Student Loans and Debt Management

Nicole Knight, MBA
AAMC

Disclaimer: All information and estimates are based on AAMC interpretation of federal regulations as of January 2012 and are subject to change. These are estimates only. Students should always contact their servicer(s) to discuss exact loan balances and repayment options.
### Class of 2011 Indebtedness

<table>
<thead>
<tr>
<th></th>
<th>Public Schools</th>
<th>Private Schools</th>
<th>All Schools</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
<td>$150,612</td>
<td>$176,675</td>
<td>$161,290</td>
</tr>
<tr>
<td>Median</td>
<td>$155,000</td>
<td>$180,000</td>
<td>$162,000</td>
</tr>
</tbody>
</table>

86% of class report having educational debt

59% of class report debt $150,000 or higher

Source: FIRST analysis of AAMC 2011 GQ data. Education debt figures include premedical debt.
Vanderbilt University SOM

Average Education Debt $120,000

% with Education Debt 76%

Non-Education Debt (avg) $15,844

Source(s): 2011 Graduation Questionnaire and 2011 LCME I-B data

©2012 Association of American Medical Colleges. All rights reserved.
Have a Spending Plan

Refer to page 34

www.mint.com
Agenda

- Know Your Loan Portfolio
- How to Postpone Payments
- Payments During Residency
- Other Considerations
- Is It Worth It?
Know Your Loan Portfolio
Finding Your Federal Loans

Refer to page 4

To access, provide:

SSN
Date of Birth
First 2 letters of last name
FAFSA PIN (www.pin.ed.gov)

www.nslds.ed.gov

©2012 Association of American Medical Colleges. All rights reserved.
Contact FSA at:
1-800-433-7327
Or email:
fsa.customer.support@ed.gov
www.studentaid.ed.gov
# Loan Repayment Timeline

<table>
<thead>
<tr>
<th>School</th>
<th>Residency/Graduate Fellowship</th>
<th>Post Residency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stafford Loan Enrolled</td>
<td>6 month grace</td>
<td>Make Payments¹ or Forbearance⁴</td>
</tr>
<tr>
<td>Consolidation Loan</td>
<td>School Deferment</td>
<td>Make Payments¹ or Forbearance⁴</td>
</tr>
<tr>
<td>DL In-school</td>
<td>School Deferment</td>
<td>Make Payments¹ or Forbearance⁴</td>
</tr>
<tr>
<td>Grad PLUS Loan</td>
<td>School Deferment</td>
<td>Make Payments¹ or Forbearance⁴</td>
</tr>
<tr>
<td>Grad PLUS Loan Disbursed on or after 7/1/08</td>
<td>School Deferment</td>
<td>Make Payments¹ or Forbearance⁴</td>
</tr>
<tr>
<td>Perkins Loan</td>
<td>Enrolled</td>
<td>Make Payments¹ or Forbearance⁴</td>
</tr>
<tr>
<td>Primary Care Loan</td>
<td>Enrolled</td>
<td>Make Payments¹ or Forbearance⁴</td>
</tr>
<tr>
<td>Institutional Loans</td>
<td>Check your promissory note and/or consult your financial aid administrator</td>
<td>Make Payments¹ or Forbearance⁴</td>
</tr>
<tr>
<td>Private Loans</td>
<td>Enrolled</td>
<td>Make Payments¹ or Forbearance. Varies by lender—check promissory note</td>
</tr>
</tbody>
</table>

¹ For a list of common deferments, see [https://www.aamc.org/first/defermanager.pdf](https://www.aamc.org/first/defermanager.pdf)

² Internship/Residency Forbearance: Available on Stafford, Grad PLUS and Consolidation loans, this forbearance allows you to postpone or reduce the amount of your monthly payment for a limited and specific period of time if you have been accepted into an Internship/Residency Program.

³ Make payments: Consult with your lender regarding repayment plans and postponement options that may be available.

