

## FAQs: Refinancing or Consolidating Federal Student Loans

### Who refinances federal student loans?

There are two primary vehicles to refinance your federal student loans: 1) via a Federal Direct Consolidation loan or 2) via a private lender.

### How does the Federal Direct Consolidation loan work?

You can apply for a Direct Consolidation Loan for any federal loans in active repayment. All your individual federal loans (with their own individual interest rates) are then consolidated into one large loan with a fixed interest rate for the life of the loan. The fixed rate is based on the weighted average of the interest rates on all the loans being consolidated, rounded up to the nearest one-eighth of 1%. There is no cap on the interest rate of a Direct Consolidation Loan. Direct Consolidation Loans are eligible for a variety of terms based on the federal repayment plans. For more information on the Direct Consolidation Loan - visit their [website](#) or call the Loan Consolidation Information Center at 1-800-557-7392.

### How can I project what my Direct Consolidation interest rate will be?

The Department of Education offers a calculator on its website to estimate this weighted average interest rate, as well as total principal and interest paid over the life of the Direct Consolidation Loan.

### How does a private refinance work?

Private refinancing of federal loans has been an evolving industry for the last 3-4 years. Presently several lenders are offering loan products in this area. At the time of application/approval you will need to make two primary choices: 1) loan term (i.e. 5, 10 or 15 yrs.) and 2) variable vs. fixed interest rate. Private refinanced loans are normally credit based and may require a co-signer for either approval or to access a lower interest rate.

### Which type of interest rate (fixed vs. variable) is better?

We are not in a position to make this recommendation. Invariably your fixed rate will be higher (but remain stable over the life of the loan) while the variable (representing some risk) will be lower. Talk to your refi lender about the pros and cons of each option. With a variable rate you may also want to ask:

- is there a maximum level that the rate could reach
- how the variable rate is determined and how often it is recalculated
- what the recent history of their variable rate has been (as a gauge for future projections)

### What federal repayment benefits do I lose if choose a private refinanced loan?

Opting out of the federal repayment system will mean that you are no longer eligible for any income based repayment options and cannot participate in Public Service Loan Forgiveness. You should check with your refi lender for specific terms of your loans but other federal benefits which you may lose include:

- Flexibility to switch repayment plans (refinance terms are usually locked in)
- Medical and economic forbearance up to 24 months (refi lenders may not offer as generous of an option)
- Rehabilitation of loans - if you default on a federal loan it can be rehabilitated and removed from your credit history

### How does COAP treat consolidated or refinanced loans?

COAP has always allowed Direct Consolidation loans into the program and in January 2015 began allowing private refinanced student loans to be included for COAP repayment eligibility. Note that the COAP policy stipulates *“This private refinancing is defined as a commercial loan product from a recognized lender or lending platform for the sole, specific purpose of refinancing and/or consolidating the borrower’s federal student loans. However, all COAP recipients who are considering refinancing should contact the YLS Financial Aid Office to review this decision, its implications on your COAP award, and to ensure that your refinancing lender meets these eligibility criteria before completing the refinancing process.”*

**How can I evaluate if it better to refinance/consolidate or not?** In evaluating these options, you may wish to compare what your total payments of principal and interest would be over the life of your loans in all three scenarios (individual federal loans vs. Direct Consolidation loan vs. private refinancing). You should be able to get your present federal repayment projection from your loan servicer account, use the Direct Loan Consolidation calculator cited above for the Consolidation estimate and then use any of the refinance calculators (several of the lenders have them on their websites) to project your refinanced repayment. You should also factor into any evaluation if the consolidation/refinancing is going to extend the years of repayment on their loans.

**For any questions on repaying, refinancing and consolidating your student loans, please contact:  
YLS Financial Aid Office – 203-432-1688 or [financialaid.law@yale.edu](mailto:financialaid.law@yale.edu)**