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2016 Credible Student Loan Refinancing Report

How 8 million Americans could lower the interest rates on their student loans

November 2016

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Introduction

In a March 2015 report, Goldman Sachs estimated that $211 billion in student loans could qualify for refinancing at lower interest rates. Using the same methodology employed by Goldman Sachs analysts, Credible estimates the volume of student loans ripe for refinancing has grown to $242 billion.*

With the average federal student loan borrower owing about $30,000, more than 8 million Americans could be eligible to lower the rates on their student loans by refinancing them with a private lender.**

But many borrowers seem to be unaware that student loans can be refinanced. A recent Citizens Bank survey found more than half of student loan borrowers haven't even looked into refinancing.

Among borrowers who have heard of refinancing, there may also be perception that it's only an option for graduates with six-figure incomes and flawless credit.

In fact, an analysis of borrowers who used the Credible marketplace to refinance student loan debt in the last 1 ½ years shows that refinancing is benefiting a broader range of borrowers.

This Credible Insights report, the latest in a series, provides an unprecedented look at the refinancing strategies employed by different groups of borrowers and the results they achieve, examines who is a good candidate for refinancing, and identifies steps that borrowers who don't qualify for refinancing today can take to improve their prospects.

Because borrowers can use Credible to see rates offered by multiple lenders, our user data provides a more complete picture of who is refinancing student loans, and how they benefit, than an analysis of an individual lender's practices.

Credible will produce this report on student loan refinancing strategies and outcomes on an ongoing basis.

*(*) Click to go to Appendix for details

Key takeaways

Click on a key takeaway for a more detailed analysis:

- Across all groups, borrowers who refinanced into a loan with a shorter repayment term **reduced their interest rate by 1.71 percentage points** and can expect to **pay $18,668 less** over the life of their new loan, on average.

- Nearly **six in 10 borrowers (59 percent) refinanced into a fixed-rate loan**. Borrowers refinancing into a loan with a shorter repayment term were more likely to choose a fixed-rate loan.

- Recent graduates 27 and younger are refinancing **student loan balances ($49,304) that are nearly as large as their annual salaries ($50,053)**.

- Recent graduates were the **most likely to refinance into loans with longer repayment terms** — a strategy favored by borrowers who are primarily interested in lowering their monthly payments. Recent graduates refinancing into loans with longer terms knocked $221 off their monthly payments, on average.

- Borrowers with six-figure student loan debt were the **most likely to refinance into loans with shorter repayment terms**, helping them obtain the lowest interest rate and maximize overall savings. High-debt borrowers who took this approach can expect to save an average of $50,690 over the life of their new loan.

- **Interest rate reduction**: Borrowers 50 and older, who had higher incomes but lower student loan balances than the group as a whole, obtained the **largest interest rate reductions** — 2.34 percentage points, on average, when refinancing into loans with shorter repayment terms.

Across all groups, borrowers who refinanced into a loan with a shorter repayment term reduced their interest rate by 1.71 percentage points and can expect to pay $18,668 less over the life of their new loan, on average.

Student loan refinancing strategies

While borrowers exploring student loan refinancing are typically seeking a lower interest rate, they also have to choose a loan with monthly payments that fits their budget. Monthly payments are determined not only by the loan's interest rate, but its repayment term.

The standard repayment term on government student loans is 10 years. Private lenders who refinance student loans typically offer a choice of repayment terms, including 5, 7, 10, 15, and 20 years.

