Managing Student Loans During Residency

Nicole Knight
Spring 2010

NOTE: All information and estimates are based on AAMC interpretation of federal regulations as of February 2010 and are subject to change. Borrowers should always contact their lender/servicer(s) to discuss loan balances and repayment options.

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Class of 2009 Indebted Graduates

<table>
<thead>
<tr>
<th></th>
<th>Median Education Debt</th>
<th>% with Education Debt</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private</td>
<td>$177,500</td>
<td>84</td>
</tr>
<tr>
<td>Public</td>
<td>$150,000</td>
<td>89</td>
</tr>
<tr>
<td>All</td>
<td>$160,000</td>
<td>87</td>
</tr>
</tbody>
</table>

Source: AAMC 2009 Graduation Questionnaire
Class of ‘10 Indebtedness

UC Irvine, School of Medicine

87% with educational debt

Average medical indebtedness $116,689

Average pre-medical indebtedness $17,250

Non-education loans average $11,500

Source: UCI Financial Aid Office and 2009 Graduate Questionnaire (GQ) data

Agenda

1) Know Your Loan Portfolio
2) How to Postpone Payments
3) Payments During Residency
4) Forgiveness Options
5) Other Considerations
1. Know Your Loan Portfolio

Finding Your Federal Loans

www.nslds.ed.gov

To access you provide:
- SS#
- Date of Birth
- First 2 letters (last name)
- PIN # (www.pin.ed.gov)
To Find Other Loans

www.annualcreditreport.com

Grace Periods

<table>
<thead>
<tr>
<th>Loan Repayment Timeline</th>
</tr>
</thead>
<tbody>
<tr>
<td>School</td>
</tr>
<tr>
<td>Stafford Loan</td>
</tr>
<tr>
<td>Consolidation Loan</td>
</tr>
<tr>
<td>FFIECH Consolidation</td>
</tr>
<tr>
<td>Grad PLUS Loan</td>
</tr>
<tr>
<td>Perkins Loan</td>
</tr>
<tr>
<td>Primary Care Loan</td>
</tr>
<tr>
<td>Institutional Loans</td>
</tr>
<tr>
<td>Private Loans</td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>

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### Interest Rates

<table>
<thead>
<tr>
<th>Loan Type</th>
<th>In School, Grace and Deferment</th>
<th>Forbearance, Repayment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stafford Loans (disbursed on or after 7/1/06)</td>
<td>6.8% Fixed</td>
<td>6.8% Fixed</td>
</tr>
<tr>
<td>Stafford Loans* (disbursed between 7/1/98 and 6/30/06)</td>
<td>1.88% Variable</td>
<td>2.48% Variable</td>
</tr>
<tr>
<td>Grad PLUS Loans**</td>
<td>8.5% Fixed</td>
<td>8.5% Fixed</td>
</tr>
<tr>
<td>Perkins Loans / PCL / LDS</td>
<td>5.0% Fixed</td>
<td>5.0% Fixed</td>
</tr>
<tr>
<td>Private Loans</td>
<td>Typically Variable – Check the Promissory Note</td>
<td></td>
</tr>
<tr>
<td>Institutional Loans</td>
<td>Varies by Loan – Check the Promissory Note</td>
<td></td>
</tr>
<tr>
<td>Consolidation Loans</td>
<td>Fixed rate based on weighted average interest rate of underlying loans rounded up to nearest one-eighth of a percent (capped at 8.25%)</td>
<td></td>
</tr>
</tbody>
</table>

* Variable rates change every July 1 based on the 91-day treasury bill
** Interest rate for Direct Grad PLUS Loans 7.9%

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### Repayment Strategy

Prioritize repayment efforts – pay the most expensive debt FIRST!
**Subsidized vs. Unsubsidized**

**Sub • si • dy**  [suhb-si-dee] *noun -*

Financial assistance granted by the government to cover accruing interest while in-school, in grace, or in a qualifying deferment.

