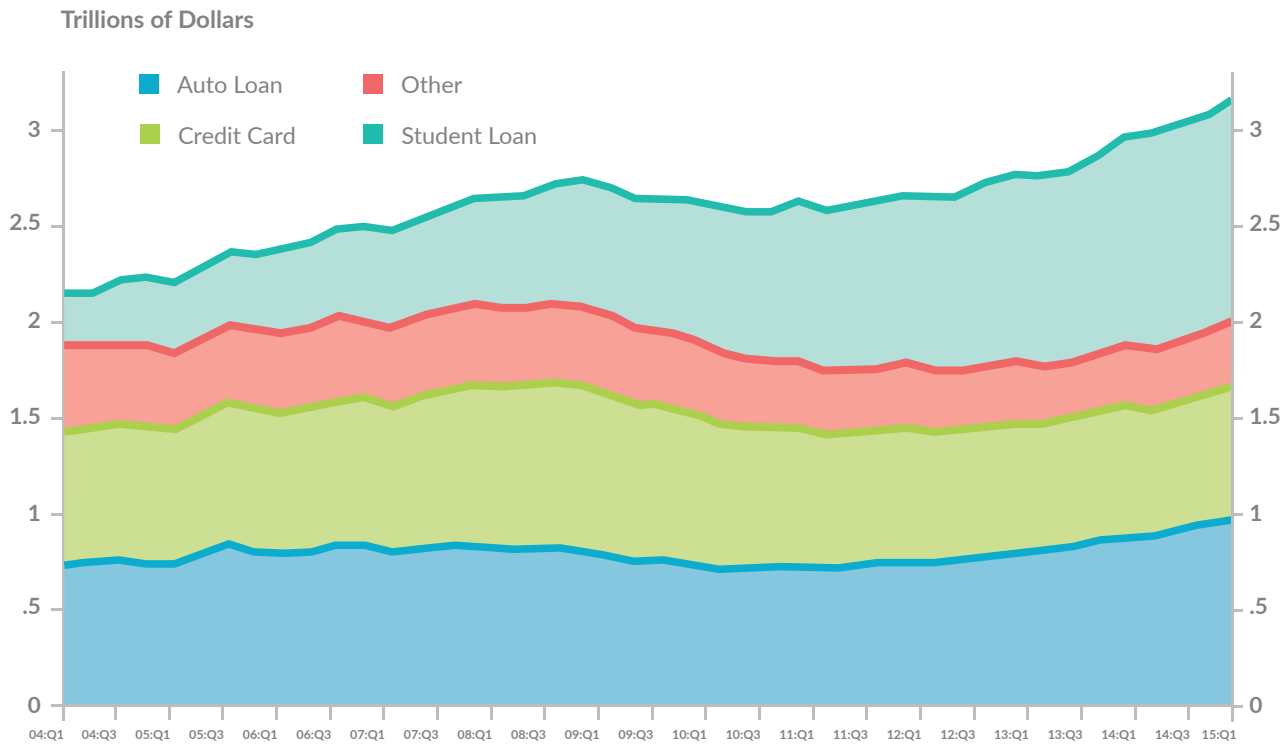
THE FINANCIAL PLANNER'S GUIDE TO STUDENT LOAN REFINANCING

SoFi

ADVISING CLIENTS WITH STUDENT LOANS

Financial planners today have more clients dealing with student loans than ever before. Outstanding student loan debt has quadrupled over the past decade, climbing to $1.2 trillion and becoming the largest consumer liability after mortgages (Figure 1). With one in five households currently on the hook for education debt[1], it's increasingly rare to find clients, even high net worth or soon-to-be high net worth clients, who *haven't* been affected by student loans in some way.