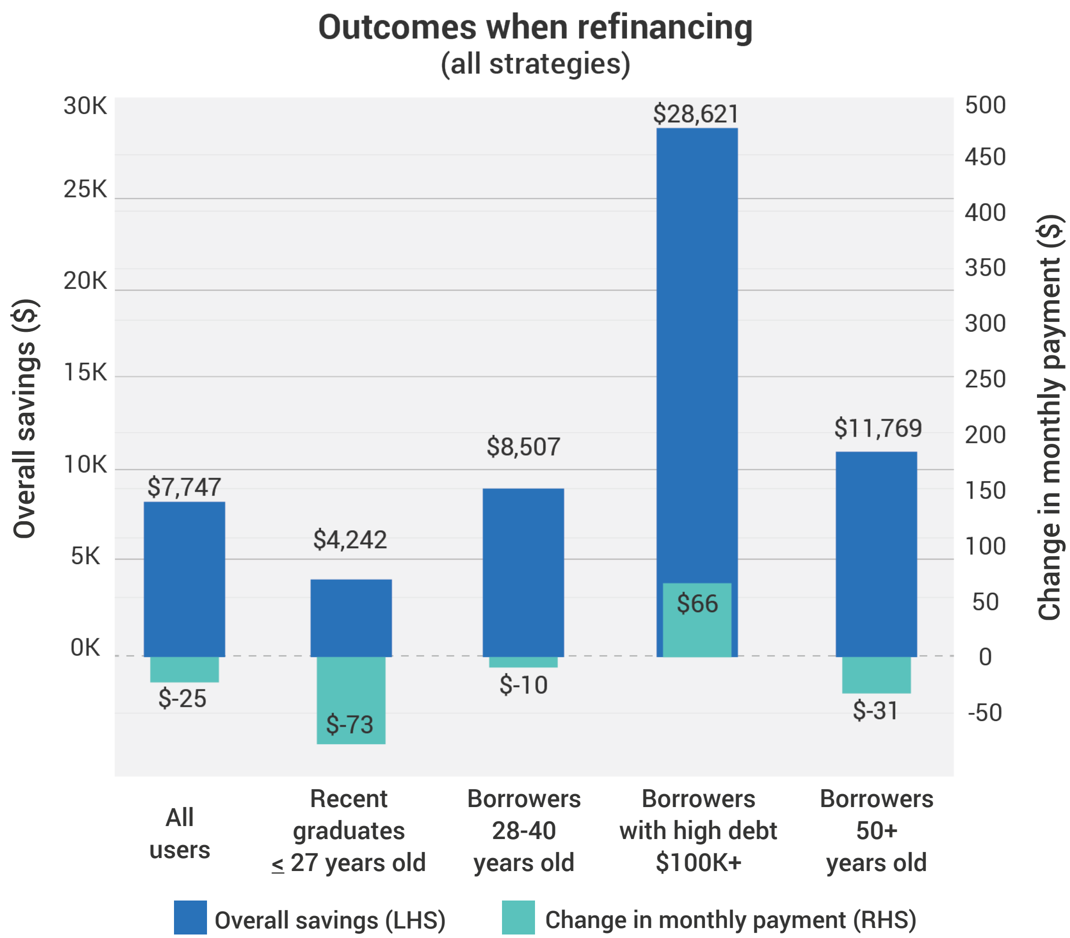
The longer the loan repayment term, the smaller the monthly payment, and the higher the total repayment cost. Borrowers who are primarily interested in reducing their monthly payment often refinance into loans with longer repayment terms than their existing debt.

Loans with shorter repayment terms will require higher monthly payments, but cost less to repay. Not only do borrowers pay their loans off faster when refinancing into a loan with a shorter repayment term, but they can often get a better interest rate. That's because the shorter the loan term, the lower the interest rate generally offered by most lenders.

Student loan refinancing strategies (cont.)

Borrowers using the Credible marketplace to refinance student loan debt were almost evenly split on which strategy to employ — 51 percent refinanced into loans with shorter repayment terms, while 48 percent picked loans with longer terms.

It's important to note that in many cases, borrowers refinancing at a lower interest rate can reduce both their monthly payment and the total amount repaid. This is likely to be the case when borrowers choose a loan with a repayment term that's about the same length as the repayment term of their existing loan.



Looking at all borrowers regardless of the refinancing strategy they chose, the group as a whole reduced their loan repayment term by an average of 6 months and cut their interest rate by 1.56 percentage points, achieving an overall savings of $7,747 with a $25 reduction in monthly payment.

How different borrowers approach refinancing

We segmented our borrowers into four groups:

Recent graduates
27 years old
and under

High-debt borrowers who
refinanced more than
$100,000 in student loans

"Mid-career" graduates
28-40 years old

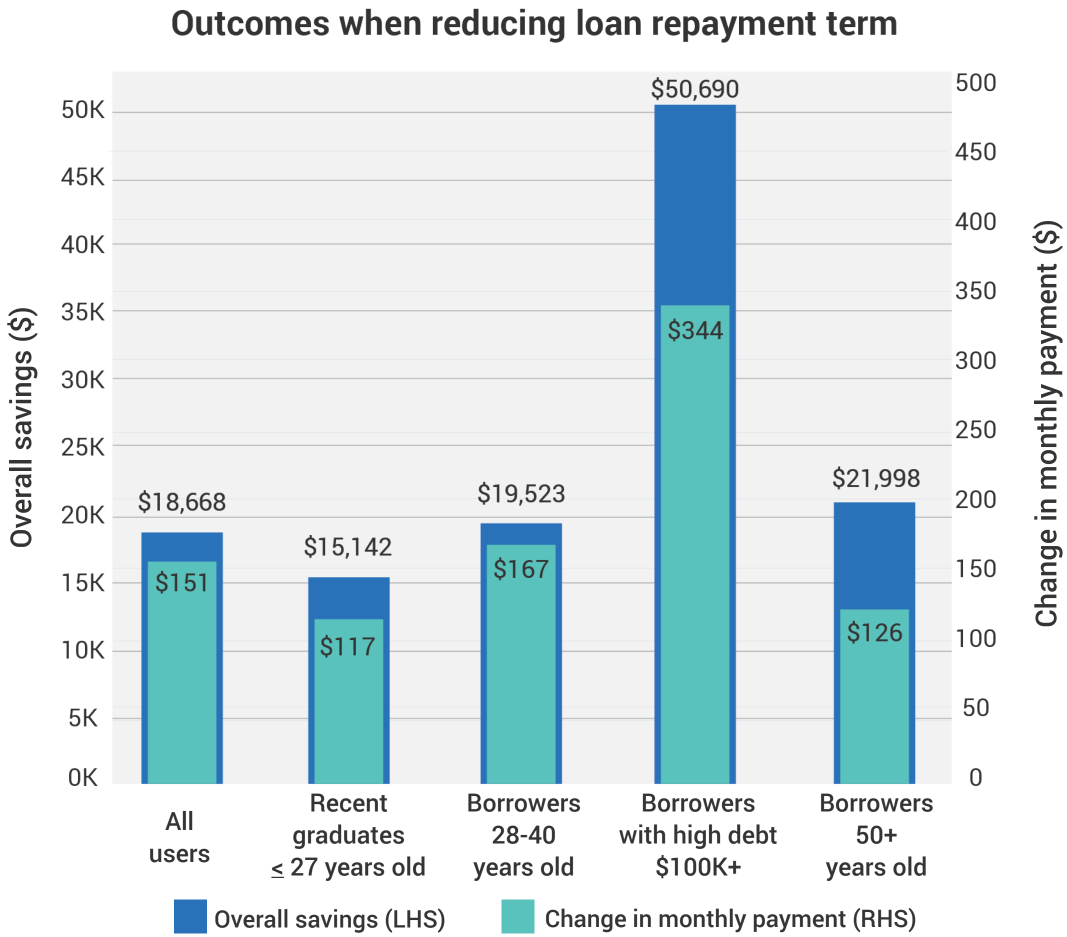
Borrowers
50 years old and older

- Borrowers who refinanced into a loan that increased their repayment term can be seen as being primarily interested in reducing their monthly payment.

- Borrowers who decreased their loan term were looking to get the lowest interest rate and maximize total savings.

> *Borrowers seeking to maximize their savings refinanced into loans that reduced their repayment terms by 59 months - nearly 5 years - and increased their monthly payments by $151, on average. They reduced their interest rate by 1.71 percentage points on average, and can expect to save $18,668 over the life of their loan.*

Getting the biggest savings



High-debt borrowers who reduced their loan repayment term achieved the greatest overall savings ($50,690) of any group, due to their higher average loan balances ($144,335) and the fact that they reduced their repayment term by 69 months. To achieve those savings, high-debt borrowers were willing to ramp up their monthly payments by an average of $344.

Population (reduced term)	Term change	Change in interest rate	Overall savings	Change in monthly payment	Average income	Average loan balance
All users	-4 yrs, 10 mo.	-1.71%	$18,668	$151	$89,127	$56,202
Recent graduates ≤ 27 years old	-3 yrs, 11 mo.	-1.90%	$15,142	$117	$59,762	$49,358
Borrowers 28-40 years old	-5 yrs, 2 mo.	-1.55%	$19,523	$167	$90,573	$59,841
Borrowers with high debt $100K+	-5 yrs, 9 mo.	-1.52%	$50,690	$344	$131,914	$144,335
Borrowers 50+ years old	-4 yrs, 11 mo.	-2.34%	$21,998	$126	$113,822	$54,455

Source: Analysis of student loans refinanced by borrowers using the Credible marketplace from April 15, 2015 to Sept. 21, 2016.

