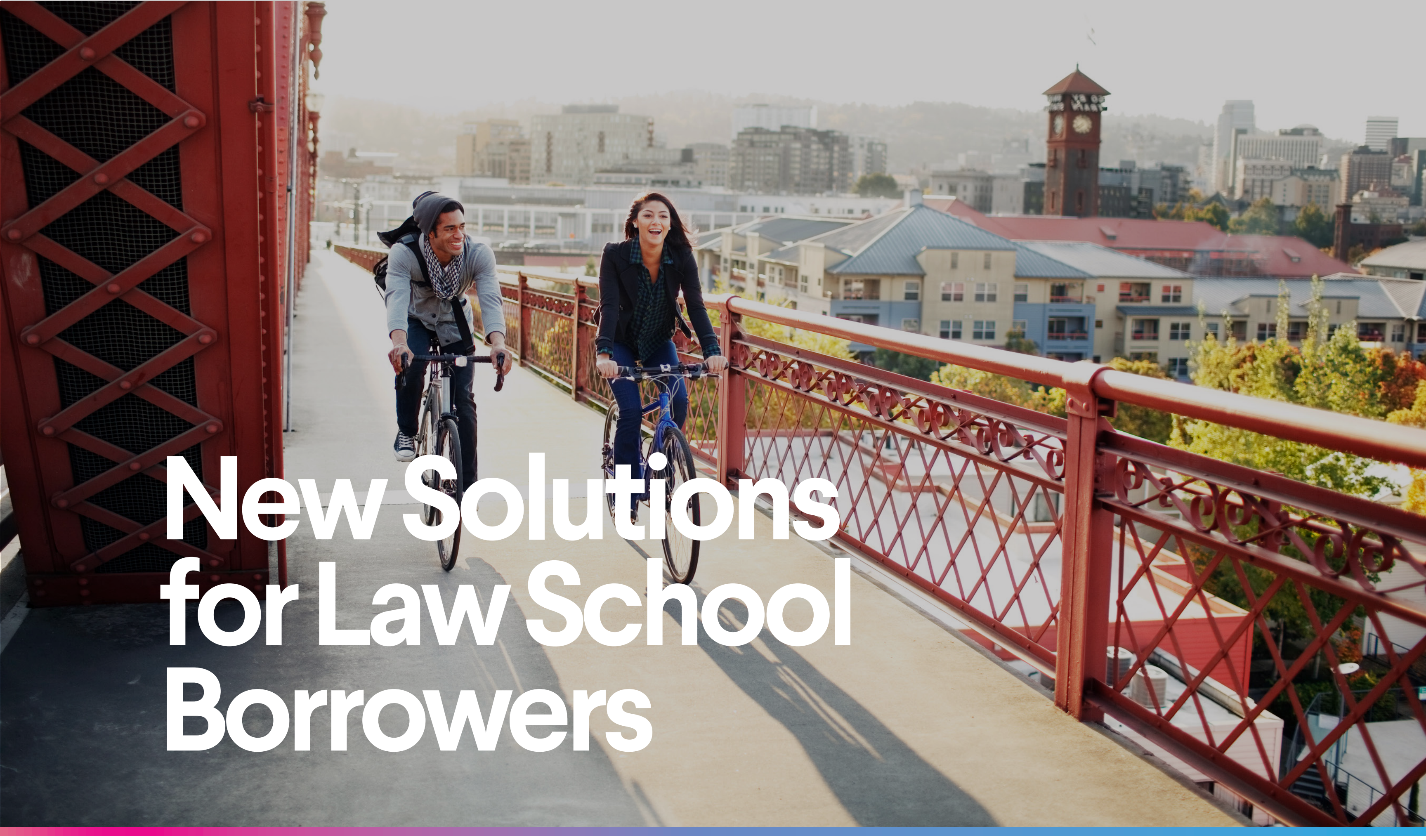
The SoFi Guide to

Refinancing Law School Loans

What every attorney needs to know about reducing student loan interest rates and conquering student loan debt.

