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# Choosing Between Debt Consolidation or Refinancing Ahead of Student Loan Repayment Changes

Student loans—whether federal or private—can be difficult to repay, largely due to the interest that accrues over time. In some cases, interest begins accruing while you are still in school, when you may not yet have the ability to make payments. Federal Direct Unsubsidized Loans and Federal Direct PLUS Loans (for parents and graduate students), for example, begin accruing interest as soon as funds are disbursed. As a result, many borrowers face a higher-than-expected balance when they enter repayment after graduation.

To manage repayment, borrowers often consider enrolling in the Department of Education’s standard or income-driven repayment (IDR) plans. Others explore whether consolidating their federal loans or refinancing, typically through a private lender, would help simplify payments or reduce costs.

In this article, we explain the difference between loan consolidation and refinancing, outline the pros and cons of each approach, and highlight key considerations before choosing a strategy. We also discuss how these options may change after July 1, 2026, following the passage of the One Big Beautiful Bill.

## What is Student Loan Consolidation?

Student loan consolidation allows borrowers with multiple federal student loans to combine them into a single loan with one monthly payment. This can simplify repayment and may extend the repayment term, which can lower monthly payments.

However, consolidation does not reduce your interest rate. Instead, the new rate is a weighted average of your existing loans’ rates, rounded up to the nearest one-eighth of a percent. Some borrowers may also consolidate to qualify for certain federal programs, such as Public Service Loan Forgiveness (PSLF), or to access specific repayment plans.

## What is Student Loan Refinancing?

Student loan refinancing is the process of taking out a new loan, typically from a private lender, to pay off one or more existing student loans. This can include both private and federal loans, though refinancing federal loans will convert them into private loans and eliminate access to federal protections and repayment options.

The primary goal of refinancing is to secure a lower interest rate, reduce monthly payments, or combine multiple loans into a single payment.

## The Pros of Each Approach

When evaluating consolidation or refinancing, it helps to know what each option is designed to do well.

### Pros of Consolidation

For borrowers with multiple federal loans, consolidation is often about simplicity and access rather than reducing borrowing costs.

- Simplifies repayment by combining multiple federal loans into a single monthly payment
- Can lower your monthly payment by extending your repayment term (up to 30 years in some cases)
- Provides a fixed interest rate, which can be helpful if you currently hold older federal loans with variable rates
- May unlock additional federal benefits, such as access to certain income-driven repayment (IDR) plans or eligibility for Public Service Loan Forgiveness (PSLF), particularly if your loans are not already Direct Loans

### Pros of Refinancing

Refinancing is typically focused on improving loan terms, especially for borrowers with strong credit and stable income.

- Combines loans into a single payment with one lender
- May lower your interest rate, reducing both your monthly payment and total repayment cost
- Offers flexibility in repayment terms, allowing you to shorten or extend your timeline
- Allows you to apply with a cosigner, which may improve approval odds or help secure better terms

## The Cons of Each Approach

While both strategies can be useful, each comes with trade-offs that should be carefully considered.

### Cons of Consolidation

- Does not lower your interest rate—your new rate is a weighted average of existing loans, rounded up slightly
- May increase total interest paid over time if you extend your repayment term
- Can reset progress toward forgiveness under income-driven repayment (IDR) plans in certain cases
- May limit repayment flexibility in the future, particularly as federal repayment programs evolve

### Cons of Refinancing

- Not all borrowers qualify, as approval and rates depend on credit score and debt-to-income ratio
- Your interest rate may not be lower, especially if your credit profile is still developing
- May extend your repayment timeline, increasing total interest paid
- Refinancing federal loans into private eliminates federal protections, including access to IDR plans, PSLF, and certain deferment or forbearance

## Considerations to Make When Deciding to Consolidate or Refinance

Beyond the basic pros and cons, several factors can meaningfully influence which approach makes sense financially.