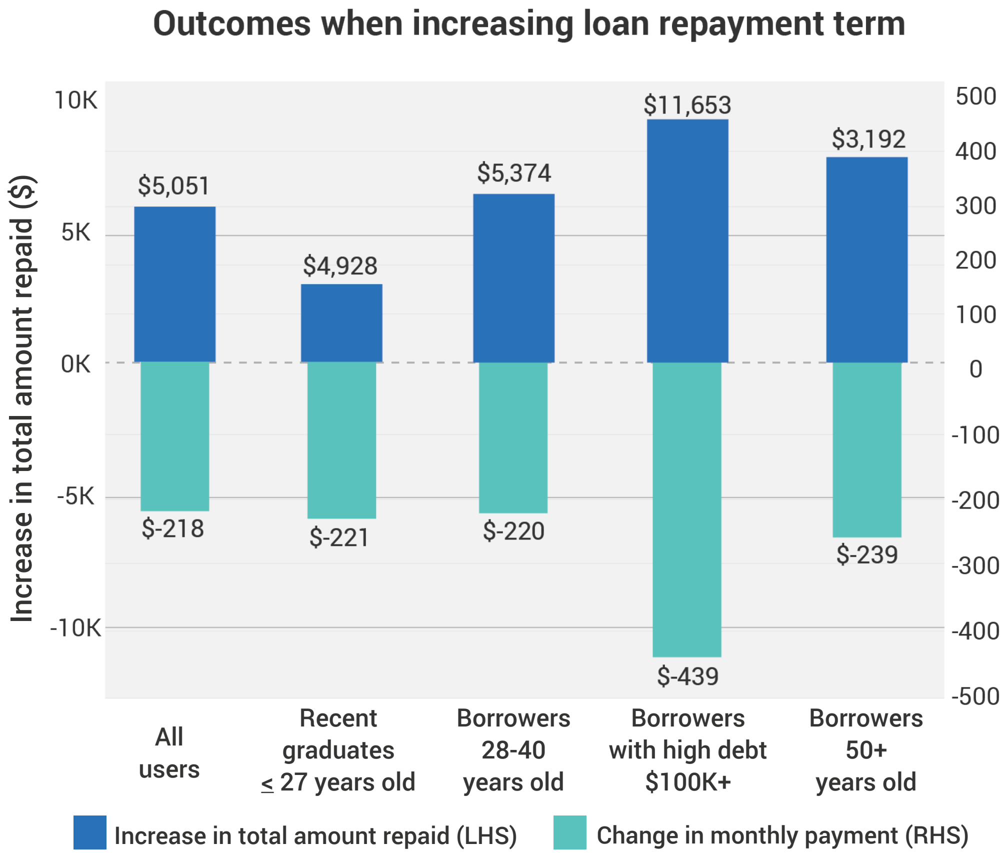
Getting the biggest savings (cont.)

Refinancing into a loan with a shorter repayment term was also the strategy chosen by most "mid-career" borrowers ages 28-40. The 53 percent of mid-career borrowers choosing this option were willing to see their monthly payments increase by an average of $167 a month in order to realize $19,523 in savings.

With the second-highest income of any group, borrowers 50 and older got the greatest interest rate reduction (2.34 percentage points) when refinancing into loans with shorter repayment terms, helping them achieve the second-highest total savings ($21,998) for the group.

> *Borrowers with high debt were the most likely to reduce their repayment term, which helped them obtain the lowest interest rate and maximize overall savings. High-debt borrowers who took this approach can expect to save an average of $50,690 over the life of their new loan.*

Reducing monthly payment



Population (increased term)	Term change	Change in interest rate	Increase in total amount repaid	Change in monthly payment	Average income	Average loan balance
All users	4 yrs, 6 mo.	-1.36%	$5,051	-$218	$74,530	$49,041
Recent graduates ≤ 27 years old	4 yrs, 11 mo.	-1.71%	$4,928	-$221	$50,053	$49,304
Borrowers 28-40 years old	4 yrs, 4 mo.	-1.13%	$5,374	-$220	$75,820	$50,820
Borrowers with high debt $100K+	4 yrs, 3 mo.	-1.10%	$11,653	-$439	$123,422	$140,338
Borrowers 50+ years old	3 yrs, 7 mo.	-1.87%	$3,192	-$239	$112,291	$43,907

Source: Analysis of student loans refinanced by borrowers using the Credible marketplace from April 15, 2015 to Sept. 21, 2016.

With the least earning power among the groups analyzed, recent graduates were the most eager to reduce their monthly payment and refinance into a loan with an extended repayment term — 56 percent chose this strategy. For recent graduates, the trade-off for reducing their monthly payment by $221 was that the total cost of repayment increased by an average of $4,928.

That's because even though recent grads who increased their loan term managed to reduce their interest rate by 1.71 percentage points on average, they stretched their payments out over an additional 59 months — the longest of any group pursuing this strategy. Most recent graduates (62 percent) chose to refinance into a fixed-rate loan when extending their loan term.

Who is a good candidate for refinancing?

Unlike government student loans, borrowers taking out or refinancing private student loans must demonstrate an ability to repay the debt they're taking on. One advantage underwriting provides is that while interest rates on federal student loans are one-size-fits-all, private lenders can offer lower rates to borrowers with strong earnings and credit.

The most important underwriting criteria for most lenders are debt-to-income ratio (DTI), credit history, and credit score. Debt-to-income ratio is a metric that shows lenders how much of a borrower's monthly income is going to pay their bills, and their capacity to take on additional debt. A borrower's credit history and credit score provide insight into how well a borrower has managed debt in the past.

Unlike mortgage lending, where Fannie Mae, Freddie Mac and the Federal Housing Administration (FHA) dictate minimum credit scores and maximum DTI for most home loans, private student lenders have more leeway to set their own standards. Some online lenders are moving away from credit scores altogether.

While every lender has their own eligibility requirements, most expect that borrowers will have obtained a degree from an accredited institution, have a steady income, and established a track record of repaying their student loan debt.

But just because a borrower will qualify for a loan doesn't mean they will want to take it out, if the rate that the lender offers are too high. Broadly speaking, high debt-to-income ratios and "adverse events" such as missed payments on existing student loans can disqualify borrowers from being approved from refinancing, while good credit scores can help them get offers at rates that makes financing worthwhile.

