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Financial Information, Resources, Services, and Tools (FIRST)

# 2018 Education Debt Manager

For Graduating Medical School Students

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Financial Information, Resources, Services, and Tools (FIRST)

# 2018 Education Debt Manager

**For Graduating Medical School Students**

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Information within the EDM is based on AAMC estimates and interpretation of federal regulations effective 01/2018. Information is subject to change based on changes in federal regulations and/or at the discretion of the Secretary of the Department of Education. For exact loan balances and information on repayment, graduates should contact the servicers of their student loans.

**Please note: AAMC presentations are intended to provide general information and are not intended to fulfill or replace any federally mandated requirement.**

Published January 2018.

## A Note From FIRST

Congratulations! You've completed your medical education, and now you'll want to start planning a strategy for repaying your student loans.

Facing student loan debt may seem daunting, confusing, or even frustrating; understanding your loans and the various options for managing them can help. Knowing all your choices gives you the opportunity to make the best financial decisions.

Within this resource, you will find a detailed listing of options for managing your federal student loans, ways to postpone payments during residency, tips to reduce the total cost of your debt, and resources to help you along the way. Not only will this information help you make wise repayment decisions, it also will help you develop important debt management skills for the future (including the lean years of residency).

Benjamin Franklin has been attributed with saying, "An investment in knowledge always pays the best interest." Be encouraged; the major investment you made in yourself, your future, and the future of health care will be rewarding, both personally and professionally.



Gary LeRoy, MD  
Associate Dean  
Wright State University

*The best advice I received when I was contemplating a career in medicine was to concentrate my initial efforts on getting into medical school and leave the issue of how to pay for it for another day. Advisors assured me that there would be enough money available in the form of scholarships, grants, and low-interest loans to pay for my medical education.*

*What they did not educate me about was debt management, the principle of compound interest, and that it could take me the bulk of my professional career to pay off my student loans.*

*It has been more than 20 years since I heard those words of advice, and I've been passing them along to prospective medical students ever since. However, I qualify my comments today with the fact that the trend line for medical student indebtedness has become increasingly steep with each academic year.*

*Students must arrive at the door of the house of medicine with an enhanced awareness of how they will navigate the rising tide of medical education debt they will encounter prior to their graduation.*

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# Education Debt

Paying for a medical education is challenging. In fact, the majority of medical school graduates complete their education with the assistance of student loan financing. In the graduating class of 2017, 75% of medical students reported leaving medical school with student loan debt. Across the country, the median level of debt for the class of 2017 was \$192,000 (based on public and private MD-granting medical schools, including undergraduate debt).

The Association of American Medical Colleges (AAMC) collects this type of data each year, and we share it with you as a point of reference. Before leaving medical school, you will also be asked to share your feedback—if you have not already—about your medical school experience via a survey called the Graduation Questionnaire (GQ).

Thank you for taking the time to provide your valuable input on all aspects of your medical education; it will help improve medical education for future students.

**October 2017**

**Medical Student Education: Debt, Costs, and Loan Repayment Fact Card**

Class of 2017	Public	Private	All
Pct. with Ed. Debt	77%	72%	75%
Mean (indebted only)	\$181,179 (↑0%)	\$206,204 (↑1%)	\$190,694 (↑1%)
Median (indebted only)	\$180,000 (↑0%)	\$202,000 (↑1%)	\$192,000 (↑1%)

Education Debt (including premed) of:	Public	Private	All
\$100,000 or more	82%	83%	83%
\$200,000 or more	43%	57%	48%
\$300,000 or more	10%	21%	14%
Planning to enter loan forgiveness/repayment program:	46%		

Education Debt Breakdown	% Graduates	Median
Premedical Education Debt	32%	\$25,000
Medical Education Debt	72%	\$180,000

Non-Education Debt	% Graduates	Median
Credit Cards	14%	\$5,000
Residency/Relocation Loans	3%	\$12,000

Source: FIRST analysis of AAMC 2017 GQ data. Education debt figures include premedical education debt plus medical education debt. Non-education debt collected by category.

Cost, M1 In-State, 2017-18	Public	Private
Median Tuition & Fees	\$36,937 (↑1%)	\$59,605 (↑4%)
Median Cost of Attendance (COA)	\$60,945 (↑3%)	\$82,278 (↑2%)
Median 4-Yr. COA for Class of 2018	\$243,902 (↑1%)	\$322,767 (↑3%)

Source: AAMC TSF Survey data from 88 public schools and 54 private schools.