SoFi



New Solutions for Law School Borrowers

Got student loans? You're certainly not alone. Outstanding student loan debt has exploded over the past decade, climbing to more than $1.3 trillion* and becoming the largest consumer liability after mortgages. With the average amount of debt for undergrads now more than $37,000** and well over six figures for attorneys, more people than ever are looking for solutions to help them deal with debt.

Fortunately, as the student loan market has grown, solutions have surfaced to address borrower needs—in particular, student loan refinancing. Similar to mortgages, refinancing student loans at a lower interest rate can potentially allow you to:

- Save money on total interest
- Make lower monthly payments
- Shorten loan term
- Switch from a fixed rate loan to a variable rate loan, or vice versa
- Simplify your monthly bill through consolidation

As great as those benefits sound, many eligible borrowers don't even know that refinancing student loans is an option. And if you have heard of it, you probably have questions about which loans are eligible, how refinancing differs from student loan consolidation, what the qualification criteria is, etc. You may even be concerned that it's going to be lot of (paper)work for a negligible payoff.

As the largest provider of student loan refinancing, marketplace lender SoFi has extensive experience helping attorneys navigate the refinance landscape. We've put this guide together to answer the most common questions, dispel frequently heard myths and walk you through the student loan refinance process.

Ready to get saving? Let's get started.

*Federal Reserve System: Consumer Credit Outstanding
**Wall Street Journal

Student Loan Interest Rates Matter

Or, how much can I really save by refinancing?

If you've borrowed money to invest in your education, you know that paying interest on that student loan debt is simply part of the deal. But while "interest" can seem like an abstract notion when you first take out loans, over time it becomes a force to be reckoned with—particularly for law school graduates, who often have six figures of debt to repay.

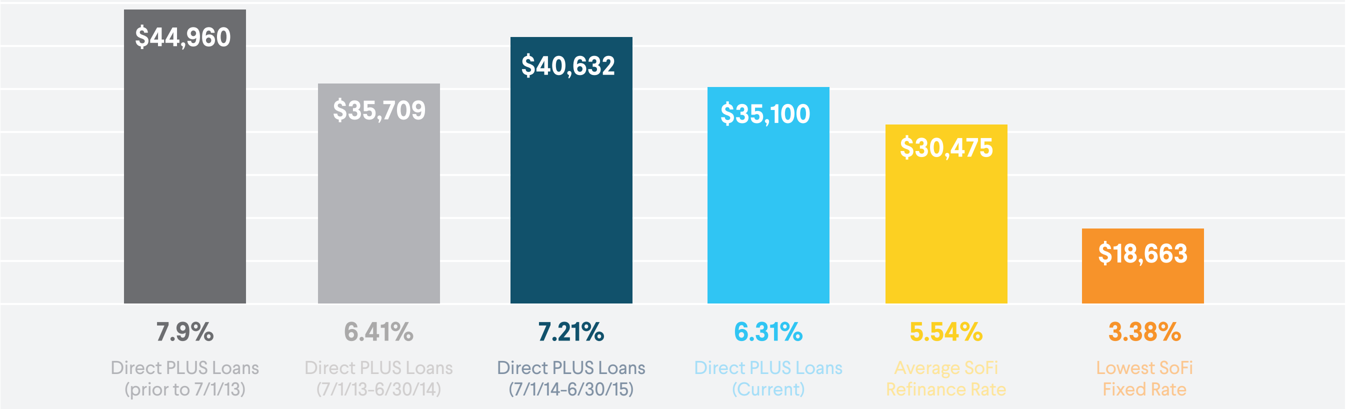
For example, a borrower with $100,000 in student loan principal at a 6.8% weighted average interest rate and a 10-year term will pay about $38,000 in interest over the life of the loan—and that's if they make every payment on time. You can probably think of a thousand other things you'd rather spend $40K on than loan interest.