⁴ Upon receipt of written request and documentation, the institution shall grant a temporary cessation of payments.

This timeline is intended to provide general information and is subject to change based on federal regulations. Always consult your lender/servicer for detailed information regarding deferment, forbearance and repayment options.
## Interest Rates

Refer to page 12

<table>
<thead>
<tr>
<th>Loan Type</th>
<th>In school, Grace and Deferment</th>
<th>Forbearance and 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>1.76% Variable</td>
<td>2.36% Variable</td>
</tr>
<tr>
<td>Grad PLUS Loans</td>
<td>8.5% Fixed</td>
<td>8.5% Fixed</td>
</tr>
<tr>
<td>Direct PLUS Loans</td>
<td>7.9% Fixed</td>
<td>7.9% 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 the 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

** Private and alternative loans typically carry a variable rate that may be higher than federal student loans.

©2012 Association of American Medical Colleges. All rights reserved.
Repayment Strategy

Prioritize repayment efforts – pay the most expensive debt FIRST!
**Subsidy**  [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
Addition of unpaid interest to the principal

$120,000 + $15,500* = $135,500*

*Based on estimates only, loan types and rates will affect this number.
Repayment Strategy

Pay the interest on unsubsidized loans PRIOR to capitalization
Options During Residency
Most likely options during residency

#1 Pay Later

#2 Pay Now

#3 Seek Forgiveness or Assistance
Postpone Payments
Deferment Forbearance
Mandatory Medical Residency/Internship

Used to postpone payments

Interest accumulates on sub and unsub loans

Requested annually from lender

Continuous periods may avoid capitalization*

*Check your servicer’s capitalization policy
## 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><strong>TOTAL</strong></td>
<td>$135K</td>
<td>$33K</td>
<td><strong>$168K</strong></td>
</tr>
</tbody>
</table>

©2012 Association of American Medical Colleges. All rights reserved.
Dr. Median’s repayment of $168K 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>$1,900</td>
<td>$113K</td>
<td>$233K</td>
</tr>
</tbody>
</table>
Payments during Residency
Repayment Plans

Determines the payment amount & interest cost

- Standard/Level: $1,600/mo
- Extended: $900/mo
- Graduated: $800/mo
- Income-Contingent: $640/mo
- Income-Based Repayment (IBR): $410/mo

©2012 Association of American Medical Colleges. All rights reserved.
## Estimated Monthly Payment Amounts