[aamc.org/FIRST](http://aamc.org/FIRST)

**Sample Repayment – \$192,000 in Federal Direct Loans**

Description	Repayment Years	Monthly Payment	Interest Cost	Total Repayment
PAYE during residency and after with \$185,000 starting salary	Residency: 3 Post-Res.: 17	\$310 to \$360 \$1,500 to \$2,200	\$244,000	\$390,000 then ~\$46,000 forgiven
REPAYE during residency and after with \$185,000 starting salary	Residency: 3 Post-Res.: 18	\$310 to \$360 \$1,500 to \$2,300	\$213,000	\$405,000
REPAYE during residency and after with \$250,000 starting salary	Residency: 4 Post-Res.: 12	\$310 to \$380 \$2,200 to \$2,800	\$160,000	\$352,000
Forbearance during residency, then Standard	Residency: 3 Post-Res.: 10	\$0 \$2,900	\$156,000	\$348,000
Forbearance during residency, then Standard	Residency: 7 Post-Res.: 10	\$0 \$3,500	\$226,000	\$418,000
REPAYE during residency and after with \$140,000 starting salary and PSLF	Residency: 3 Post-Res.: 7	\$310 to \$360 \$1,100 to \$1,300	\$113,000	\$113,000 then remaining balance forgiven

Notes: PAYE is Pay As You Earn. REPAYE is Revised Pay As You Earn. PSLF is the federal Public Service Loan Forgiveness program. All figures are approximate, rounded for clarity, and estimated for a 2018 graduate. Full assumptions for each scenario available on request. Salaries in 2016 dollars. Non-PSLF amounts forgiven are taxable.

2017 1st Post-MD Year estimated median stipend: \$54,600  
Federal PAYE/REPAYE monthly payment based on above stipend: \$300  
See [aamc.org/stloan](http://aamc.org/stloan) for state and federal loan repayment/scholarship programs.

Interest Rates for federal Graduate/Professional loans disbursed 7/1/17 to 6/30/18  
Direct Unsubsidized: 6.00%    Direct PLUS: 7.00%    Rates change annually

**Contact Information**  
Julie Fresne, [jfresne@aamc.org](mailto:jfresne@aamc.org)  
Jay Youngclaus, [jy@aamc.org](mailto:jy@aamc.org)  
Matthew Shick, [mshick@aamc.org](mailto:mshick@aamc.org)  
Joe Bañez, [jbanez@aamc.org](mailto:jbanez@aamc.org)

The AAMC is the leading source of education debt management information for medical students and residents including the MedLoans® Organizer and Calculator.

[aamc.org/FIRST](http://aamc.org/FIRST)

# Loan Basics for Graduating Medical Students

## Getting Organized

The first step in managing your education debt is organizing your student loan records. Once you have all your documents organized in a single place, you will be better prepared to manage your debt during repayment.

### MedLoans® Organizer and Calculator

When putting your essential documents in order, you may rely on a folder system, a filing cabinet, a scanning-and-saving process, or even a shoebox. The specific method you use is not as important as the actual process of opening, reading—yes, reading—and saving your student loan paperwork.

To help you stay organized throughout residency, the AAMC has created an online resource specifically designed for medical students and residents to safely and securely organize and save loan portfolio information as well as calculate various repayment options. This tool will help you understand the impact (total interest cost) of each of the different repayment strategies. Use the MedLoans Organizer and Calculator during repayment so you can make educated decisions about your repayment options.

**Use your AAMC username and password to log in to the MedLoans Organizer and Calculator.**

[aamc.org/medloans](http://aamc.org/medloans)

*For help with your username and password, contact Denine Hales at [dhales@aamc.org](mailto:dhales@aamc.org).*

To quickly and easily use the MedLoans Organizer and Calculator, export and save all your existing federal loan information from the National Student Loan Data System (NSLDS) to your desktop by clicking the download button at the top of the NSLDS screen and upload this file directly into the MedLoans Organizer. Just a few simple clicks allow you to see estimates based solely on your debt situation and potential career path. (See the next page for more information.)



- Upload your NSLDS loan data (details on page 5).
- Keep track of your student loan information.
- Develop personalized repayment strategies.

“Loans are less scary, and I’ve made a strategy to confront them. I’m also more confident that I can manage my debt during residency and beyond after using the MedLoans Calculator.”

**Nathaniel Bayer,**  
2015 Graduate, University of Rochester  
School of Medicine and Dentistry





## Finding Your Loans

The next step to managing your education debt is knowing the details of your loan portfolio—including knowing who you borrowed from (your lender), the types of loans you borrowed, the dates of disbursement, and who you will send payments to (your servicer). If you kept good records, you already know these details. However, don't despair if you lost track of your loan information. There are two resources you can rely on to find the details of your debt:

- The financial aid office (premed and medical) may be able to help you identify the details of your loans.
- The National Student Loan Data System (NSLDS) is the U.S. Department of Education's central database for federal student aid. Visit [nslds.ed.gov](https://nslds.ed.gov).

### nslds.ed.gov

To log in, provide your username and password.

If you do not have a Federal Student Aid (FSA) ID, you will select the "Create an FSA ID" tab.

NSLDS is a repository of most of your federal loans and lists the current lender, servicer, and outstanding principal balance (OPB) of each loan. The NSLDS information is not real-time data, and due to processing times and only periodic updates, your current loan balance may be different from what you see in the database. For the most up-to-date information, contact your loan servicers.