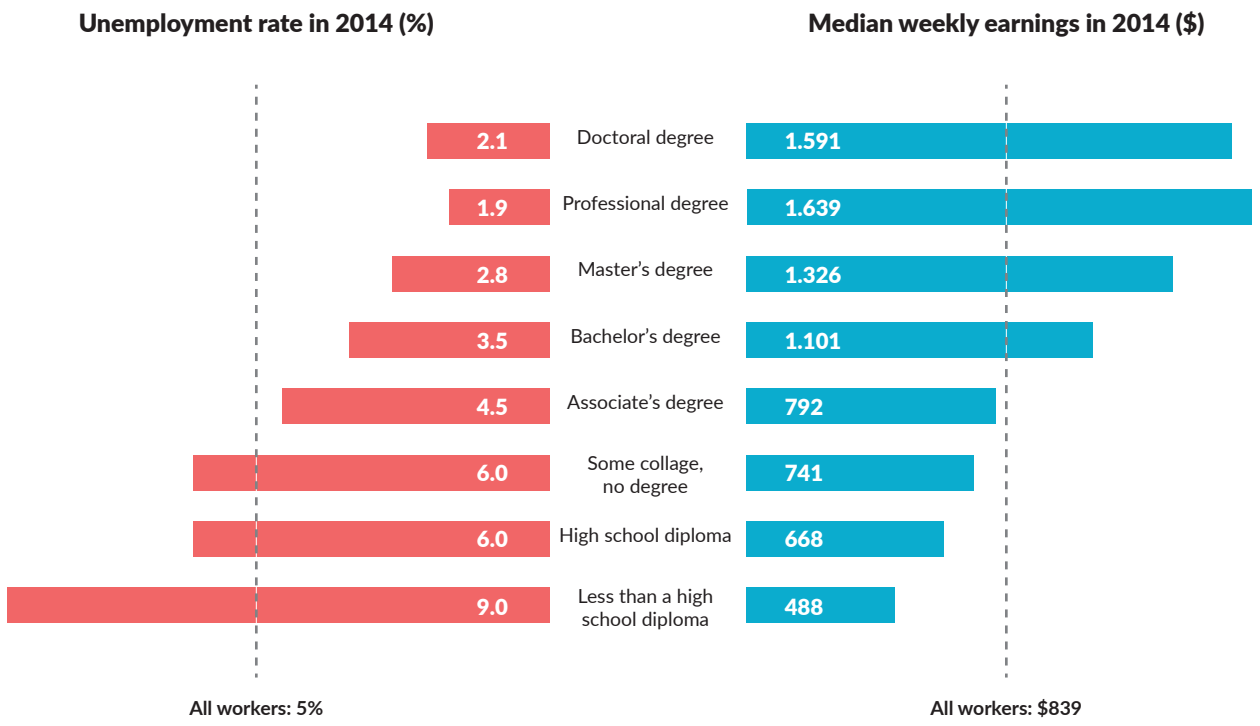
FIGURE 1:
OUTSTANDING STUDENT LOAN DEBT VERSUS OTHER DEBTS



Despite the dramatic statistics, as a financial planner you know that student loans are often a necessary investment for your clients' financial futures. The average college graduate enjoys higher earning potential and lower unemployment than those without a degree (Figure 2)[2]. And with the cost of education rising at a staggering clip, it's getting harder for people to afford that degree without some amount of financial assistance. Case in point: average college tuition and fees have grown by almost 500% over the past 30 years - more than four times the rate of inflation for the same time period[3].

Sources:
Federal Reserve Bank of New York, Equifax

FIGURE 2:
EARNINGS AND UNEMPLOYMENT RATES BY EDUCATIONAL ATTAINMENT



Note:
Data are for persons age 25 and over. Earnings are for full-time wage and salary workers.

Source:
US Bureau of Labor Statistics

But undergrads aren't the only ones feeling the squeeze. In recent years, the amount of student loan debt for graduate and professional degrees has been steadily and stealthily increasing. In fact, it's estimated that about 40% of today's outstanding loan debt comes from graduate student loans. Between 2004 and 2012, the typical debt load of a graduate borrower jumped an inflation-adjusted 43%, from $40,209 to $57,600. And for those pursuing law or medical degrees, the current median amount borrowed is much higher - $140.616 and $161,772, respectively[4].

