

Student Loans

Does Refinancing Student Loans Save Money?

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Refinancing your student loans involves applying for a new private loan to pay off one or more federal or private student loans. This repayment strategy could save you hundreds of dollars if you can secure a lower interest rate than you currently pay.

But refinancing isn't a one-size-fits-all solution —saving money depends on several factors,

including your credit score and income.

To help you decide whether it's the right strategy for you, we'll walk you through some scenarios where you could save money and discuss the benefits and drawbacks of student loan refinancing.

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Does refinancing

student loans save you money?

Whether [refinancing your student loans](#) saves you money depends on your unique financial situation. But there are some steps you can take to assess your chances of qualifying for a refinance loan at a lower interest rate.

1. **Prequalify.** Some lenders allow you to prequalify online to preview rates and terms you could receive without harming your credit. However, prequalifying doesn't guarantee a lender will approve you after submitting a full application.
2. **Compare quotes.** Get estimated rates and terms from multiple lenders to find the best deal. If you want to save money, look for a lender that offers a lower rate than the average rate on your outstanding student loans.
3. **Use a loan calculator.** You can use a [student loan refinance calculator](#) to estimate your savings based on the lower rates you prequalify for.



Tip In some cases, refinancing from a **fixed-rate to a variable-rate** loan could save you money, but it's more difficult to estimate your savings because your interest rate could increase over the life of the loan.

How refinancing student loans can save you money

Refinancing your student loans could save you money if you swap your existing loan for a new one with a shorter repayment term or get approved for a lower rate.

For instance, refinancing from a **10-year, \$20,000 loan at 8% interest** to a **five-year, \$20,000 loan at 8% interest** could cut your total borrowing costs in half, provided you can comfortably afford the higher monthly payments.

Here's how the payments and costs break down.

	10-year loan	5-year loan
Monthly payment	\$243	\$406
Total interest paid	\$9,119	\$4,332

Total borrowing costs	\$29,119	\$24,332
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You could also save money if you refinance to a loan with the same term but a lower rate.

	10-year loan at 8% interest	10-year loan at 6.5% interest
Monthly payment	\$243	\$227
Total interest paid	\$9,119	\$7,252
Total borrowing costs	\$29,119	27,252

When refinancing student loans won't save you money

In some cases, even if you qualify for a lower rate, [refinancing your student loan](#) won't save you money.

For example, say you have a five-year, \$10,000 student loan at 7% interest and refinance to a 10-year loan at 7% interest to lower your monthly payments. In that case, your monthly payments would be lower, but you'd pay [more interest](#) over the life of the loan.

	5-year loan	10-year loan
Monthly payment	\$212	\$116
Total interest paid	\$2,748	\$3,933
Total borrowing costs	\$12,748	\$13,933

How much could you save by refinancing student loans?

Some lenders like [ELFI](#) have reported that their customers save hundreds of dollars per month on average after refinancing. But the amount you could save varies based on many factors, such as:

- The amount you're refinancing
- Your current annual percentage rate (APR)
- Your new loan's annual percentage rate
- Your new repayment terms

You can use our [student loan refinance calculator](#) to estimate your savings.

Expert's take



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When deciding to refinance student loans, every borrower's situation is unique and should be addressed in light of their current and potentially future situation. For example, some income-driven repayment programs work great if you file your taxes as single. But if you get married and find that filing jointly is better, that impacts your loan repayment terms. Bottom line: It really depends on your unique situation and the options presented, especially given recent changes to federal repayment plans.

Weigh the pros and cons of refinancing

Before applying for a refinance loan, weigh the advantages and disadvantages.



Pros



You could save money

If you can qualify for a lower

annual percentage rate (APR), you can save thousands of dollars in [student loan interest](#).

- **Lower monthly payments**

A lower rate could also lower your monthly payment.

- **Release a cosigner**

[Refinancing your loan](#) is one way to release a cosigner. It might be the only way to release them if your lender doesn't offer [cosigner release](#).

✘ **Cons**

- **Loss of federal benefits**

Think twice before refinancing federal student loans because doing so means you'll give up access to federal perks like student loan forgiveness, federal forbearance, and [income-driven repayment \(IDR\) plans](#).

- **Lenders typically require good credit**

You usually [need stellar credit](#) to qualify for a refinancing loan without a cosigner.

- **Hard credit inquiry**

Most lenders perform a hard credit check to review your credit history when you apply, which can temporarily lower your [credit score](#).

How to refinance your student loans

Once you've found a lender that best matches your needs, the next step is to submit a [refinance application](#) and complete the refinancing process.

The Student Loan Refinance Process

- 1 Assess your need**
 - What loans do you have?
 - Is refinancing the best option?
- 2 Prequalify**
 - Explore rates without hurting your credit
- 3 Select a lender**
 - Read reviews
 - Consider unique lender perks
 - Choose the best lender
- 4 Apply**
 - Gather documentation
 - Submit your application
- 5 Receive approval**
 - Sign your loan documents
 - Your new lender pays off your old loans
- 6 Repay your new loan**
 - Begin repayment on your refinance student loan



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Even after refinancing, it's important to continue reviewing your [repayment strategy](#). For example, as your income increases, you may decide to pay more on your loans to get rid of them faster.

Revisit your repayment strategy any time something changes that can greatly impact your financial life, such as a new job, a new spouse, children, a raise, or a

job loss.

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Student loan refinancing FAQ

Am I eligible to refinance my student loans?

Eligibility to refinance student loans depends on several factors, including your credit score, income, and amount of debt. Different lenders have distinct criteria.

Some may require you to have a minimum credit score, cosigner, or specific employment status. We recommend exploring multiple lenders to identify the best fit for your situation.

Can I refinance federal and private student loans?

Yes—but it's crucial to understand that you lose federal benefits once you refinance federal loans, such as [income-driven repayment plans](#) and potential [loan forgiveness programs](#).

Private loans don't provide these benefits, so there's less associated risk with refinancing them.

How does my credit score affect refinancing?

Your credit score plays a significant role in the refinancing process. A higher credit score indicates you're a low-risk borrower, often leading to more favorable interest rates.

A low score might disqualify you from refinancing or result in higher interest rates. It's crucial to understand your credit score before beginning the refinancing process.

Can refinancing student loans help improve my credit score?

Yes. When you refinance, the new lender pays off your student loans and replaces them with a single new loan. This consolidation can reduce your credit utilization and increase the average age of your credit accounts.

Regular on-time payments on the new loan can also boost your credit score over time.

Is there a cost to refinance my student loans?

Typically, the process of refinancing a student loan incurs minimal upfront cost. However, some lenders may charge origination fees or prepayment penalties.

Before agreeing to a refinance, it's worth reviewing the loan agreement for any hidden charges or fees associated with the process.

How often can you refinance student loans?

There's no limit on [how often you can refinance student loans](#). It comes down to whether it makes financial sense for you.

For example, if interest rates plummet or your financial situation improves, you might find benefits in refinancing more than once.

Refinancing multiple times may affect your credit score, so it's important to consider it carefully.

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