The only federal loans that may not be displayed in NSLDS are Loans for Disadvantaged Students (LDS) and Primary Care Loans (PCL). **Nonfederal loans (including private, alternative, and institutional loans) are also not listed on the NSLDS website.**

To find information on loans not reflected in NSLDS, consult with your financial aid office or review your credit report ([annualcreditreport.com](https://annualcreditreport.com)).



## Lenders

During medical school, you likely borrowed your federally guaranteed student loans from the Direct Loan (DL) program, also known as the **William D. Ford Federal Direct Loan** program ([studentaid.ed.gov/sa](https://studentaid.ed.gov/sa)).

Before July 1, 2010, the **Federal Family Education Loan (FFEL)** program provided federal student loans through many different lenders, such as banks, credit unions, savings and loan associations, or even companies. Since then, the DL program has been the only lender disbursing federal student loans. The DL program lends money to borrowers directly from the U.S. Department of Education.



Both programs provide, or provided, federal student loans that included a version of Stafford Loans (subsidized and unsubsidized), PLUS Loans (Grad and Direct), and Consolidation Loans. The primary difference between the two programs is the type of entity that funded the loan: a business (FFEL) or the government (DL).

Perkins Loans, Primary Care Loans (PCL), and Loans for Disadvantaged Students (LDS) are also federal student loans. These loans were issued to you by your school on behalf of the federal government.

Once you know who your lenders are, the next and more important step is to find out who services your loans. The loan servicer is important because until your loans are fully repaid, the servicer will be your point of contact for everything concerning these loans.

## Servicers

After a lender disburses the loan, a servicer oversees the administration of the loan. Servicers also handle most activities that occur during repayment, such as making payments, updating your contact information, processing forms for deferment and forbearance, and providing tax forms with information for deducting student loan interest. The servicers of your loans can change. To stay informed about these types of changes, be sure to open and read all communications you receive about your student loans, and if you have questions, call the loan servicer immediately.

**For successful loan repayment, it's crucial that you know the servicers of your loans and how to contact them.** The NSLDS website lists the lender and servicer for each of your federal loans.

### Reasons to Contact Your Loan Servicer

- You have questions about your loans.
- You want to make voluntary payments.
- You need help selecting an affordable repayment plan.
- You changed your name, address, or phone number.
- You dropped below half-time enrollment or take a leave of absence (LOA).
- You've graduated from medical school.
- You want to select or change repayment plans.

## Federal Student Aid (FSA) Feedback System

If you are dissatisfied with your experience in the federal student aid process, you can file a formal complaint on behalf of yourself or someone else using the FSA Feedback System at [feedback.studentaid.ed.gov](https://feedback.studentaid.ed.gov). If you submit a complaint, report suspicious federal student loan activity, or offer feedback on the process, the office of Federal Student Aid will provide a resolution, if applicable, within 60 days (pending the availability of all necessary data). More information and answers to commonly asked questions about federal student loans are provided at [studentaid.ed.gov/sa/contact](https://studentaid.ed.gov/sa/contact).

## Federal Student Aid (FSA) Ombudsman

If you experience a loan dispute that cannot be resolved after repeated attempts, including first submitting the complaint through the FSA Feedback System, you can submit the complaint to the FSA ombudsman. The FSA ombudsman conducts impartial fact-finding research about your complaint to reach a resolution. The ombudsman can recommend solutions but does not have the authority to reverse decisions or dictate specific actions. The ombudsman can be reached at [aamc.org/fsaombudsman](https://aamc.org/fsaombudsman) or 1-877-557-2575.

## Resources for Borrowers

If you experience problems or disputes with your federal student loans, several resources are available to assist you, including:

**Federal Student Aid (FSA) Feedback System**

1-844-651-0077 • [feedback.studentaid.ed.gov](https://feedback.studentaid.ed.gov)

**U.S. Department of Education's Federal Student Aid (FSA) Ombudsman**

1-877-557-2575 • [aamc.org/fsaombudsman](https://aamc.org/fsaombudsman)

**Student Loan Borrower Assistance Project**

[studentloanborrowerassistance.org](https://studentloanborrowerassistance.org)

**Consumer Financial Protection Bureau**

1-855-411-2372 • [consumerfinance.gov](https://consumerfinance.gov)

## Master Promissory Note (MPN)

The MPN is a legally binding contract between you and your lender. One MPN can cover all Direct Subsidized and Unsubsidized Loans, while a separate MPN can cover all Direct PLUS Loans. Simply stated, an MPN is your documented promise to repay the debt under the specified terms.

The obligation to repay your student loan debt is a serious responsibility that cannot be excused, even if:

- Your course of study is not completed (or not completed in the regular amount of time).
- You do not receive the education program or service that you purchased.
- You are unable to obtain employment.
- You are dissatisfied with your education experience.