So how much money can refinancing student loans really save you? The answer depends on a variety of factors, like the amount of debt refinanced, the loan term and the difference between your old and new student loan interest rates. But in general—particularly for high loan balances—even a small reduction in interest rate can translate to significant savings.

For example, SoFi attorney members who refinance their student loans with us save on average $391a month.[1]

Not bad for a few minutes spent on an easy online application (more on that later).

Total Interest Cost for a $100,000 Principal 10-year Term Student Loan



Sources: SoFi, US Department of Education as of 7/1/16

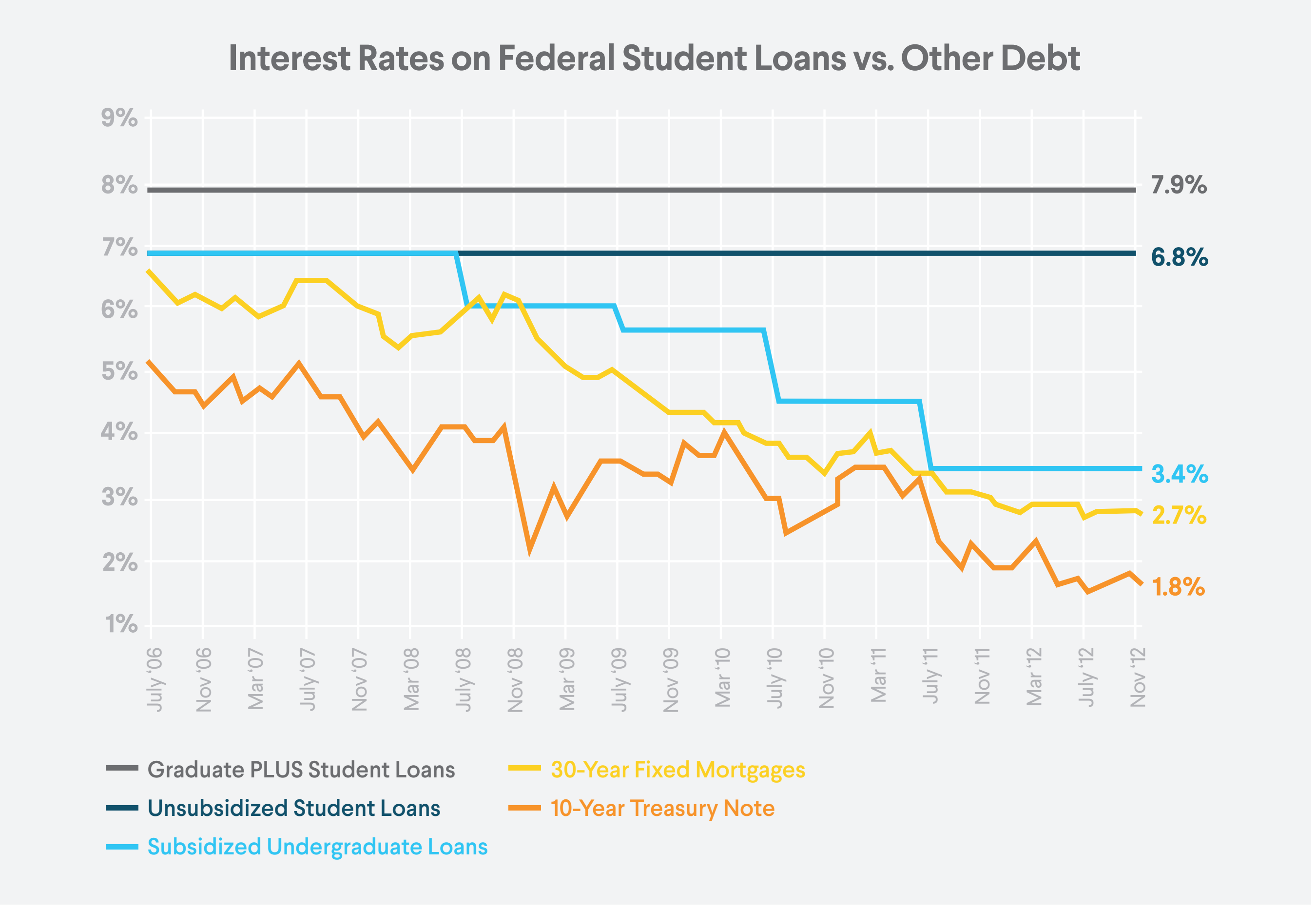
[1]Monthly savings calculation is based on all SoFi members with a law school degree who refinanced their student loans between 7/1/15 and 6/30/16. The calculation is derived by averaging the monthly savings of SoFi members with a law school degree, which is calculated by taking the monthly student loan payments prior to refinancing minus the monthly student loan payments after refinancing with SoFi. SoFi's monthly savings methodology for student loan refinancing assumes 1) members' interest rates do not change over time (projections for variable rates are static at the time of the refinancing and do not reflect actual movement of rates in the future) 2) members make all payments on time. SoFi's monthly savings methodology for student loan refinancing excludes refinancings in which 1) members elect a SoFi loan with a shorter term than their prior student loan term(s) 2) the term length of the SoFi member's prior student loan(s) was shorter than 5 years or longer than 25 years 3) the SoFi member did not provide correct or complete information regarding his or her outstanding balance, loan type, APR, or current monthly payment. SoFi excludes the above refinancings in an effort to maximize transparency on how we calculate our monthly savings amount and to minimize the risk of member data error skewing the monthly savings amount.

