

## REFINANCING EXAMPLE

One of the most enticing reasons to refinance is to lower the amount you pay each month. While this may be helpful during a financial hardship, reducing your monthly payment may extend the life of the loan which means in the long run you will be paying more money in interest. You must carefully balance the short term benefits of a reduced monthly payment amount with the longer term implications of paying more in finance charges over the life of your loan. Let's say you have five years left to pay on your loans and you have a high monthly payment. By extending your loan from five to ten years, your monthly payment may drop, but because you have extended the term, you will pay more interest and will likely spend more money in the end.

Example Current Total Owed	\$30,254	
Example Current Interest Rate	5%	
	<b>5 YEARS</b>	<b>10 YEARS</b>
Time Until Paid Off		
Monthly Payment	\$571	\$321
Total Once Paid Off	\$34,260	\$38,520
Savings of Lower Monthly Payment	\$250	
Cost of Additional Five Years to Pay	\$4,260	

*Keep in mind that extending the term of the loan is not ALWAYS a bad thing if the lower payment is needed for your current financial situation.*

For example, you may be approaching a large financial milestone such as trying to qualify for your first mortgage, starting a business, or saving for retirement; and your current education loan payment makes your monthly debt load too high. This might be a good reason to accept a longer term with a lower monthly payment. Since there are no pre-payment penalties, if your financial situation improves, you will be able to pay these loans off quicker and avoid some of that interest.

As mentioned before, if you have federal loans, they come with a number of repayment options that could help you in your financial situation. If you were a federal education loan borrower, and are thinking of including them into your new refinance loan, you will want to evaluate the federal loan monthly repayment options before proceeding. If you already have a low payment with your federal loans, refinancing might actually increase your monthly loan payment. For most people looking to refinance their loans, having just one monthly education loan payment can be enticing. Refinancing both your federal and private loans would allow for one monthly payment instead of paying multiple lenders each month. As enticing as having one payment might be, you should consider all of the options we just discussed, such as:

- Leaving your loans where they are
- Combining your federal and your private loans together into one loan
- Refinancing only your private loans

Even though we have gone through all of the important factors to weigh when deciding to refinance your education loans, it is ultimately up to you to assess whether refinancing is right for you.