Rights	Responsibilities
<ul style="list-style-type: none"><li>• Prepay any federal loan without penalty</li><li>• Request a copy of your MPN</li><li>• Change repayment plans</li><li>• Receive grace periods and subsidies on certain loans</li><li>• Use deferment or forbearance to postpone payments</li><li>• Receive documentation of loan obligations, rights and responsibilities, and when the loan is fully repaid</li></ul>	<ul style="list-style-type: none"><li>• Complete exit counseling before leaving or dropping below half-time enrollment</li><li>• Make loan payments on time</li><li>• Make payments despite nonreceipt of bill</li><li>• Notify the servicers of changes to your contact or personal information</li><li>• Notify the servicers of changes in your enrollment status</li></ul>

The benefits of an MPN include a reduction in paperwork and a simplification of the borrowing process since an MPN can cover multiple loans. This allows a single promissory note to cover loans disbursed by the same lender over a 10-year period (while you are at the same school).

For a complete list of a borrower's rights and responsibilities, review the MPN Borrower's Rights and Responsibilities Statement. Questions about this list or the terms and conditions of your federal student loans can be directed to the lender, servicer, or your medical school's financial aid office.

## Delinquency and Default

Medical school borrowers have a very low default rate. This means that borrowers like you repay their loans and repay them on time, and many even pay them off earlier than required. The key to duplicating this positive repayment behavior with your debt portfolio is staying organized and knowing when your payments are due.

**During residency, consider using automatic payment services such as online banking to schedule automatic student loan payments from your checking or savings account.** Scheduling automatic payments can be used as a strategy to ensure that all reoccurring payments (loans, credit cards, utilities, etc.) are made on time.

In case something does slip through the cracks, you should know that the loan will be considered delinquent on the first day that the payment is late. The loan will be considered in default when it is more than 270 days late.

There are negative consequences for both these situations (see list). Each will hurt your credit well into the future, causing problems if you need credit for a house, a practice, and many, if not all, other consumer loans.

The record of defaulted loans remains on a credit report for at least seven years. If you are experiencing financial difficulties, do not wait until it's too late—call your servicers to see what arrangements can be made.

### Consequences of ...

#### Delinquency

- Reported to credit bureaus.
- Negatively affects credit.

#### Default

- Reported to credit bureaus.
- Entire balance becomes due immediately.
- Additional charges, fees, and collection costs are assigned.
- Negatively affects credit.
- Wages and tax returns are garnished.
- Social Security and disability benefits are withheld.
- Legal fees and court costs are your responsibility.
- You are ineligible for additional student aid.
- Other federal debt collection methods are used.

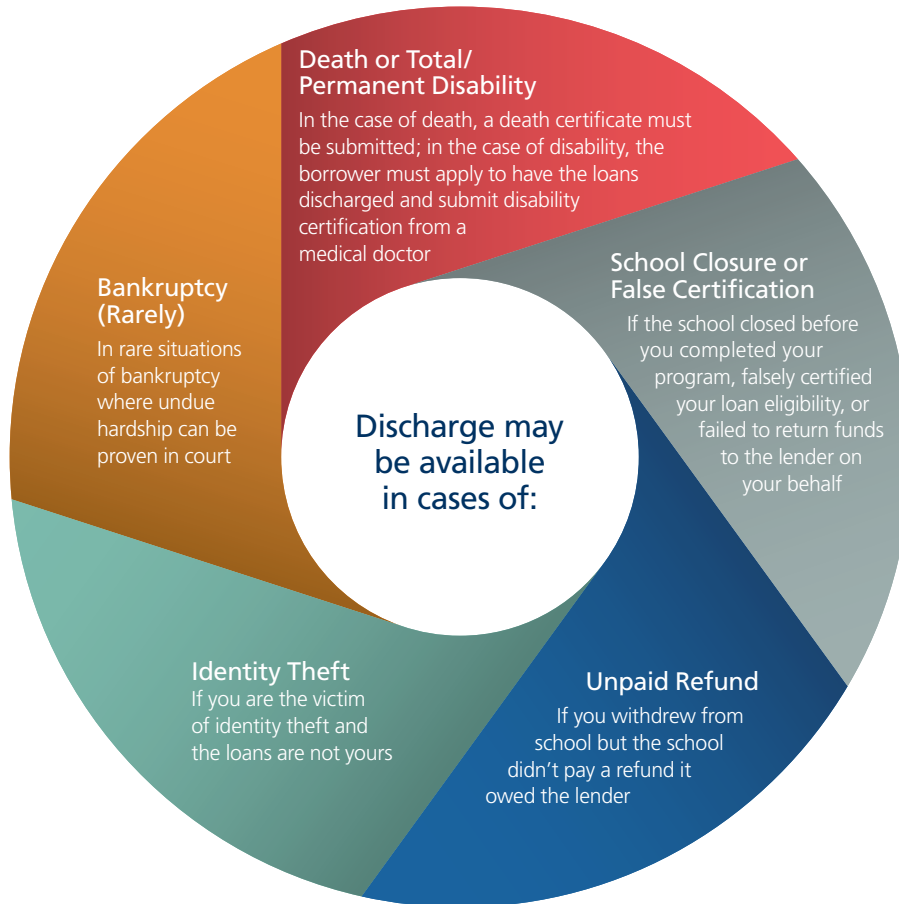
### Remember!