How borrowers can become better candidates for refinancing

Borrowers who are turned down for refinancing or who get offers that don't beat their existing rates can often still make refinancing work for them by lowering their debt-to-income ratio, improving their credit score, or asking a friend or relative to cosign their loan.

Debt-to-income ratios

As Credible's analysis shows, it's not unusual for borrowers to refinance student loan debt that equals or exceeds their annual income. It helps when borrowers seeking to refinance big student loan balances don't have a lot of other debt obligations, such as a mortgage, car payment, or credit card balances (for more on how such obligations can affect debt-to-income ratios, see previous Insights piece, "How student loan debt can get you off on the wrong foot.")

Paying down credit card debt before refinancing student loan debt — and refinancing student loan debt before making big-ticket purchases like a car or a home — can help borrowers get approved, and get lower rates.

Credit scores

If debt-to-income ratio is a critical hurdle to getting approved for refinancing, credit scores can be the key to getting the best rates. According to Fair Isaac Corp., the developer of the FICO score, credit utilization — the percentage of available credit that borrowers have already tapped — accounts for 30 percent of your score. Keeping credit card balances low can help borrowers boost their credit score.

Other major components of the FICO score formula include payment history (35 percent of your score) and length of credit history (15 percent). In both those areas, time can be on the borrower's side — as they put distance between themselves and a missed payment, the impact on their score diminishes. Credible is connected to all three of the major credit bureaus used by most lenders, ensuring that the rate quotes it provides to borrowers are accurate.

How borrowers can become better candidates for refinancing (cont.)

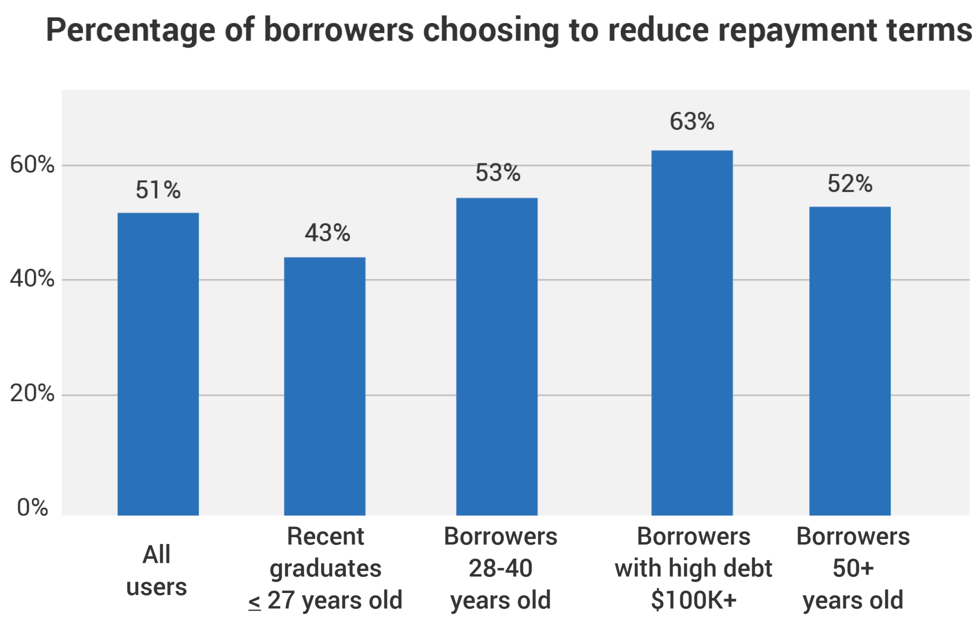
Adding a cosigner

Adding a cosigner is one of the quickest and easiest ways for a borrower to improve their chances of being approved for a loan. Cosigning a loan is an agreement to take on the responsibility of paying off the loan if the borrower is unable to. Some lenders offering refinancing through the Credible marketplace will provide offers to borrowers with a credit score as low as 620 if they have an eligible cosigner.

