The difficult task of qualifying for student loan refinancing

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When Andrew Tremblay set out to refinance his college loan, he expected no problems. After all, he had a four-year degree, a steady job, and an enviable credit score.

But it was only when his father agreed to cosign for him that the country’s leading student loan refinancing lender, San Francisco-based SoFi, offered to cut Tremblay’s hefty 12.5 percent interest rate by more than half.

“It was a little jarring to be declined,” said Tremblay, 27, a personnel administrator for the Boston Symphony Orchestra. “I felt like I was a pretty solid candidate.”

In the booming world of student loan refinancing, most would-be borrowers are shut out. Only those with high-paying jobs, stellar credit history, and the ability to tap mom and dad as cosigners can usually clear the bar.

Private lenders from SoFi, Providence-based Citizens Financial Group, and even the Massachusetts Educational Financing Authority have jumped into the refinancing market for both private and government student loans to help overwhelmed millennials save tens of thousands of dollars.

But consumer advocates worry that student loan refinancers are cherry-picking borrowers, leaving behind those who need the most help and widening
the gulf between those who can climb out of debt and move ahead to other financial milestones, such as buying a house and starting a family, and those who can’t.

“The options are geared to people who have excellent income, and excellent credit history. It’s doctors and lawyers. Those are the people who are benefiting from the refinancing programs,” said Adam Minsky, a Boston lawyer specializing in student loan issues. “For borrowers who have larger loan balances, no cosigner, or are in financial distress, those people have no options. Nobody is going to refinance them.”

Student loan refinancing has become big business for some private lenders, who are looking for reliable sources of income in an otherwise low-interest rate environment.

Citizens expanded its student loan lending to include refinancing in 2014 and since then has increased its portfolio from $2 billion to $5.5 billion at the end of June. Student loan refinancing is now driving about half the growth in the bank’s consumer loans, matching the combined growth in mortgages, credit cards, auto lending, and home equity loans, said Brad Conner, vice chairman of consumer banking at Citizens.

“The program has really met our expectations,” Conner said. “We believe there’s an enormous untapped market.”

SoFi, or Social Finance Inc., started in 2011 helping graduates of Stanford University reduce the interest rates on their student loans. Now most of the company’s $10 billion in loans are student debt refinancing.

Other online lenders, including New York-based CommonBond Inc. and San Francisco-based Earnest Operations LLC, are also active in student refinancing. And traditional banks, such as Wells Fargo & Co. of San Francisco
and Darien Rowayton Bank in Connecticut, have also expanded into student loan refinancing.

They all promise to lower interest rates to between 2 and 9 percent. Current rates for private student loans are running between 2.5 and 12 percent, while the interest rate for federal loans is between 4 and 6 percent.

Companies have sprung up to help borrowers shop online for student refinancing rates and deals, much like hunting for the best credit card offers. And employers are increasingly bringing in private lenders to pitch young workers on refinancing student loans.

The requirements for the loans vary. Some require students to have graduated. Others want borrowers to have credit scores of 700 or higher, out of a maximum of 850, or want to know how much a prospective candidate has in investment income and retirement savings.

While Citizens doesn’t have a credit score requirement to qualify for refinancing and requires a minimum annual income of just $24,000, in a call with investors a few weeks ago bank executives described the bulk of their borrowers as doctors, lawyers, and business degree graduates, who had credit scores between 750 and 780. Nationwide, only 16 percent of consumers under the age of 30 have credit scores of 720 and above.

The income of a typical SoFi borrower was about $160,000, according to rating agency Moody’s Investors Service — three times the median family income for 25- to 34-year-olds of $53,500, according to the latest data from the US Census.

Dan Macklin, a cofounder of SoFi, said the company’s borrowers also come from humble beginnings, are working, and can benefit from saving money.
“Our members are those who have worked hard,” Macklin said. “They’re not people with silver spoons. They have debt.”

Aiming for high-end borrowers helps keep defaults low and ensure that they can extend credit and attract investors to finance these loans, lenders said. Lenders are also at greater risk if a refinancer defaults. Unlike a mortgage arrangement, there’s no house that lenders can seize if the borrower runs into financial trouble.

“We’re trying to really help as many customers as we possibly can. In some situations it’s not a prudent risk to take,” Conner, with Citizens, said. “It’s not a situation where we can help everyone.”

But for borrowers who are desperate for relief from debt that can exceed $100,000 for an undergraduate degree, being disqualified can be devastating. For example, more than half the borrowers that Urban Edge, a Roxbury-based community organization, counsels on student debt have been late with payments. “A bad credit score or bad history of repayment of student loans or a short employment history are disqualifications,” said Alexsandria Connelly, the group’s student loan coordinator.

As more lenders enter the market, including state student loan authorities, like MEFA, refinancing probably will be available to a broader, more middle-class audience, said Stephen Dash, the chief executive officer of Credible.com, an online marketplace for student loan refinancing.

MEFA, for example, requires a minimum credit score of 670, although since the program launched early this year the median score has been 741.

Democratic presidential candidate Hillary Clinton has proposed allowing borrowers with federal loans to refinance at current rates through the government. That way, borrowers wouldn’t lose out on some of the protections in the federal loan program.
For now, borrowers should carefully weigh private refinancing, especially federal loans, and funnel any discretionary income from gifts or their jobs toward paying down the loan as fast as possible, said Kevin Fudge, manager of consumer advocacy at Boston-based American Student Assistance.

“The irony is that the highest earners, who could pay off their debt no matter the interest rate, are the ones who end up saving money and paying their loan off quicker with private loan refinancing,” said Fudge.

For Kelly Franco, 27, a Boston high school teacher, refinancing her private loans isn’t an option on her salary, expenses, and debt in the tens of thousands of dollars, from undergrad and graduate degrees. She received some relief with income-based repayment from the federal government and hopes to eventually qualify for some forgiveness working as a teacher, but her loans remain burdensome. Franco pays $600 a month in student loans and worries that she’ll have to keep paying for another 20 years and won’t be able to save enough to send her son to college.

“I wonder how other young families are dealing with this,” Franco said “It’s hard.”