### 1. Federal Protections and Flexibility

Federal student loans come with built-in protections, including income-driven repayment plans, deferment and forbearance options, and potential loan forgiveness programs. Refinancing federal loans into private loans permanently eliminates access to these benefits. For borrowers with variable income, job uncertainty, or plans to pursue PSLF, maintaining this flexibility may be more valuable than securing a lower interest rate.

### 2. Interest Rates: Fixed vs. Variable

While refinancing may offer lower rates, those rates may be fixed or variable. Fixed rates provide predictable payments over time, whereas variable rates may start lower, but can increase depending on market conditions. As a result, borrowers should weigh immediate savings against the potential for future rate increases.

### 3. Monthly Payment vs. Total Cost

Lower monthly payments can provide short-term relief, but they often come at a long-term cost. Extending your loan term may reduce your monthly payment, but it typically increases the total amount of interest paid over time. On the other hand, choosing a shorter repayment term can raise your monthly payment while reducing your overall borrowing costs. This trade-off is a key consideration in both consolidation and refinancing decisions.

### 4. Credit Profile and Timing

Refinancing terms are heavily influenced by your financial profile. Borrowers with higher credit scores, stable income, and lower debt-to-income ratios are more likely to qualify for favorable rates. In some cases, it may make sense to delay refinancing until your financial position improves. Applying with a cosigner can also help, though borrowers should review cosigner release policies.

### 5. Prepayment Flexibility

Generally, student loans do not carry prepayment penalties. This means borrowers can make additional payments at any time to help reduce the principal and shorten the loan's repayment timeline, regardless of the formal loan term.

### 6. Policy and Legislative Changes

Federal student loan programs are subject to ongoing policy changes. For example, under the One Big Beautiful Bill Act (OBBBA), borrowers who consolidate after July 1, 2026, may face more limited repayment options:<sup>1</sup>

- Borrowers with Direct Loans for their own education, including qualifying consolidation loans, will be eligible for the new Standard Plan and the Repayment Assistance Plan (RAP)
- Parent PLUS Loans, including consolidation loans that include Parent PLUS debt, will only be eligible for the Standard Plan
- These changes may reduce flexibility for borrowers who rely on income-driven strategies.

## 7. Impact on Loan Forgiveness Timelines

Because consolidation creates a new loan, it may reset qualifying payment counts for income-driven repayment (IDR) forgiveness in certain cases. Borrowers typically qualify for IDR forgiveness after 20 or 25 years of payments, depending on when the loans were taken out, while Public Service Loan Forgiveness (PSLF) requires 10 years (120 qualifying payments). If you are close to reaching either threshold, consolidating could significantly extend your repayment timeline.

## 8. Private Loan Considerations

When refinancing private loans, borrowers may lose benefits tied to their original loan, such as interest rate discounts or cosigner release options. While some lenders offer similar features, terms can vary widely.

## *choosing the right approach for your student loans*

Ultimately, the right approach depends on your financial priorities, your career path, and how much flexibility you may need over time. If your income is still evolving, you're considering public service, or you value the safety net that federal loan programs provide, keeping your loans within the federal system, potentially through consolidation, may offer greater flexibility.

On the other hand, if your income is stable, your credit profile is strong, and your focus is on reducing interest costs and paying down debt more efficiently, refinancing may be worth considering. Lowering your interest rate or adjusting your repayment term can create meaningful long-term savings, but it often comes with fewer protections.

For many borrowers, this decision is not all-or-nothing. If you have a mix of federal and private loans, a blended approach may provide a balanced path forward.

Because this decision can have long-term implications for both your cash flow and overall financial plan, we encourage you to discuss your options with our team. Evaluating where you are today and where you want to go, can help ensure your student loan strategy aligns with your broader financial goals.





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<sup>1</sup> Pros & Cons of Consolidating Loans – Student Loan Borrowers Assistance. (2025, October 29). Student Loan Borrowers Assistance. <https://studentloanborrowerassistance.org/for-borrowers/dealing-with-student-loan-debt/repaying-your-loans/consolidating-loans/pros-cons-of-consolidating-loans/>

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