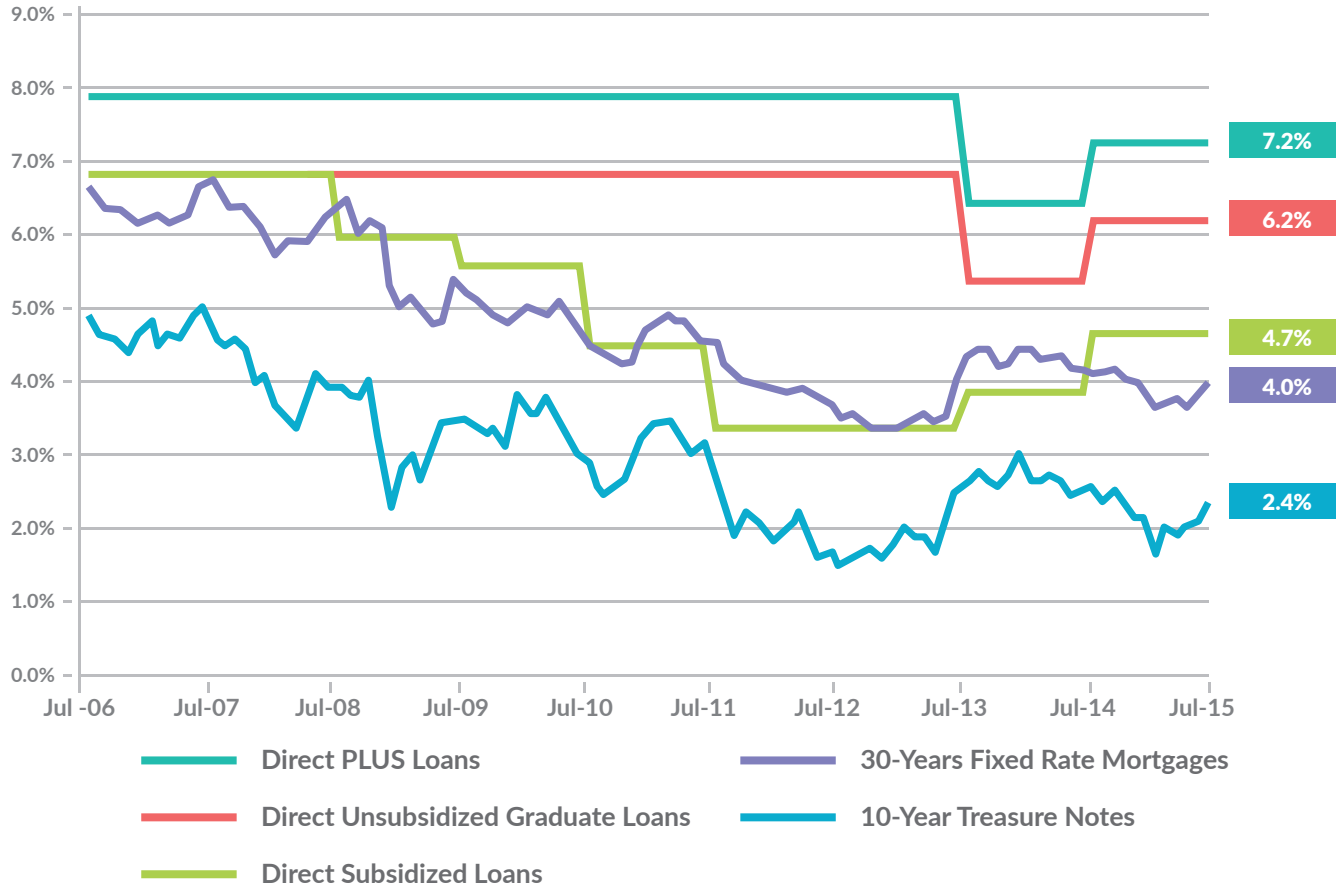
It's these young doctors, lawyers and business professionals who often end up in a financial planner's office, trying to figure out how to balance a large debt load with a swiftly increasing salary and evolving financial goals. How much should they allocate toward loan repayment versus retirement savings and investments? Should they put off buying a home until their loans are paid off? Will prepaying loans adversely affect their credit score? These clients have a lot of moving pieces to manage, but it's a puzzle that you, as a financial planner, are uniquely qualified to solve.