Student loan myth: Federal student loans always offer the lowest interest rates.

There's often a perception that federal student loans offer the lowest interest rates out there, but when it comes to borrowing for law school, that isn't always the case. Most law school borrowers use a combination of Federal Direct Unsubsidized Loans (at 5.31% as of 7/1/16) and Direct PLUS Loans (at 6.31% as of 7/1/16) to pay for degree programs (PLUS loan borrowers pay a hefty 4.276% origination fee, as well). In today's low-interest-rate environment, it can be possible to get a much better rate by refinancing with a private lender.

In fact, before the Student Loan Certainty Act was passed in 2013, unsubsidized and PLUS loan rates had remained flat at 6.8% and 7.9%, respectively, for seven years. Meanwhile, prevailing interest rates dropped to rock bottom (see below).

This time period coincided with a ton of borrowers reacting to a poor job market by going back to school. Which means a large percentage of today's outstanding graduate student loan debt is made up of relatively high interest rates on federal loans. It's another reason why refinancing has been such a sought after solution.



Sources: US Department of the Treasury (Daily Treasury Yield Curve Rates); US Department of Education; Freddie Mac

Consolidation vs. Refinancing

Or, why wouldn't I just consolidate my loans instead?

One of the most frequently asked questions we hear is about the difference between student loan consolidation and refinancing. And it's a really good question, because the answer is actually a bit more complex than you'd think.

As its name suggests, consolidating just means combining multiple student loans into one loan. However, the term can have different implications depending on the context in which it's being used. Here's a quick breakdown:

DIRECT LOAN CONSOLIDATION is a program offered by the government, and it only applies to federal student loans. The interest rate on your new, consolidated loan is a weighted average of your original loans' rates.

A PRIVATE CONSOLIDATION LOAN is offered by a private lender. It's a confusing term, because when you "consolidate" loans with a private lender, they are actually giving you a new interest rate for your combined loans based on your track record of managing debt. So in effect, when you consolidate student loans with a private lender, you are also refinancing those loans.

DIRECT LOAN CONSOLIDATION

A government program that allows you to combine multiple federal education loans into a single loan.

The resulting interest rate is a weighted average of your original loans' rates.