### Stafford Loans with 6.8% annual interest

<table>
<thead>
<tr>
<th>Loan Amount</th>
<th>Standard Balance at Repayment</th>
<th>10-Year Repayment Term</th>
<th>25-Year Repayment Term</th>
<th>Income-Based Repayment (IBR) Balance (After a 4-Year Residency)</th>
<th>Payment and Years Based on Balance at Start of IBR</th>
<th>Income-Sensitive Balance (After a 4-Year Residency)</th>
<th>Payment and Years Based on Balance (Interest Only)</th>
<th>Income-Contingent Repayment (ICR) Balance (After a 4-Year Residency)</th>
<th>Payment and Remaining Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>$70,000</td>
<td>$76,477</td>
<td>$880</td>
<td>$433</td>
<td>$531</td>
<td>$74,485</td>
<td>$880 for 9.7 yrs.</td>
<td>$433</td>
<td>$1,297</td>
<td>$61,163</td>
</tr>
<tr>
<td>$80,000</td>
<td>$88,276</td>
<td>$1,016</td>
<td>$500</td>
<td>$613</td>
<td>$89,029</td>
<td>$1,016 for 10.2 yrs.</td>
<td>$500</td>
<td>$1,297</td>
<td>$76,243</td>
</tr>
<tr>
<td>$90,000</td>
<td>$100,075</td>
<td>$1,152</td>
<td>$567</td>
<td>$695</td>
<td>$103,315</td>
<td>$1,152 for 10.5 yrs.</td>
<td>$567</td>
<td>$1,297</td>
<td>$91,718</td>
</tr>
<tr>
<td>$100,000</td>
<td>$111,875</td>
<td>$1,287</td>
<td>$634</td>
<td>$776</td>
<td>$117,744</td>
<td>$1,287 for 10.8 yrs.</td>
<td>$634</td>
<td>$1,297</td>
<td>$107,194</td>
</tr>
<tr>
<td>$110,000</td>
<td>$123,674</td>
<td>$1,423</td>
<td>$701</td>
<td>$858</td>
<td>$132,284</td>
<td>$1,423 for 11.1 yrs.</td>
<td>$701</td>
<td>$1,297</td>
<td>$122,669</td>
</tr>
<tr>
<td>$120,000</td>
<td>$135,473</td>
<td>$1,559</td>
<td>$768</td>
<td>$940</td>
<td>$146,906</td>
<td>$1,559 for 11.3 yrs.</td>
<td>$768</td>
<td>$1,297</td>
<td>$138,145</td>
</tr>
<tr>
<td>$130,000</td>
<td>$147,272</td>
<td>$1,695</td>
<td>$835</td>
<td>$1,022</td>
<td>$159,186</td>
<td>$1,695 for 11.5 yrs.</td>
<td>$835</td>
<td>$1,297</td>
<td>$153,620</td>
</tr>
<tr>
<td>$140,000</td>
<td>$159,071</td>
<td>$1,831</td>
<td>$901</td>
<td>$1,104</td>
<td>$176,321</td>
<td>$1,831 for 11.7 yrs.</td>
<td>$901</td>
<td>$1,297</td>
<td>$169,096</td>
</tr>
<tr>
<td>$150,000</td>
<td>$170,870</td>
<td>$1,966</td>
<td>$968</td>
<td>$1,186</td>
<td>$191,091</td>
<td>$1,966 for 11.8 yrs.</td>
<td>$968</td>
<td>$1,297</td>
<td>$184,571</td>
</tr>
<tr>
<td>$155,000</td>
<td>$176,770</td>
<td>$2,034</td>
<td>$1,002</td>
<td>$1,227</td>
<td>$198,488</td>
<td>$2,034 for 11.9 yrs.</td>
<td>$1,002</td>
<td>$2,997</td>
<td>$192,309</td>
</tr>
<tr>
<td>$160,000</td>
<td>$182,670</td>
<td>$2,102</td>
<td>$1,035</td>
<td>$1,268</td>
<td>$205,892</td>
<td>$2,102 for 12.0 yrs.</td>
<td>$1,035</td>
<td>$3,097</td>
<td>$200,047</td>
</tr>
<tr>
<td>$162,000</td>
<td>$185,029</td>
<td>$2,129</td>
<td>$1,048</td>
<td>$1,284</td>
<td>$208,855</td>
<td>$2,129 for 12.0 yrs.</td>
<td>$1,048</td>
<td>$3,137</td>
<td>$203,142</td>
</tr>
<tr>
<td>$170,000</td>
<td>$194,469</td>
<td>$2,238</td>
<td>$1,102</td>
<td>$1,350</td>
<td>$220,718</td>
<td>$2,238 for 12.1 yrs.</td>
<td>$1,102</td>
<td>$3,297</td>
<td>$215,522</td>
</tr>
<tr>
<td>$180,000</td>
<td>$206,268</td>
<td>$2,374</td>
<td>$1,169</td>
<td>$1,432</td>
<td>$235,565</td>
<td>$2,374 for 12.3 yrs.</td>
<td>$1,169</td>
<td>$3,497</td>
<td>$230,998</td>
</tr>
<tr>
<td>$188,668</td>
<td>$216,495</td>
<td>$2,491</td>
<td>$1,227</td>
<td>$1,503</td>
<td>$248,448</td>
<td>$2,491 for 12.3 yrs.</td>
<td>$1,227</td>
<td>$3,670</td>
<td>$244,412</td>
</tr>
</tbody>
</table>