Source: www.dictionary.com

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<table>
<thead>
<tr>
<th>Subsidized</th>
<th>Unsubsidized</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subsidized Stafford</td>
<td>Unsubsidized Stafford</td>
</tr>
<tr>
<td>Perkins*</td>
<td>Grad PLUS</td>
</tr>
<tr>
<td>Primary Care Loans</td>
<td>Private Loans</td>
</tr>
<tr>
<td>LDS Loans*</td>
<td>Institutional Loans (some)</td>
</tr>
<tr>
<td>Institutional Loans (some)</td>
<td>Consolidation Loans (underlying unsubsidized loans)</td>
</tr>
<tr>
<td>Consolidation Loans (underlying eligible subsidized loans)</td>
<td></td>
</tr>
</tbody>
</table>

*subsidy and deferment rights lost during consolidation*
Capitalization

Addition of unpaid interest to the principal

- Increases the total amount due
- The less frequent the better
- Identify your lenders policy

Repayment Strategy

Pay the interest on unsubsidized loans PRIOR to capitalization
Master Promissory Note

A contract with the lender
Has a multi-loan feature
Details borrower’s Rights and Responsibilities
Defines Terms and Conditions of the loans

Rights and Responsibilities

Rights include the ability to:
Prepay any federal loan without penalty
Request a shorter repayment schedule
Change repayment plans
Request a deferment or forbearance

Review your promissory note for all rights

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Rights and Responsibilities

Responsibilities include:

- Make on time loan payments
- Make payments despite receipt of bill
- Notify the lender of changes in contact info
- Attend an Exit Counseling session

Review promissory note for all responsibilities

A serious obligation

Student loans must be repaid whether or not:

- Program was completed
- Program completed in normal amount of time
- Satisfied with your experience
- Employment is obtained
Consequences of...

**Delinquency**
Reported to credit bureaus, affects your credit

**Default**
Negatively affects your credit
Wages and tax returns can be garnished
Lawsuit leveled against you (responsible for costs)
Other federal debt collection methods

Terms and Conditions

**Discharge may be available in cases of:**
- Death or Total/Permanent Disability
- Closed school / False certification
- Certain public school service professions
- Identity Theft
- Bankruptcy (rarely)

*Review your promissory note for all terms*
## Introducing Dr. Median

Dr. Median’s student loan portfolio:

- Undergraduate debt: $10K**
- Median Medical School debt: $150K`
- Graduates in ‘09 with $160k total education debt

*Subsidized and Unsubsidized Stafford
**Unsubsidized Stafford

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## The Effects of Capitalization

<table>
<thead>
<tr>
<th>Loan Type*</th>
<th>Interest Rate</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Consolidation</strong></td>
<td>4.375%</td>
<td>$56k</td>
</tr>
<tr>
<td>(Undergrad + M1)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Stafford</strong></td>
<td>6.8%</td>
<td>$125k</td>
</tr>
<tr>
<td>(M2 thru M4)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td></td>
<td><strong>$181,000</strong></td>
</tr>
</tbody>
</table>

*Both loan types include subsidized and unsubsidized portions.

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**Dr Median’s Options**

*Most likely options during residency*

- Pay Later
- Pay Now
- Seek Forgiveness

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**How to Postpone Payments**

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### Postponement Options

#### Deferment

- Economic Hardship *(up to 3 years)*
- Graduate Fellowship *(unlimited)*
- Unemployment *(up to 3 years)*
- Military

For a complete list and more details on types of deferment, contact your lender(s) or servicer(s)

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### Postponement Options

#### Forbearance

- Administrative
- Discretionary
- Mandatory

For a complete list and more details on types of forbearance, contact your lender(s) or servicer(s)

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Forbearance

Medical Residency/Internship Forbearance

Used to postpone payments

Requested annually from lender(s)

Continuous periods may avoid capitalization

Interest accumulates on sub and unsub loans

*Other forbearance and deferments options may be available. Borrowers should contact their lender/servicer(s) for more details.

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Forbearance

Dr. Median’s situation after a 4-year residency

<table>
<thead>
<tr>
<th></th>
<th>Balance after Grace</th>
<th>Residency Interest</th>
<th>Post-Residency Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consolidation</td>
<td>$56K</td>
<td>$10K</td>
<td>$66K</td>
</tr>
<tr>
<td>(Undergrad. + M1)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stafford</td>
<td>$125K</td>
<td>$34K</td>
<td>$159K</td>
</tr>
<tr>
<td>(M2 to M4)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td>$181K</td>
<td>$44K</td>
<td>$225K</td>
</tr>
</tbody>
</table>

*Both loan types include subsidized and unsubsidized portions.

