrowers to convert former non-direct loans to direct loans. Only direct loans (Stafford, Grad PLUS and Federal Consolidation Loans borrowed through the federal government's Direct Loan Program) are eligible for Public Service Loan Forgiveness.

Also, repayment terms may be extended to 30 years, which lowers monthly payments but adds to total repayment costs if it takes the full 30 years to repay.

"More than a few recent dental school graduates are not strong candidates for consolidation," said Mr. Garrad said.

"This is partly because of the federal government's actions over the past few years to ensure that all of a borrower's federally owned loans are serviced by one loan servicer."

Disadvantages in consolidating federal loans include a lengthy and cumbersome process (may take 60-90 days), slightly higher interest rate (interest rate on consolidation loans is a "weighted" rate of all loans being consolidated, rounded up an eighth of a percent then fixed for the life of the loan) and loss of grace periods on loans being consolidated if students consolidate too early.

Refinancing advantages, disadvantages

Refinancing can help borrowers pay lower interest rates on their student loans thus saving thousands of dollars throughout the life of the loan, though it comes with some risks as well. Similar to taking out a mortgage, borrowers can choose between a fixed rate loan and a variable rate loan, or both.

Fixed rate loans typically have a higher rate than variable rate student loans but will remain the same over the life of the loan. Variable rate student loans generally are lower but may change, including the risk of going up, on a monthly, quarterly or annual basis.

Dan Macklin, SoFi co-founder and vice president of business development, said by lowering the interest rates 1-3 percent, graduates can save thousands of dollars through the life of a loan.

However, as Dr. Radjabli found, there aren't many lenders that will include federal loans as part of a refinancing plan. Many financial institutions only refinance private loans. By doing some online research, Dr. Radjabli said he learned of SoFi and DRB, opting for the latter.

Through DRB, Dr. Radjabli chose a variable rate student loan.

"I'm paying the same monthly payment but more of it is going to the principal balance," he said. "It really depends on the person and their personal financial situation. I felt that was the best option for me."

As for disadvantages, graduates who refinance federal student loans will lose many of the benefits that come with federal loans, such as loan forgiveness and income-based repayment programs.

If a dentist comes under hardship, he or she won't be able to apply to defer monthly payments. However, SoFi does have a forbearance program that is similar to that of the government.

Weighing the options

Mr. Macklin said dental school graduates interested in refinancing but who need those federal benefits should wait, possibly up to a year, to make sure they're on stable financial ground. For graduates who don't need those federal benefits, he said, refinancing sooner is better than later.

"For every month you pay for the loan, you may be paying higher interest rates," said Mr. Macklin. "I think the main thing is that people should be aware that options are out there."

For Dr. Jenna Hatfield, of Lincoln, Nebraska, who will begin making monthly payments to her \$260,000 student loan in November, a simple consolidation of her federal loans was the way to go. Those federal benefits were important to her as she intends on doing an income-based repayment plan.

Her new interest rate will be the weighted average of her various loans, which come from the same lender.

"There's really not a black and white answer," she said. "Students and graduates should work with their financial aid office and take student loan counseling and spend time educating themselves to see what works best for them."

For more information on consolidation and refinancing, view ADEA's educational debt management materials [here](#). Or visit the Center for Professional Success at success.ada.org and search for "Thinking About Loan Consolidation," "Financial Calculators," and "Federal and State Loan Repayment Options."

And visit ADA.org/en/education-careers/dental-student-resources and click on "Financial Planning Resources for Students and New Graduates."