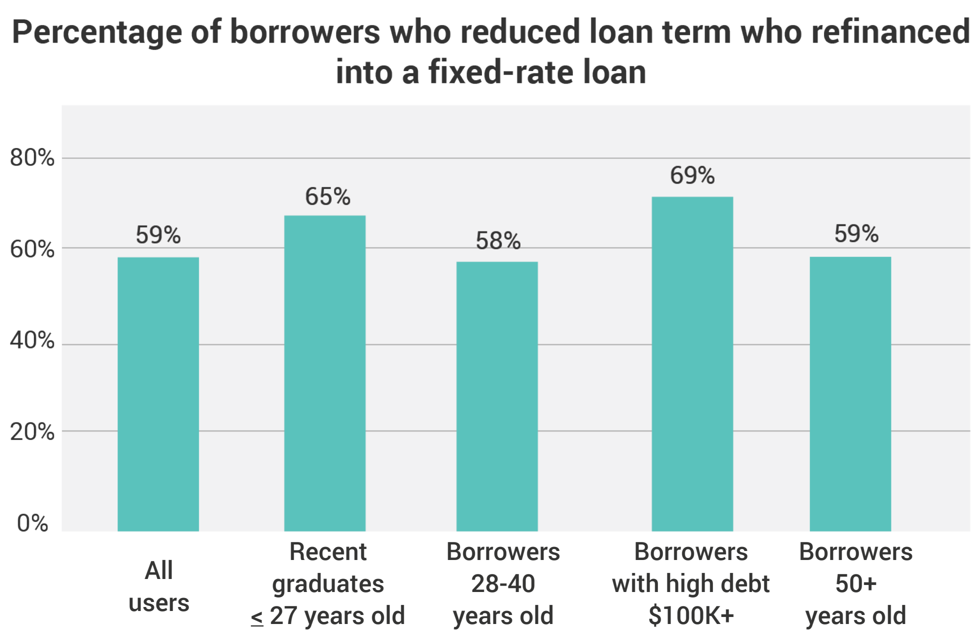
It's important to note that borrowers seeking to reduce their monthly payments can increase the repayment terms of federal student loans without refinancing, either by switching to an extended or graduated repayment plan, or consolidating their loans and enrolling in an income-driven repayment plan. Income-driven repayment plans can be a good option for borrowers who are struggling to make monthly payments on their federal student loans.

But extending loan repayment terms without an interest rate reduction can significantly increase the total repayment costs, particularly for borrowers who will not qualify for loan forgiveness after 10, 20 or 25 years of payments. The only way to lower the rate on federal student loans is to refinance them with a private lender. Borrowers who refinance federal student loans will lose access to income-driven repayment plans and potential loan forgiveness.

Charts: reducing repayment terms

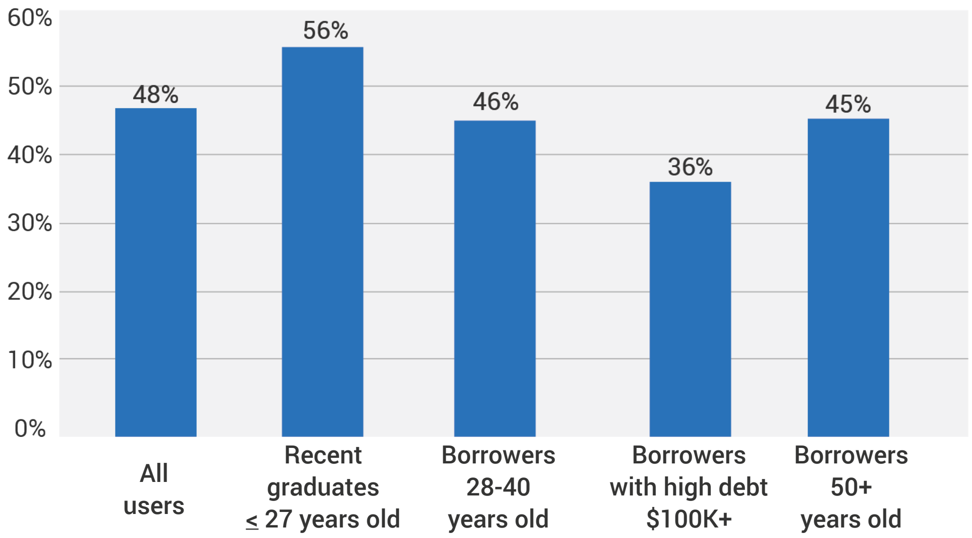


With the highest average income among the groups tracked, high-debt borrowers were in the best position to maximize savings by choosing a loan with a reduced repayment term — 63 percent went this route. High-debt borrowers who reduced their repayment term were also the most likely to opt for the certainty of a fixed-rate loan, with 69 percent making that choice.