If your monthly payment decreases, it's likely the result of lengthening the term, which can mean paying more interest over time.

VS.

STUDENT LOAN REFINANCING

When a private lender consolidates your loans, what they are really doing is refinancing your loans.

Through private loan consolidation and refinancing, you will receive a new (ideally lower) interest rate based on your current financial picture.

Most private lenders will only consolidate and refinance private loans. SoFi is one of the few to accept both private and federal loans.

Need more info?

Here's a quick rundown of the differences between Direct Loan Consolidation and student loan refinancing.

	Direct Loan Consolidation	Student Loan Refinancing
Are federal loans eligible?	✓	✓
Are private loans eligible?	✗	✓
Is a credit check required?	✗	✓
Can I lower my interest rate?	✗	✓
Will I save money?	✗	✓
Will I get one bill?	✓	✓

Student loan myth: Direct Loan Consolidation can save you money.

You'll sometimes hear people recommend Direct Loan Consolidation as a cost-saving measure, but the truth is it can be exactly the opposite.

When you consolidate through the government, you have the option of extending your payment term, which can lower your monthly payments—but also cost you more in interest over the life of the loan.

The option may make sense if you need the lower payments today, but it's always good to be aware of how changing the terms of your loan will affect your bottom line tomorrow.

Federal Loan Refinancing Considerations

Or, should I refinance my federal student loans?

A discussion about student loan refinancing wouldn't be complete without addressing the considerations for refinancing federal loans. After all, the vast majority of the $1.2 trillion in outstanding education debt is made up of federal loans.

The main thing to understand is that when you refinance federal student loans through a private lender, you lose some of the features and benefits that come with those loans. So if you think you'll need those things, you might be better off keeping your loans with the government. But if you don't need them, and your priority is saving money, then refinancing could be a great option for you.

What are these federal loan features we're referring to?

The big ones can be broken down into three categories:

1. DEFERMENT AND FORBEARANCE

Most federal loans will allow you to temporarily put payments on hold through deferment (during which interest does not continue to accrue) or forbearance (during which interest does continue to accrue). While private lenders don't typically offer deferment, some do offer forbearance due to financial hardship. If that's an important feature for you, you'll want to check with the new lender before refinancing federal loans.

2. SPECIAL REPAYMENT PLANS

Federal loans offer a variety of repayment options that are not available through private lenders, including a graduated repayment plan in which payments start out low and increase over time. Another example is income-driven repayment, such as Revised Pay As You Earn (REPAYE) and Income Based Repayment (IBR), which allows borrowers with high debt-to-income ratios to make lower monthly payments while under these plans, with any remaining principal eligible for forgiveness after 20 to 25 years. Typically, a borrower who would benefit from REPAYE would not qualify for a lower rate through refinancing. It should also be noted that both graduated and income-driven repayment options typically cost the borrower more in interest over time.

PROS

- Income-driven repayment plans may lower your federal student loan payments.
- Under certain repayment plans, any remaining loan balance is forgiven if your federal student loans are not repaid in full at the end of the repayment period.
- These programs can be helpful for attorneys who will face long periods of training, have large balances of student loans, or who plan to take a job at a qualifying public service organization.

CONS

- If your income is over a certain threshold, you are not able to benefit from the programs.
- If you do qualify but are at the high end of the spectrum, your slightly lowered payments will come at a cost to you, in the form of accumulating interest.
- Under current IRS rules, if you have a remaining balance at the end of your repayment period, you may have to pay income tax on any amount that is forgiven under an income-driven repayment plan.

3. FORGIVENESS PROGRAMS

The most common federal loan forgiveness programs are the Public Service Loan Forgiveness Program (PSLFP) and the Teacher Loan Forgiveness Program. If you work in either of those fields, including as a public defender or lawyer at a 501(c)(3) nonprofit, you'll want to see if one of these programs applies before refinancing federal loans.