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Forbearance

Dr. Median’s repayment of $225K after residency:

<table>
<thead>
<tr>
<th>Plan</th>
<th>Yrs.</th>
<th>Monthly Payment</th>
<th>Total Interest</th>
<th>Total Repayment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standard</td>
<td>10</td>
<td>$2,500</td>
<td>$141K</td>
<td>$301K</td>
</tr>
</tbody>
</table>

*Other repayment plans – Graduated, Income-Based, Income-Contingent or Income-Sensitive – are likely not as practical

Debt Management Strategy

Utilize forbearance on federal debt and focus payments towards high rate debt.
### Payments During Residency

Determines payment amount and interest cost

<table>
<thead>
<tr>
<th>Repayment Plan</th>
<th>Payment Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standard (Level)</td>
<td>$2,000/mo</td>
</tr>
<tr>
<td>Extended</td>
<td>$1,200/mo</td>
</tr>
<tr>
<td>Graduated</td>
<td>$900/mo</td>
</tr>
<tr>
<td>Income Sensitive (FFEL)</td>
<td>$900/mo</td>
</tr>
<tr>
<td>Income Contingent (Direct Loans)</td>
<td>$600/mo</td>
</tr>
<tr>
<td>Income Based Repayment (IBR)</td>
<td>$380/mo</td>
</tr>
</tbody>
</table>
### Repayment Plans

**Effects of each Repayment Plan on Cost**

**Debt Manager Booklet: Page 17-18**

<table>
<thead>
<tr>
<th>Monthly Payment During Residency</th>
<th>Repayment Plan</th>
<th>Repayment Years after Residency</th>
<th>Estimated Monthly Payment</th>
<th>Interest Cost</th>
<th>Total Repayment</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0</td>
<td>Standard</td>
<td>10</td>
<td>$2,500</td>
<td>$150,000</td>
<td>$300,000</td>
</tr>
<tr>
<td>$0</td>
<td>Graduated</td>
<td>10</td>
<td>$1,200 for 2 years then $2,900 for 8 years</td>
<td>$162,000</td>
<td>$312,000</td>
</tr>
<tr>
<td>$0</td>
<td>Extended</td>
<td>25</td>
<td>$1,500</td>
<td>$303,000</td>
<td>$453,000</td>
</tr>
<tr>
<td>$0</td>
<td>Income-Sensitive</td>
<td>10</td>
<td>$1,200 for 3 years then $3,300 for 7 years</td>
<td>$168,000</td>
<td>$318,000</td>
</tr>
<tr>
<td>$0</td>
<td>Income-Contingent</td>
<td>8.1</td>
<td>$2,600 to $3,300 over 8.1 years</td>
<td>$136,000</td>
<td>$286,000</td>
</tr>
<tr>
<td>$0</td>
<td>Income-Based</td>
<td>12</td>
<td>$1,900 to $2,500 over 12 years</td>
<td>$175,000</td>
<td>$325,000</td>
</tr>
</tbody>
</table>

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**Debt Fact**

The lower the monthly payment… the higher the interest cost
# Repayment Plans

## Estimated Monthly Payment Amounts

**Debt Manager Booklet: Page 19-20**

### Federal Stafford loans with 5.6% annual interest

<table>
<thead>
<tr>
<th>Loan Type</th>
<th>Standard 5-year repayment term</th>
<th>Graduated 10-year repayment term</th>
<th>Extended 25-year repayment term</th>
<th>Income-Based Repayment (IBR)</th>
<th>Income-Sensitive</th>
<th>Income-Contingent Repayment (ICR)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Monthly Payment</strong></td>
<td>$100,000</td>
<td>$102,950</td>
<td>$107,300</td>
<td>$125,900</td>
<td>$152,000</td>
<td>$192,000</td>
</tr>
<tr>
<td><strong>Estimated Payment</strong></td>
<td>$230,580</td>
<td>$236,400</td>
<td>$243,500</td>
<td>$280,300</td>
<td>$341,000</td>
<td>$419,700</td>
</tr>
</tbody>
</table>

### Income-Based Repayment

**Loans eligible for IBR**

- **FFELP Loans** *(sub, unsub and consolidation)*
- **DL Loans** *(sub, unsub and consolidation)*

Perkins and LDS loans are **NOT** eligible*

Private loans are **NOT** eligible

* unless included in a federal consolidation loan
Income-Based Repayment

New plan made available July 1, 2009

- Payment based primarily on household income
- Family size also taken into consideration
- Partial subsidy available for the first 3 years
- Unpaid interest will not capitalize*

* As long as a PFH exists and annual paperwork is submitted in a timely manner

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Income-Based Repayment

To obtain IBR, borrower must do the following

- Contact each lender individually to request
- Inform lenders, annually, of family size
- Give lenders permission to access tax returns
- Demonstrate a Partial Financial Hardship (PFH)
Who Has a PFH?