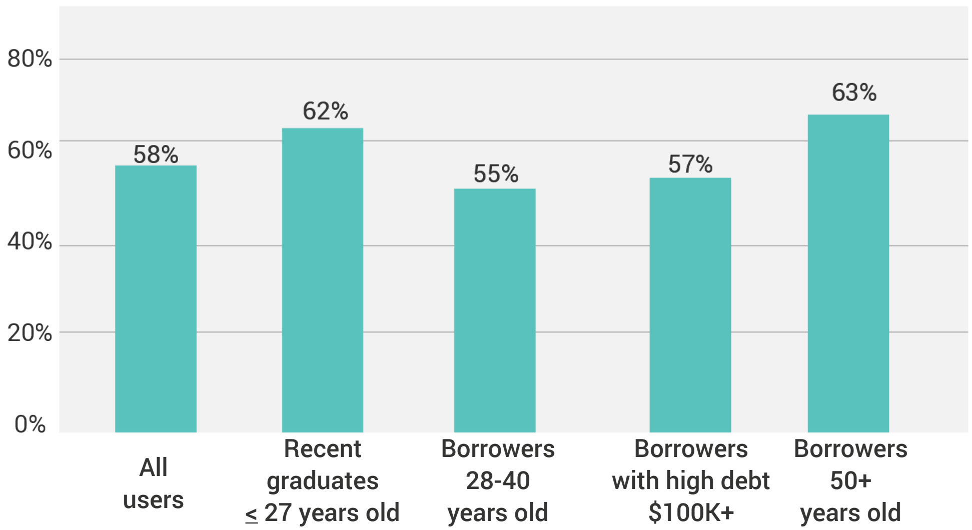


Charts: extending repayment terms

Percentage of borrowers choosing to extend repayment terms



Percentage of borrowers who extended loan term who refinanced into a fixed-rate loan



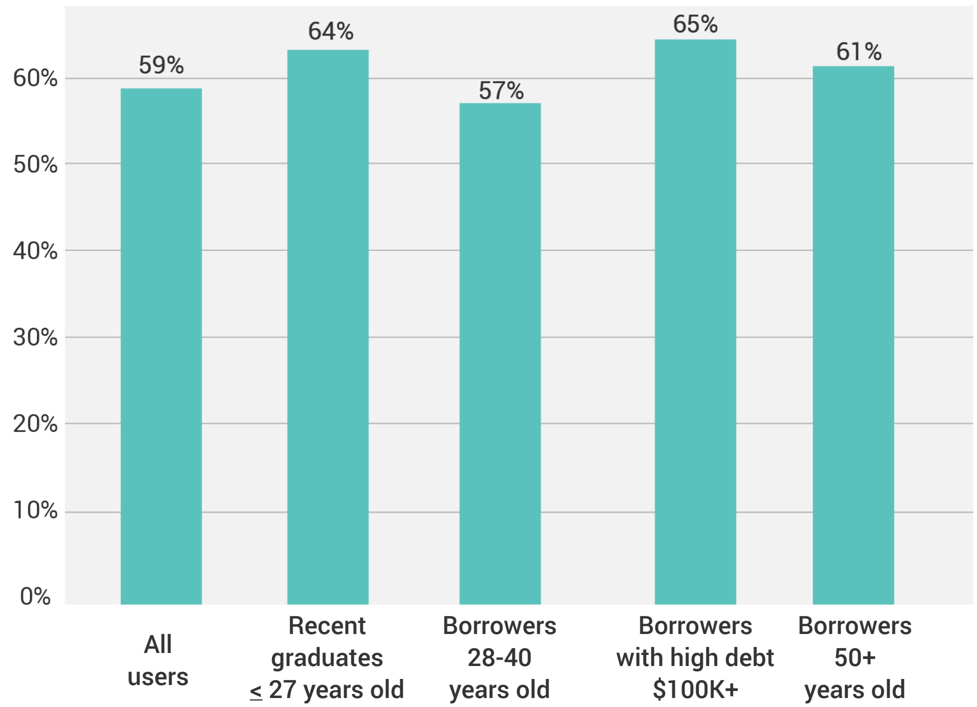
Borrowers with high debt balances were the least likely to extend their loan repayment terms, a strategy favored by recent graduates. Extending repayment terms can reduce monthly payments, but increase total repayment costs.

When high-debt borrowers did chose to extend their loan repayment term, they reduced their monthly payment by $439, on average but could expect to repay an additional $11,653 over the life of their six-figure loans.

Borrowers 50 and older choosing this strategy got the most bang for the buck, reducing their interest rate by 1.87 percentage points and lowering their monthly payment by $239, while increasing the total amount repaid by just $3,192. Borrowers 50 and older extended their loan terms by just 43 months on average, the least of any group.

Charts: refinancing into a fixed-rate loan

Percentage of borrowers refinancing into a fixed-rate loan



Source: Analysis of student loans refinanced by borrowers using the Credible marketplace from April 15, 2015 to Sept. 21, 2016.

Another important consideration when refinancing is whether to select a loan with a fixed or variable interest rate. While variable-rate loans typically have a lower initial rate, they can fluctuate with the market, moving up and down with indexes like the prime rate and LIBOR.

Characteristics of student loan borrowers using Credible to refinance

Group	Income	Loan balance	Years out of school
All users	$82,004	$52,759	9
Recent graduates ≤ 27 years old	$54,200	$49,379	3
Borrowers 28-40 years old	$83,527	$55,389	8
Borrowers with high debt $100K+	$129,042	$142,765	11
Borrowers 50+ years old	$113,685	$49,940	22

All numbers in the table are average figures.

Methodology

The Credible marketplace lets borrowers see personalized rates and terms of loans they prequalify for with multiple lenders, helping them choose a lender and loan that best fits their strategy.