Even if you do not receive a bill or repayment notice, payments are required and must be made on your federal student loans. It is your responsibility to stay in touch with your loan servicer(s) and make all payments **ON TIME**, even if you do not receive a bill!



## Loan Discharge

Repayment is a serious obligation; however, in certain cases, your federally guaranteed student loans may be discharged and your repayment obligation cancelled or forgiven. Review your promissory note for all terms.



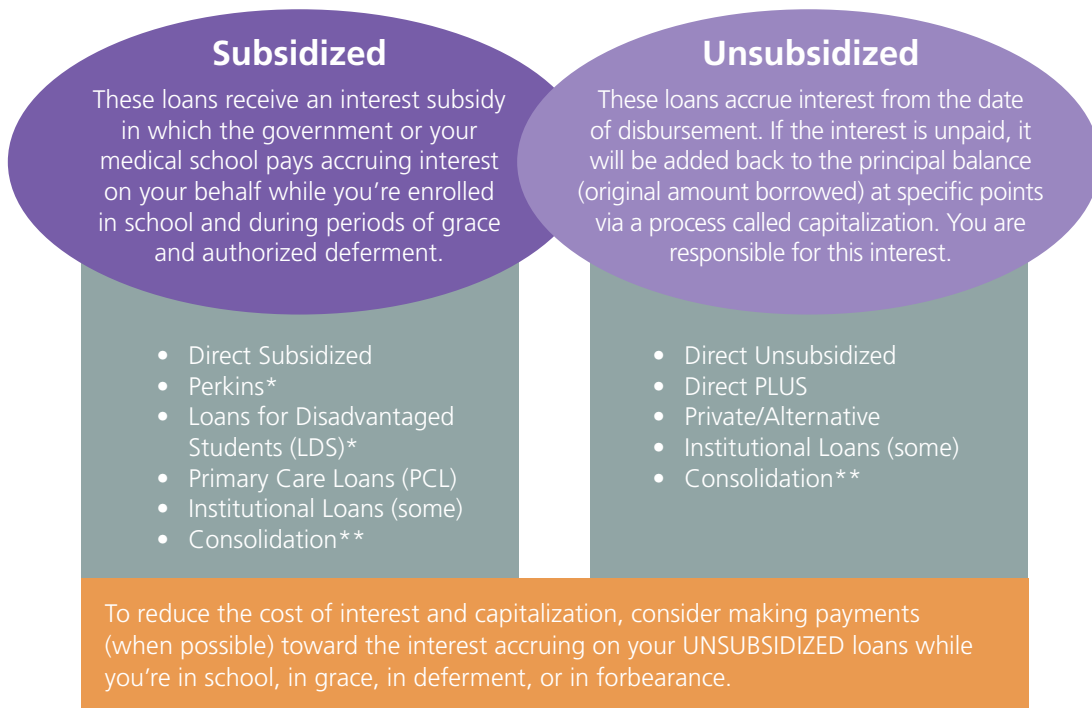
While you would never want any of these things to happen, if they do, the servicer(s) must be notified so that the appropriate discharge process can begin. For more information, visit [studentaid.ed.gov/sa/repay-loans/forgiveness-cancellation](https://studentaid.ed.gov/sa/repay-loans/forgiveness-cancellation).

## Know the Type of Loans You Borrowed

### Important Loan Details

The terms “subsidized” and “unsubsidized” probably sound familiar, but do you know what a subsidy actually is? It’s financial assistance that covers accruing interest. The result of a subsidy is that no interest accrues on the loan for the borrower while the subsidy is active. A subsidy is only working for you while you are in school, during qualifying periods of grace and deferment, and during parts of some repayment plans.

As of July 2012, Direct Subsidized Loans are no longer available to graduate/professional students. Direct Unsubsidized Loans remain available but continually accrue interest, and payment of that interest is your responsibility.



\* If consolidated, Perkins and LDS Loans lose their favorable grace and deferment rights and also become unsubsidized balances.

\*\* In a Direct Consolidation Loan, subsidized balances remain subsidized and unsubsidized balances remain unsubsidized—with the exception of Perkins and LDS Loans.

## Understand the Total Cost

You have heard the saying that nothing in life is free, and your student loans certainly are no exception. However, understanding exactly how your loans cost you money will help you make smart repayment decisions. If your loans are paid strategically, it's possible to save yourself time and money.