<table>
<thead>
<tr>
<th>DEBT Level</th>
<th>AGI* Below</th>
</tr>
</thead>
<tbody>
<tr>
<td>$120,000</td>
<td>$126,000</td>
</tr>
<tr>
<td>$130,000</td>
<td>$135,000</td>
</tr>
<tr>
<td>$140,000</td>
<td>$145,000</td>
</tr>
<tr>
<td>$150,000</td>
<td>$154,000</td>
</tr>
<tr>
<td>$160,000</td>
<td>$163,000</td>
</tr>
<tr>
<td>$170,000</td>
<td>$172,000</td>
</tr>
<tr>
<td>$180,000</td>
<td>$181,000</td>
</tr>
<tr>
<td>$190,000</td>
<td>$191,000</td>
</tr>
<tr>
<td>$200,000</td>
<td>$200,000</td>
</tr>
</tbody>
</table>

*Rounded down to the nearest thousand, and based on a family size of “1” in the continental U.S. and a 6.8% interest rate.

Income-Based Repayment

Formula for a Partial Financial Hardship (PFH):

- More likely to occur when income is lower and debt is higher
- Max payment in IBR is the Standard amount*
- 1st post-M.D. year median stipend is $46,700

* As originally determined when calculating Partial Financial Hardship
Income-Based Repayment

Formula for a Partial Financial Hardship (PFH):

\[
\begin{align*}
\text{Standard payment} & \quad > \quad \text{IBR payment} \\
\$2,000 / \text{mo} & \quad > \quad \$381 / \text{mo}
\end{align*}
\]

- More likely to occur when income is lower and debt is higher
- Max payment in IBR is the Standard amount*
- 1st post-M.D. year median stipend is $46,700

* As originally determined when calculating Partial Financial Hardship

Online IBR Calculators

www.IBRinfo.org
www.FinAid.org

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### Income-Based Repayment

**Dr. Median repayment after residency**

<table>
<thead>
<tr>
<th>Plan</th>
<th>Yrs</th>
<th>Monthly Payment</th>
<th>Total Interest</th>
<th>Total Repayment*</th>
</tr>
</thead>
<tbody>
<tr>
<td>IBR</td>
<td>12</td>
<td>$2,000</td>
<td>$143k</td>
<td>$303k</td>
</tr>
</tbody>
</table>

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### Forgiveness Options

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Eligible Loans

+ Qualifying Payments
+ Qualifying Work

Public Service Loan Forgiveness (PSLF)

Eligible Loans

- Federal Direct Sub and Unsubsidized Stafford
- Federal Direct Consolidation *
- Federal Direct Parent PLUS** & Grad PLUS
- Federal Perkins and LDS loans***
- FFEL student loans***

* Excluding FFEL spousal consolidation loans
** Does not qualify for Income-Based Repayment (even if in a Federal Direct Consolidation)
*** When included in a Federal Direct Consolidation Loan
Public Service Loan Forgiveness

Qualifying Payments

120 payments to Direct Loans made under:

- Income Contingent Repayment (ICR), or
- Income-Based Repayment (IBR), or
- Standard 10-year Repayment*

While simultaneously working in Public Service

* Any required payment that is equal or more than the Standard 10-year Repayment amount

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Public Service Forgiveness

Qualifying Payments (cont.)

Does not have to be continuous work

Payments made after October 1, 2007

Must be a required monthly payment

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Public Service Loan Forgiveness

Qualifying Work: Full-Time (30+ hours/week)

- Non-profit, tax exempt, 501(c)(3) organization
- Federal, state, local or tribal government
- Military service
- Public schools and colleges

Other Programs

Other programs available at AAMC website:
www.aamc.org/stloan

NIH Loan Repayment Programs:
www.lrp.nih.gov

NHSC Repayment Program:
www.nhsc.hrsa.gov/loanrepayment
Loan Forgiveness

Dr. Median's loans after 10 years of public service:

Total Forgiven…………………………

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5 Other Considerations

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Federal Loan Consolidation

When to consider Consolidation:

Variable rates are low

Multiple lenders to repay

To obtain Public Service Loan Forgiveness (DL)