REFINANCING WITH A PRIVATE LENDER

When you refinance federal loans with a private lender, you lose the features and benefits detailed above. If you think you'll use these benefits, you might be better off leaving federal loans where they are (and remember, you can still refinance private loans). But if you don't plan to use these benefits, and saving money is a priority for you, refinancing can be a cost-saving option.

Some private lenders offer their own benefits and protections. SoFi, for instance, can pause your loan payments and help you find a new job if you lose yours. Subject to your situation and our discretion, we may be able to offer you unemployment protections, including:

- Adjusted monthly payments resulting from an unexpected change in income
- Postponed payments for a specific period of time in the case of temporary financial hardship
- Assistance in finding a new job

Go to SoFi.com to learn more about the benefits of becoming a SoFi member.

Refinancing Criteria

Or, how do I qualify for a lower interest rate?

The general rule of thumb for any kind of refinancing is that the better shape your finances are in, the more likely you are to qualify for a lower rate. For example, here are a few of the common criteria that many lenders are looking for:

- In good standing with current loans
- Strong monthly cash flow
- Demonstrated responsibility with other debts

Because SoFi is a non-bank lender, we also use non-traditional criteria to determine financial wherewithal (to the benefit of our members). Things that matter to us include:

- Degree from an accredited four-year university or graduate program
- Good employment history
- Currently employed or have firm job offer

Who refinances?

Three examples of real SoFi borrowers, their characteristics and what they saved by refinancing their loans.

KATE

- Graduated from University of Pennsylvania with a law degree four years ago
- Makes $185,000/year
- Has $146,000 in student loan debt
- Reduced rate by 2.84%
- Chose a shorter term
- Increased monthly payment by $832/month

Total interest savings: $30,141

SAM

- Graduated from Quinnipiac University with a law degree 5 years ago
- Makes $89,000/year
- Has $159,000 in student loan debt
- Reduced rate by 2.96%
- Kept same term
- Reduced monthly payment by $234/month

Total interest savings: $28,104

ALEX

- Graduated from University of Florida with a law degree 6 years ago
- Makes $106,000/year
- Has $99,000 in student loan debt
- Reduced rate by 1.39%
- Chose a shorter term
- Increased monthly payment by $190/month

Total interest savings: $30,631

Student Loan Cheat Sheet

All the terms you need to know to ace your student loans

The Basics

PRINCIPAL: The original amount of money borrowed, plus any capitalized interest and fees (such as an origination fee).

TERM: The amount of time the loan will be in repayment.

ANNUAL PERCENTAGE RATE (APR): The cost of borrowing, expressed as an annual percentage.

ACCRUED INTEREST: The amount of interest that has accumulated on a loan since your last payment.

The Potential Pitfalls

ORIGINATION FEE: A fee that some lenders charge for processing the loan application, or in lieu of upfront interest.

Borrower Tip: To minimize incremental costs on your loan, look for lenders that offer low or no fees.

DEFERMENT: The temporary postponement of loan repayment during which time interest may or may not continue to accrue. In the case of federal loans, the government may pay interest on your Perkins, Direct subsidized and/or subsidized Stafford loans.

FORBEARANCE: The temporary postponement of loan repayment during which time interest typically continues to accrue.

Borrower Tip: If you make payments on time each month, you'll keep accrued interest in check. However, after a period of missed or reduced payments (such as forbearance), accrued interest may be capitalized, which increases your loan's principal and costs you more money in the long run. Since interest is charged as a percent of principal, the more often interest is capitalized, the more interest you'll pay. This is a good reason to use forbearance only in emergency situations.

CAPITALIZED INTEREST: When accrued interest is added to your loan's principal balance, typically after a period of non-payment such as forbearance.

The Money Savers

AUTOMATED CLEARING HOUSE (ACH): An automatic loan payment that transfers directly from your bank account to your lender or loan servicer each month.