STUDENT LOAN INTEREST RATE MATTERS

While graduate and professional degree borrowers tend to experience less financial hardship than their undergrad counterparts, many still feel the weight of the relatively high interest rates that come with graduate student loans. Most graduate borrowers use a combination of federal Direct unsubsidized loans (at 5.84% as of 7/1/15) and Graduate PLUS loans (at 6.84% as of 7/1/15) to pay for degree programs, and sometimes still need to dip into even higher interest rate private loans. That's compared with Direct subsidized loans for undergrads, which are currently at 4.29% (as of 7/1/15).

In fact, before the Student Loan Certainty Act was passed in 2013, unsubsidized and Graduate PLUS loan rates had remained flat at 6.8% and 7.9%, respectively, for seven years. Meanwhile subsidized undergrad loans – and prevailing interest rates - dropped to rock bottom (Figure 3). Homeowners who took out loans in 2006 may have been eligible to refinance in 2012 at nearly half their original rate, but grad school borrowers did not have a refinance option through the federal government.

FIGURE 3:
FEDERAL STUDENT LOAN INTEREST RATES
VERSUS OTHER GOVERNMENT DEBT



As a result, a large percentage of today's outstanding graduate student loan debt is made up of high interest rate federal loans – which means that many soon-to-be high net worth professionals are in this camp. How can financial planners help these clients reduce their debt burden? One potential solution is student loan refinancing.

Sources: US Department of the Treasury (Daily Treasury Yield Curve Rates); US Department of Education; Freddie Mac

STUDENT LOAN REFINANCING: BASICS & BENEFITS

As a financial planner, you understand the impact that interest rates can have on your client's bottom line. While you may not have been advising the client at the time they took out their student loans, you can still talk with them today about options for reducing their interest rate and/or lifetime interest payments.

Refinancing loans at a lower rate can potentially allow borrowers to:

- Save money on total interest
- Make lower monthly payments
- Shorten loan term
- Switch from a variable rate loan to a fixed rate loan, or vice versa
- Enjoy the benefits of consolidation (see CONSOLIDATION VERSUS REFINANCING)

CONSOLIDATION VERSUS REFINANCING

As its name suggests, consolidating implies combining multiple student loans into one loan. However, the word can have different implications depending on whether it refers to federal or private student loans.

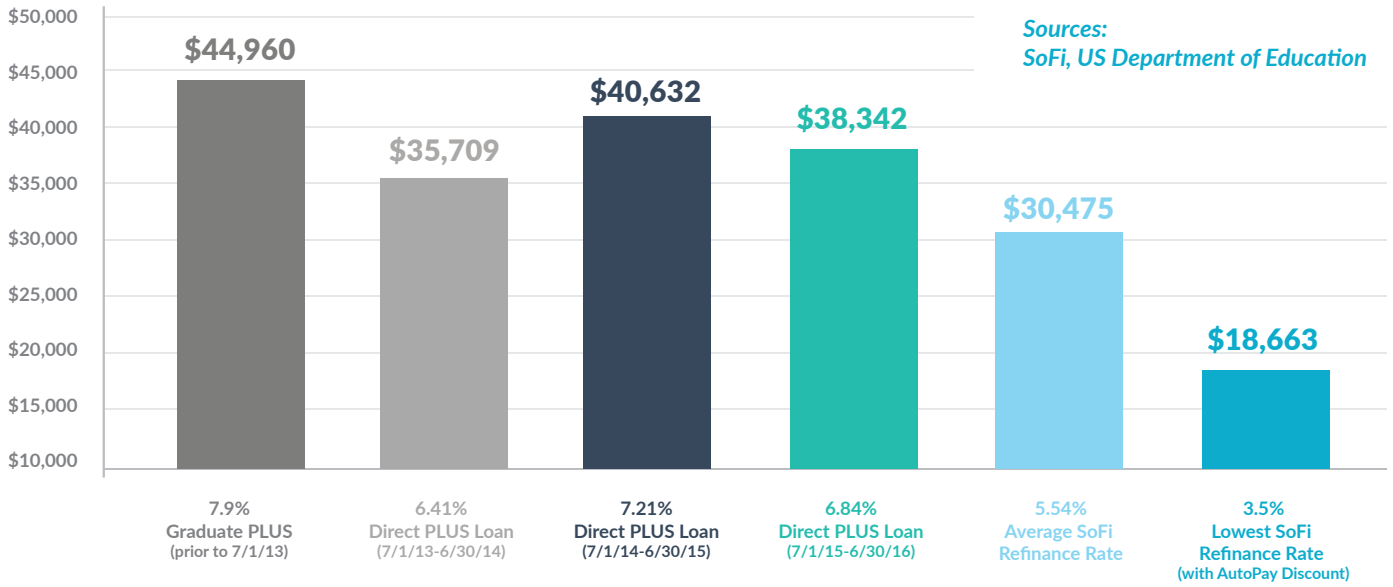
Federal student loan consolidation is offered by the government and is available for most types of federal loans (no private loans allowed). After the loans are combined, the resulting interest rate is a weighted average of the original loan rates, which means the borrower does not effectively save any money.