To make Perkins or LDS loans eligible for IBR

Effects of consolidating

A longer term will increase the interest costs*

Able to prepay or change repayment plan

A new loan with new benefits**

May negatively affect grace, deferment, or forgiveness options

* Also, the rate will be a weighted-average that may be rounded up to the nearest 1/8th
** Forfeiture of original borrower benefits is likely. Future borrower benefits vary by lender.
Federal Loan Consolidation

FIRST for Residents Mailbox
~Sign up at www.aamc.org/FIRST~

Private Loans

Details of Private Loans

- Typically unsubsidized with variable rates
- A grace period/forbearance may be available
- **Cannot** be included in IBR or PSLF

Be cautious when consolidating private loans
The Taxpayer Relief Act of 1997

<table>
<thead>
<tr>
<th></th>
<th>Full Deduction</th>
<th>Partial Deduction</th>
<th>NO Deduction</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Single</strong></td>
<td>$60,000 or less</td>
<td>$60,001 to $74,999</td>
<td>$75,000 or more</td>
</tr>
<tr>
<td><strong>Married filing Jointly</strong></td>
<td>$120,000 or less</td>
<td>$120,001 to $149,999</td>
<td>$150,000 or more</td>
</tr>
</tbody>
</table>

Student loan interest deduction max $2,500 per year
Voluntary payments may be eligible
Capitalized interest may be included

www.irs.gov/publications/p970

The Value of an MD Degree
### Value of an M.D. Degree

<table>
<thead>
<tr>
<th>B.A. Business</th>
<th>M.D. Internal Medicine</th>
</tr>
</thead>
<tbody>
<tr>
<td>Starting Age</td>
<td>22</td>
</tr>
<tr>
<td>Starting Salary</td>
<td>$40,000 in 2005</td>
</tr>
<tr>
<td>Savings at 65</td>
<td>?</td>
</tr>
</tbody>
</table>

**Assumptions:** Salaries grow at 3.5% per year, savings grow at 8% annually.

- **B.A.:** Annual savings rate = 5% (25 to 34), 10% (35 to 65). Works 44 yrs.
- **M.D.:** Annual savings rate = 2% (30 to 39), 10% (40 to 65). Practice for 36 yrs.

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### Value of an M.D. Degree

<table>
<thead>
<tr>
<th>In $ Thousands</th>
</tr>
</thead>
<tbody>
<tr>
<td>$750</td>
</tr>
<tr>
<td>$700</td>
</tr>
<tr>
<td>$650</td>
</tr>
<tr>
<td>$600</td>
</tr>
<tr>
<td>$550</td>
</tr>
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<td>$300</td>
</tr>
<tr>
<td>$250</td>
</tr>
<tr>
<td>$200</td>
</tr>
<tr>
<td>$150</td>
</tr>
<tr>
<td>$100</td>
</tr>
<tr>
<td>$50</td>
</tr>
</tbody>
</table>

**Ages:**
- 22
- 30
- 65

**Medical School Debt:**
- ($75)
- ($150)
- ($225)

**Forbearance:**
- 25 yr. Extended

**Practice:**
- B.A. Business
Value of an M.D. Degree

<table>
<thead>
<tr>
<th></th>
<th>B.A. Business</th>
<th>M.D. Internal Medicine</th>
</tr>
</thead>
<tbody>
<tr>
<td>Starting Age</td>
<td>22</td>
<td>30</td>
</tr>
<tr>
<td>Starting Salary</td>
<td>$40,000 in 2005</td>
<td>$172,000 in 2012</td>
</tr>
<tr>
<td>Savings at 65</td>
<td>$1.5M</td>
<td>$3.1M</td>
</tr>
</tbody>
</table>

Assumptions: Salaries grow at 3.5% per year, savings grow at 8% annually

B.A.: Annual savings rate = 5% (25 to 34), 10% (35 to 65). Works 44 yrs
M.D.: Annual savings rate = 2% (30 to 39), 10% (40 to 65). Practice for 36 yrs

Time Value of Money

Resident A starts saving at the age of 26
Invests $2,400 / year until retirement...
Total Contribution = $100,800

$1,171,000

Resident B starts saving at the age of 35
Invest $2,400 / year until retirement...
Total Contribution = $76,800

$533,000
“An investment in knowledge always pays the best interest”

- Benjamin Franklin

Support Along the Way

www.ombudsman.ed.gov
1-877-557-2575

FIRST for Residents Mailbox

www.aamc.org/FIRST

FACEBOOK Fan Page;
FIRST for Medical Education

Your loan servicers’ and their websites

Your residency program

Your medical school financial aid office

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Questions?
FIRST@AAMC.org