Borrower Tip: Not only can automatic payments keep you from forgetting to pay your bill, but many lenders also offer small interest rate deductions for enrolling in ACH.

REFINANCE: Taking out a new loan at a lower interest rate to pay off your original loan(s), effectively lowering your overall interest rate.

PREPAYMENT: Paying more than the minimum monthly payment or paying off a loan early.

Borrower Tip: Both federal and private education loans allow for penalty-free prepayment, which means you can pay more than the monthly minimum or make extra payments without incurring a fee. The more you do it, the sooner you'll be done with your loans—and the less interest you'll spend over the life of your loans.

Optimizing Your Loans

Or, how do I pick the best refinance options for my situation?

After you qualify to refinance, you may be given a range of loan options to choose from, for example fixed vs. variable interest rates and shorter vs. longer terms. In order to determine the best combination for your situation, it's helpful to understand how each of these factors affect your monthly payments, lifetime interest savings and speed of loan pay-off.

FIXED RATE VS. VARIABLE (OR FLOATING) RATE LOANS

Fixed rate student loans typically have:

- A rate that stays the same throughout the life of the loan
- A higher rate than variable rate student loans
- Payments that stay the same over the life of the loan

Variable rate student loans typically have:

- A rate that's tied to another "index" rate, for example the prime rate or LIBOR
- A lower initial rate than fixed rate student loans
- Payments (and total interest cost) that change based on interest rate changes

Borrower Tip: If you plan to pay off your loan relatively quickly, then a variable rate loan can be a cost-saving option. But be aware that the longer it takes you to pay off the loan, the more opportunity there is for interest rates to rise—taking your loan's rate with it.

SHORT TERM VS. LONGER TERM

A shorter term (e.g., 5 years) typically:

- Offers a lower interest rate than longer term
- Requires a higher monthly payment than longer term
- Saves more money on total interest than longer term

A longer term (e.g., 10 years) typically:

- Offers a higher interest rate than shorter term
- Requires a lower monthly payment than shorter term
- Costs more money in total interest than shorter term

Borrower Tip: If you can comfortably afford a higher monthly payment, a shorter term can be a cost-saving option—and as a bonus you'll be done with your loan that much sooner.

Choosing a Lender

Or, how do I find the right lender for me?

Not all student loan refinance lenders are alike. When comparing lenders to determine where to refinance, here are some questions to consider that can help you make your decision:

INTEREST RATES

- Is the lender offering a competitive rate?
- What will your total savings be?

FLEXIBILITY

- Can the lender refinance private and federal loans?
- Do they offer fixed and variable rate loans?
- Do they offer a choice between shorter term and lower monthly payments?

ADDITIONAL BENEFITS

- Does the lender offer forbearance options in case of sudden financial hardship?
- Can they help with career and networking needs?
- What other benefits do they offer?

PROCESS

- Is the lender's application online?
- How long does the application take on average?
- Do they offer a dedicated client service contact to answer questions?

PUTTING IT ALL TOGETHER

Is refinancing right for you? For some borrowers, it's a no-brainer. For others, it might be an option later on. The bottom line is that it's good to give your loans a second look every so often, because the rate you were given when you took out the loan isn't necessarily the rate you're stuck with for life.

And now that you have all the info, you can make a more confident decision about refinancing your student loans. The sooner you get started, the sooner you'll save.

Learn more about consolidating and refinancing student loans at SoFi.com.

This piece is intended to provide useful information on the subject of student loan refinancing, but does not purport to provide legal or tax advice.

About SoFi

SoFi is a new kind of finance company taking a radical approach to lending and wealth management. From unprecedented products and tools to faster service and open conversations, we're all about helping our members get ahead and find success. Whether they're looking to buy a home, save money on student loans, ascend in their careers, or invest in the future, the SoFi community works to empower our members to accomplish the goals they set and achieve financial greatness as a result. For more information, visit **SoFi.com.**