Similar to federal consolidation, a **private consolidation loan** allows a borrower to combine multiple loans into one. However, the resulting interest rate is not a weighted average of the original loan rates. Instead, a private lender will typically use the borrower's credit score and other relevant financial information to give him a new interest rate and loan, then use that loan to pay off the original loans. **Essentially, *consolidating* loans with a private lender is the same thing as *refinancing* those loans.**

Unfortunately, many of your clients who could be eligible to refinance are not aware that the option exists. Most borrowers tend to "set and forget" student loans, choosing a repayment plan after graduation and never taking a second look. The problem with this approach is that their rate stays the same throughout the life of the loan, even as their financial situation improves and they potentially become eligible for a lower rate.

Meanwhile, the borrowers who are aware of student loan refinancing sometimes have the misconception that it's a cumbersome, paperwork-heavy process that's not worth the effort to shave a few basis points off their rate. But as a financial planner, you know that even a small reduction in interest rate can translate to thousands (or even tens of thousands) of dollars in savings (Figure 4) – particularly for borrowers with sizeable loan balances.

FIGURE 4:
TOTAL INTEREST COST FOR $100,000 PRINCIPAL/
10 YEAR TERM STUDENT LOAN*



So how do you know when it's time to recommend refinancing to your clients? Similar to someone refinancing a mortgage, the typical candidate tends to have a strong financial profile and would usually include borrowers who:

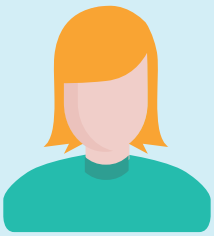
- Are in good standing with current loans
- Are currently employed or have a firm job offer
- Experience strong monthly cash flow
- Have demonstrated responsibility with other debts

** View important disclosure and repayment information for SoFi Refinance loans at SoFi.com.*

WHO REFINANCES?

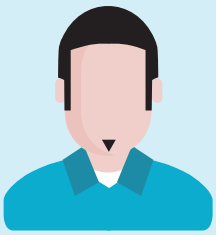
Want to know if student loan refinancing is right for your client? Here are four examples of real SoFi borrowers, their characteristics and what they saved by refinancing their loans.