©2012 Association of American Medical Colleges. All rights reserved.
Debt Fact

The lower the monthly payment... the higher the interest cost
To enter IBR, borrower must

Contact each servicer individually to request

Give access to household AGI* (tax records)

Inform servicer(s), annually, of family size

Demonstrate a Partial Financial Hardship (PFH)

*As reported to the IRS. Annual verification is required of both AGI and family size.
Benefits of IBR

Partial interest subsidy during the first 3 years

Unpaid interest does not capitalize when:

- Annual paperwork is filed timely
- Borrower demonstrates a PFH

Possible loan forgiveness

*As reported to the IRS. Annual verification required of both AGI and family size
Formula for a Partial Financial Hardship (PFH):

$1,600 / mo* > $410 / mo

- 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 $48,700

*Preliminary data from AAMC Survey of R/F Stipends and Benefits and AAMC Analysis
Online IBR Calculators

www.finaid.org
www.IBRinfo.org
www.aamc.org/FIRST

Determined by Calculating

15% of income that exceeds 150% of the poverty line for a borrower’s family size
### Dr. Median’s Post-Residency balance: 147K

<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>$1,600</td>
<td>$113K</td>
<td>$233K</td>
</tr>
</tbody>
</table>

©2012 Association of American Medical Colleges. All rights reserved.
Forgiveness or Assistance
Loan Forgiveness or Assistance

Other programs listed at AAMC website:

www.aamc.org/stloan

NIH Loan Repayment Programs:

www.lrp.nih.gov

NHSC Repayment Program:

www.nhsc.hrsa.gov/loanrepayment
Eligible Loans

+ Qualifying Payments

+ Qualifying Work

Public Service Loan Forgiveness
Dr. Median pursues Public Service:

- Pediatrician at a community health center
- IBR for 10 years, 3 during residency, 7 after
- Has PFH for the all 10 years
- Qualifies for Public Service Loan Forgiveness
Dr. Median’s loans after 10 years of public service:

Total Paid………………………... $145K*
Total Forgiven……………………..$  65K

*starting salary $120,000
The FIRST Stop...

Refer to page 3

Medloans® Organizer and Calculator

- Organize and keep track of your student loan information
- Develop repayment strategies using the calculator
- Use the only calculator designed specifically for medical students

“…the Medloans Calculator is pretty darned useful. Job well done!”

Frank Bauer, med student, URochester SOM

www.aamc.org/FIRST

©2012 Association of American Medical Colleges. All rights reserved.
Other Considerations
When to consider

- Multiple servicers to repay
- To obtain Public Service Loan Forgiveness (DL)
- To make Perkins or LDS loans eligible for IBR
- Lock-in low variable rates
Effects of consolidation

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, cancellation or forgiveness options

* 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.

Must have loans owned by Direct Loans

Must have loans owned by a FFEL lender

Do NOT initiate a consolidation online

Federal servicers will contact eligible borrowers

studentaid.ed.gov/specialconsolidation
<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></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</td>
<td>$172,000</td>
</tr>
<tr>
<td></td>
<td>in 2005</td>
<td>in 2012</td>
</tr>
<tr>
<td>Savings at 65</td>
<td>?</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
In $ Thousands

Value of an M.D Degree

Medical School Debt

©2012 Association of American Medical Colleges. All rights reserved.
In $ Thousands

Value of an M.D Degree

$750
$675
$600
$525
$450
$375
$300
$225
$150
$75
$0

Age: 22
Med School
Residency
Practice
Forbearance
25 yr. Extended

Medical School Debt
## 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</td>
<td>$172,000</td>
</tr>
<tr>
<td></td>
<td>in 2005</td>
<td>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

©2012 Association of American Medical Colleges. All rights reserved.
“An investment in knowledge always pays the best interest”

- Benjamin Franklin
Questions?

FIRST@aamc.org