**There are three primary factors that contribute to the cost of your loans:**

- 1. Interest**
- 2. Capitalization**
- 3. Length of Repayment**

### Interest

The lender charges you to use their money. This charge is known as interest. Understanding the way interest accrues is essential to managing your debt. The most important fact to know about student loan interest is that if the loan is not subsidized, interest accrues on the outstanding principal balance of the loan—beginning on the date of disbursement. You always have the right to pay the accruing interest—even if no payments are required.



### How Interest Accrues on Student Loans

Interest accrues daily on a student loan—from the day it's disbursed until the day the loan balance reaches zero. There is a simple formula to calculate your daily interest accrual:

$$\frac{\text{interest rate (in decimal format)} \times \text{current principal balance}}{\text{number of days in the year}} = \text{daily interest}$$

The day these loans are paid in full, the accrual of interest stops. You only accrue interest on the days you owe a balance, which means that paying the loans off aggressively can save you money in interest.

Furthermore, different loans carry different interest rates. The chart on the next page will help you understand what the interest rates are for your loans.



Graduate and Professional Loans	Interest Rates
<b>Direct Unsubsidized Loans</b> (disbursed between 7/1/17 and 6/30/18)	<b>6.00%</b> Fixed
<b>Direct Unsubsidized Loans</b> (disbursed between 7/1/16 and 6/30/17)	<b>5.31%</b> Fixed
<b>Direct Unsubsidized Loans</b> (disbursed between 7/1/15 and 6/30/16)	<b>5.84%</b> Fixed
<b>Direct Unsubsidized Loans</b> (disbursed between 7/1/14 and 6/30/15)	<b>6.21%</b> Fixed
<b>Direct Unsubsidized Loans</b> (disbursed between 7/1/13 and 6/30/14)	<b>5.41%</b> Fixed
<b>Stafford Loans</b> (disbursed between 7/1/06 and 6/30/13)	<b>6.80%</b> Fixed
<b>Direct PLUS Loans</b> (disbursed between 7/1/17 and 6/30/18)	<b>7.00%</b> Fixed
<b>Direct PLUS Loans</b> (disbursed between 7/1/16 and 6/30/17)	<b>6.31%</b> Fixed
<b>Direct PLUS Loans</b> (disbursed between 7/1/15 and 6/30/16)	<b>6.84%</b> Fixed
<b>Direct PLUS Loans</b> (disbursed between 7/1/14 and 6/30/15)	<b>7.21%</b> Fixed
<b>Direct PLUS Loans</b> (disbursed between 7/1/13 and 6/30/14)	<b>6.41%</b> Fixed
<b>Direct PLUS Loans</b> (disbursed between 7/1/06 and 6/30/13)	<b>7.90%</b> Fixed
<b>PCL/LDS</b>	<b>5.00%</b> Fixed
<b>Private Loans</b>	<b>Varies by loan</b> – Check the Promissory Note
<b>Institutional Loans</b>	<b>Varies by loan</b> – Check the Promissory Note
<b>Consolidation Loans</b>	<b>Fixed rate</b> based on weighted average interest rate of underlying loans rounded up to the nearest one-eighth of a percent

### Rate Reduction for Automatic Withdrawal

Loans may be eligible for a 0.25% interest rate reduction if you choose to use the automatic debit option for your required payments. The loan servicer will automatically deduct your monthly payments from your checking or savings account. Check with your loan servicer to see if this benefit is available to you.

### Debt Management Strategies for Minimizing Interest Costs

Here are some debt management strategies to help you pay your loans off faster:

**Organize your debt by arranging it from highest to lowest interest rate.** The highest-rate debt should be your first priority.

**Pay as much as possible toward your highest-rate debt.** Attempt to reduce the required payment on your lower-rate debt—freeing up monies to go to the higher-cost debt.

**Pay with purpose; it can save you money.** Don't forget to include your credit card and private loan debts in your strategy—they sometimes can be the most expensive debt.





## How to Make a Voluntary Payment That Counts

1. Send it separately from any required payment.
2. Send directions telling the servicer which loan the payment should be applied to.
3. Follow up to make sure your payment was applied accurately.

**NOTE: During repayment, all fees and interest must be paid before payments can be directed to the principal of the loan. If you fail to provide detailed directions, your servicers can apply the extra voluntary money to future required payments rather than paying down the interest today.**

## Capitalization

A servicer adds the accrued and unpaid interest to the principal of your loan. This process is called capitalization. (The principal of your loan is the primary balance you owe, excluding interest and fees.) Capitalization causes your principal balance to increase, and then the capitalized interest begins to accrue interest as well. This can be a costly process, so it's best if it occurs as infrequently as possible. Some tips to reduce the cost of capitalization are detailed below.