KATE



- Graduated from Cal State Fullerton with a BS in Business four years ago
- Works as a Merchandiser for a clothing company
- Makes $95,000/year
- **Reduced rate by 2.82%, saving $137/month (at the same term) and approximately $16,000 in interest over the life of the loan.**

SAM



- Will receive his MBA from Vanderbilt in one month
- Accepted an offer from a major retailer as a Financial Analyst
- Starting salary $115,000/year
- **Reduced rate by 1.80%, saving $215/month (at the same term) and approximately $38,000 in interest over the life of the loan.**

LAUREN

- Graduated from Harvard Law School last year, and recently passed the bar exam
- Works as an Associate at an international law firm
- Makes $150,000/year
- **Reduced rate by 2.825%, saving $208/month (at the same term) and approximately $37,000 in interest over the life of the loan.**

MARK

- Graduated from Loma Linda Dental School four years ago
- Works in Family Dentistry
- Makes $175,000/year
- **Reduced rate by 1.41%, opted to reduce term, pay $800 more per month and save approximately $46,000 in interest over the life of the loan**

REFINANCING CONSIDERATIONS

FEDERAL VERSUS PRIVATE LOANS

A common misconception about student loan refinancing is that borrowers can't refinance federal loans with a private lender, but this option is actually available through SoFi and a few other lenders.

Some federal loans offer forgiveness options that do not transfer to private lenders. Before refinancing federal loans, borrowers should check to see if they're eligible for these programs. Two of the most common are the Public Service Loan Forgiveness Program (PSLFP) and the Teacher Loan Forgiveness Program.

Under the PSLFP, a Direct Loan balance may be eligible for forgiveness after 120 payments if the borrower has worked in the public sector that entire time. Similarly, the Teacher Loan Forgiveness Program is available for teachers and administrators who work in schools that serve low-income families full-time for five consecutive years. If your clients work in either of these fields, including public defenders and doctors at public hospitals, they'll want to see if one of these programs applies to them before refinancing federal loans.

The government also offers a number of repayment options including graduated, extended and income-driven repayment plans, such as income-based repayment (IBR) and Pay As You Earn (PAYE). Income-driven repayment plans allow borrowers with a partial financial hardship to make lower monthly payments, with the remaining principal eligible for forgiveness after 20 to 25 years. Typically, a borrower who would benefit from these programs would not also qualify for refinancing. However, it can make sense for a borrower with a big loan balance and high future earning potential (for example, a doctor in residency) to take advantage of hardship-based repayment during their cash-strapped post-grad years, then refinance once their higher income kicks in.

COMPARING LENDERS

Not all student loan refinance lenders are alike. When comparing private lenders to determine where to refinance, borrowers should consider the following criteria:

- ***Interest rates***
  Is the lender offering a competitive rate? What will the borrower's total savings be?
- ***Flexibility***
  Can the lender refinance federal and private loans? Do they offer fixed and variable rate loans? What about a choice between shorter term or lower monthly payments?
- ***Additional benefits***
  Does the lender offer an additional benefits such as career support?

CONCLUSION

With more people borrowing more money for education than ever before, financial planners can expect to see an increasing number of soon-to-be high net worth clients who are dealing with student loans. As you guide them through their evolving financial landscapes, keep student loan refinancing in mind as a potential solution for borrowers with large, high interest rate loan balances, good income and solid credit history—and help them achieve their goals faster and more efficiently than they thought possible.

SoFi

ABOUT SOFI

SoFi is a leader in marketplace lending and the largest provider of student loan refinancing, with over $3,000,000,000 in loans issued. We help ambitious professionals accelerate their success with student loan refinancing, MBA loans, mortgages, and personal loans. Our non-traditional underwriting approach takes into account merit and employment history among other factors to provide unique financial and investment products. We offer individual and institutional investors the ability to create positive social impact on the communities they care about while earning compelling rates of return. Learn more at SoFi.com.

SOURCES

[1] Pew Research Center
http://www.pewresearch.org/fact-tank/2013/07/01/248455/

[2] Bureau of Labor Statistics
http://www.bls.gov/emp/ep_chart_001.htm

[3] US Department of Labor
http://www.forbes.com/sites/specialfeatures/2013/07/24/up-up-and-away-college-tuition-is-on-the-rise/
http://chronicle.com/article/Will-Higher-Education-Be-the/44400

[4] New America: The Graduate Student Debt Review
http://www.edcentral.org/graduate-student-debt-review/