For this report, we analyzed anonymized loan data submitted by borrowers who used our marketplace to refinance student loans with one of Credible's partner lenders between April 15, 2015 to Sept. 21, 2016.

The savings calculations include these assumptions:

- That users' interest rates will not change over time (they have fixed interest rates)
- That users will make timely payments and not default on their loans
- That users will make their monthly payments when they are due and there will be no pre-payments

Some borrowers were also excluded from these calculations:

- Borrowers who reported a monthly payment that would not have been enough to pay off their loans over time
- Borrowers who reported a monthly payment of more than $5,000
- Borrowers whose calculated savings represented more than 95 percent of their loan balance (likely an indicator of a data-entry error)

Borrowers enrolled in income-driven repayment plans such as REPAYE may qualify for loan forgiveness if they make 20 or 25 years worth of regular payments. The loan amount that is forgiven is considered taxable income by the IRS. Public service loan forgiveness programs for teachers, government employees, and tax-exempt nonprofits, provide tax-free relief after 10 years of payments. The potential for loan forgiveness was not included in our savings calculations. For borrowers who reported a remaining loan term of more than 25 years, savings were calculated based on 25 years of on-time payments.

Appendix

* In a March, 2015 report, Goldman Sachs identified $211 billion in student loans eligible for refinancing -- $147 billion in federal loans, plus $64 billion in private loans (Nash, Ryan. Beardsley, Eric. "The Future of Finance Part 1: The rise of the new Shadow Bank," Goldman Sachs, March 3, 2015). That estimate assumed that 25 percent of the $586 billion in federal direct and FFEL loans in repayment at the time could be eligible for refinancing, "after eliminating lower credit quality customers that couldn't be offered a cheaper rate from a market-based lender." To estimate the volume of private student loans that could be refinanced, Goldman Sachs analysts relied on data compiled by MeasureOne, which put the total volume of private loans outstanding at the time at $91.4 billion. Goldman Sachs excluded 30 percent of those loans considered to be "lower quality" or "credit-impaired," leaving $64 billion in private loans eligible for refinancing. With growth in both federal and private loan portfolios, Credible estimates the current size of the refinance market at $242 billion ($171 billion in federal loans, plus $71 billion in private loans). According to the latest numbers from the Department of Education, there were $682.3 billion federal direct and FFEL loans in repayment as of June 30, 2016. Applying the conversion ratio employed by Goldman Sachs to those loans produces an estimate of $171 billion in federal student loans in repayment that could be refinanced at lower rates. With the latest report from MeasureOne pegging the volume of private student loans outstanding as of March 31, 2016 at $102 billion, applying the Goldman Sachs conversion ratio produces an estimate that $71 billion in private student loans could be refinanced at lower rates.

** According to the latest numbers from Department of Education, there were 41.5 million unduplicated student loan borrowers as of June 30, 2016 who owed $1.262 trillion in federal student loan debt, or $30,410 on average. Many of those borrowers were still in school, within their grace period, or in deferment, forbearance, or default, and therefore not eligible to refinance. At the end of June, there were 15.7 million borrowers repaying $468.1 billion in federal direct student loans, with an average balance of $29,815. There were 10.6 million borrowers repaying 214.2 billion in older FFEL loans, with an average balance $20,207. Because some borrowers may be repaying both types of loans, there is some overlap between those two groups. To calculate the average loan balance for borrowers in repayment, Credible took the combined volume of federal direct and FFEL loans in repayment ($682.3 billion), and added $102 billion in outstanding private loans (private student loans are usually taken out in addition to, and not instead of, federal loans). The $784.3 billion total was divided by the total number of federal direct and FFEL borrowers in repayment (26.3 million), to come up with an average balance of $29,821. If $242 billion in student loans are eligible for refinancing, that represents 8.1 million borrowers.

About Credible

We bring simplicity, choice and unbiased support to all of life's important financial decisions. With Credible, borrowers are always in control. We let you compare personalized loan offers from multiple vetted lenders, giving you the power and confidence to improve your financial future.

“I saved upwards of 35,000 over the life of the loan, and decreased my overall rate by almost 2%! By far the customer service; dealing with Credible made such a daunting task of refinancing student loans into an easy process. In the 3 times I have talked to Credible, they have been more knowledgeable about loans than anyone else I have talked loans with, including a financial advisor and accountant.”

— Jake Simon

“It would not be an overstatement to say that Credible changed my life. I am no longer burdened by a student loan with a bloated interest rate, one that was going to take me 10+ years to pay off: instead, I am looking at a less-than 5-year payoff, and am able to save for a home and a future family.”

—Justin Schmauser

“Credible helped me do something I didn't think was possible — refinance my loan and set myself up to be done with the loan early.”

—Jessica Burroughs

Thank you

Please direct any questions to press@credible.com