## Debt Management Strategies for Minimizing Capitalization

- **Contact the servicers to determine their capitalization policy. This will allow you to know when your loans are scheduled to capitalize.**
- **Pay accruing interest before capitalization. Make partial or full interest-only payments while you are in school or residency. Remember, it's always an option to make voluntary payments, even when no payment is required.**
- **Submit timely requests. If you are late filing your forms for deferment, forbearance, or repayment, capitalization may occur earlier than expected.**

## Length of Repayment

The length of repayment has an impact on the total cost of the loan. Each repayment plan provides a maximum repayment term, ranging from 10 to 25 years, with a 30-year term possible on consolidation loans. Keep in mind that the ability to prepay a loan, to repay on a shorter schedule, or to change repayment plans remains available in most situations—just contact the loan servicers. The longer it takes to pay off the loan, the more interest you may pay and, therefore, the costlier the loan may be. You could choose to make interest-only payments while in school or during residency (if payments have been postponed). To minimize the total cost of your loan, pay the loan off as soon as possible.



## Loan Timeline

### During Residency

Let's face it—your years during residency will not be your most extravagant or lavish times. Not only is it a good idea to continue living within a realistic budget, it's also the time to begin managing the repayment of your student loans.

Be encouraged. You have many options as you choose the strategy that will best support your financial goals during residency. These options include postponing payments by using grace, deferment, or forbearance or by making reduced payments through one of the repayment plans.

### Grace

After you leave school, your loans will either enter a grace period or require immediate payment. The grace period is a time when payments aren't required. The grace period occurs automatically. During the grace period, certain loans will remain subsidized while others will continue to accrue interest. Unsubsidized loans continue to accrue interest during the grace period—just as they always have done. The availability and length of a grace period depend on the loan type. The chart on the next page shows some common loans and their grace periods, but notice that Direct PLUS and Consolidation Loans do not offer a grace period—though there are other options available to postpone payments on those loans. Contact your servicers for assistance.

### Before Repayment Begins

For many loans, the initial capitalization of accrued interest occurs when you separate from school OR at the end of the grace period. The Loan Repayment Timeline on page 15 depicts when this generally occurs for each loan.

The actual repayment start date for loans differs depending on the:

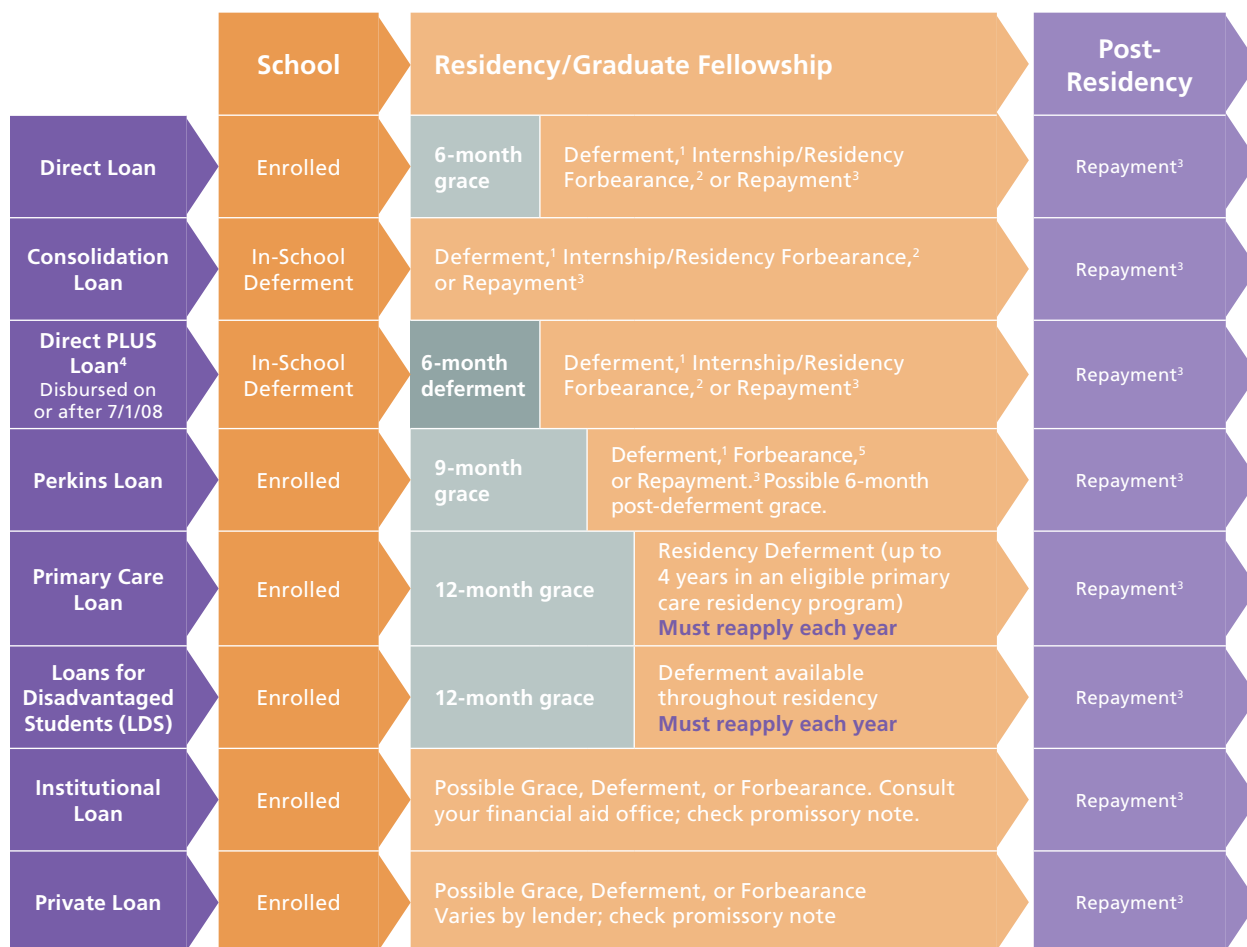
- Loan type
- Grace period
- Loan disbursement date
- Loan servicer

