3 Signs It's Time to Refinance Your Law School Loans

By Dan Macklin

When was the last time you thought about your student loans? If you're like most law school grads, you probably try hard *not* to think about them. After all, dwelling on your five or six figures worth of debt isn't going to make it go away any faster.

But if you're one of the many borrowers who "set and forget" your student loan repayment plan after graduation, it may be worth taking a second look. If you qualify to refinance some or all of your loans at a lower interest rate, you can save a significant amount of money on interest and potentially lower your monthly bill or pay your loans off sooner than anticipated.

Unfortunately, many eligible borrowers don't know the student loan refinancing option exists. The ability to refinance and consolidate both private and federal loans has only been around for a few years, but as more and more borrowers become aware of it, a growing number are taking advantage.

How do you know if student loan refinancing is right for you? Here are three signs you should give it a closer look.

1. Your loans have high interest rates.

While undergrads benefit from low-interest rate subsidized federal loans, those attending law school or other graduate programs typically have to rely on higher interest rate federal Direct unsubsidized and PLUS loans (with current rates at 6.21% and 7.21%, respectively) and/or private loans (which can go even higher).

And that's not the only reason that graduate and law school borrowers have gotten the short end of the stick. In the aftermath of the 2008 credit crisis, interest rates across the board dropped to record lows—with the exception of Direct unsubsidized and PLUS loans, which remained flat at 6.8% and 7.9%, respectively, until last year's Student Loan Certainty Act brought them closer in line with prevailing rates. But for borrowers who took out these loans before 2013, the damage was already done.

The good news is that, thanks to student loan refinancing, eligible borrowers don't have to be stuck with those outdated rates. Just as a homeowner can apply to refinance a mortgage, student loan borrowers can now do the same. Reducing the interest rate through refinancing is one of the best ways to reduce your debt burden.

2. Your finances have improved.

Most attorneys have to spend a few years paying their dues before things start to feel comfortable from a financial perspective, but ideally as your career progresses, your degree starts to pay off in the form of a higher salary. And if you've been consistently making your student loan payments on time, perhaps your credit has improved, too. Since income and credit score are two of the key factors considered in the refinancing application process, advancements in these areas can help your chances of qualifying for a lower rate.

And depending on how quickly you intend to pay off your loan (or how quickly you expect your income to increase), you might even consider refinancing with a variable rate student loan. Variable loan rates are typically lower than rates for fixed loans but are often tied to prevailing interest rates, which are likely to rise in the future. In other words, they're best suited for people who plan to pay off their loans quickly—before interest rates rise again.

3. You can't take advantage of federal loan benefits.

A common misconception about student loan refinancing is that borrowers can't refinance federal loans—a myth that was perpetuated by much of the media coverage of the proposed student loan refinancing legislation that was put forward last year. While none of the proposed bills passed, many journalists failed to mention that **federal student loan refinancing is actually available now—no legislation required.**

The real question is whether you *should* refinance federal loans, and the answer is that it depends. Usually it comes down to whether you can take advantage of certain federal loan benefits that don't transfer to private lenders through the refinance process. For example, some federal loans offer programs that may forgive all or part of your loan balance if you meet certain criteria—for example, working in public service or as a teacher for a number of years. The government also offers graduated and income-driven repayment programs (such as Pay As You Earn, or PAYE). If you can qualify for loan forgiveness or you need to make reduced payments, you may want to think twice about refinancing eligible federal loans.

However, if you don't benefit from one of these programs, and saving money is your priority, then you can apply to refinance federal loans with a lender like SoFi. You can also consider just refinancing private loans and keeping federal loans where they are—lowering the interest rate on some of your loans is better than nothing at all.

Conclusion

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 you can benefit from giving your loans a second glance 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. ⊙

Dan Macklin is one of the founding members of SoFi, heading up the company's business development team. SoFi is a leader in marketplace lending and the largest provider of student loan refinancing, with more than $1.75 billion in loans issued. Dan is a thought leader whose perspectives on student loan refinancing have been featured in a variety of media outlets, including CNBC, Fast Company *and Mashable, as well as his personal favorite,* Italian Vogue. *SoFi partners with the Federal Bar Association (FBA), FBA receives consideration from SoFi, and FBA members receive a benefit.*