It's important to know what's in your loan portfolio and when repayment begins so that you can develop a repayment strategy in a timely manner.

### Using Up Your Grace

Many loans enter an automatic grace period after you separate from school; however, you should check with your servicers about your grace period eligibility for each loan because there are numerous ways a grace period can be exhausted (including during any breaks in your education lasting longer than six months). Some loans may offer additional grace periods for certain circumstances, so be sure to check with your servicers.

## Loan Repayment Timeline



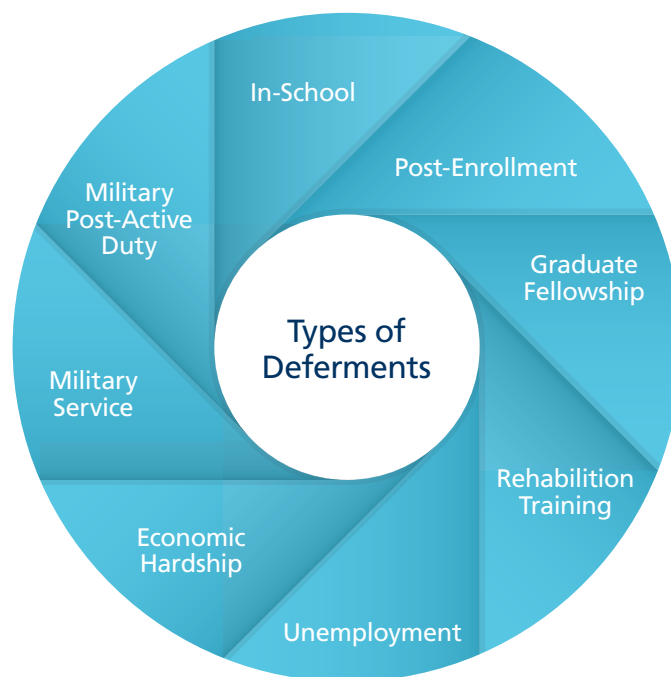
1. The Federal Student Aid website provides a chart of possible deferments and forbearances at [studentaid.ed.gov/sa/repay-loans/deferment-forbearance](http://studentaid.ed.gov/sa/repay-loans/deferment-forbearance).
2. Internship/Residency Forbearance: Available on Direct Subsidized and Unsubsidized Loans, Direct PLUS Loans, 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. Repayment: Consult with your servicer regarding repayment plans and postponement options that may be available.
4. Direct PLUS Loans disbursed before 7/1/08 are not eligible for post-enrollment deferment. Direct PLUS Loans disbursed on or after 7/1/08 receive an automatic six-month post-enrollment deferment. Contact the loan's servicer for payment or postponement options.
5. Perkins Loans only: Upon receipt of written request and documentation, an institution must grant a temporary postponement of payments for up to one year at a time, not to exceed a total of three years.

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

# Postponing Payments

## Deferment

Deferment is a period of time when a borrower who meets certain criteria can delay making payments. During a deferment, the government pays the interest that accrues on the subsidized portion of federal loans; however, during this time, you are responsible for the accruing interest on the unsubsidized loans. Deferment does not occur automatically; you must apply AND qualify to receive a deferment. Although it may be difficult to qualify for a deferment, it is possible under some circumstances. The following deferments exist:



If you think you may qualify for a deferment, contact your servicer to discuss eligibility and application procedures. If you have more than one servicer, you will need to contact each servicer.

### Post-Enrollment Deferment—Direct PLUS Loans

Officially, Direct PLUS Loans enter repayment immediately after they are fully disbursed. However, servicers will automatically apply an in-school deferment on your Direct PLUS Loans to postpone payments while you are enrolled in school.

After you leave school, although no grace period is available, a six-month post-enrollment deferment will be applied automatically to the loan. This deferment postpones payments for six months, but since Direct PLUS Loans are unsubsidized, interest does accrue during this time. If you prefer to start repayment immediately—to avoid the additional accrual of interest—contact the servicers to decline this deferment.



## Direct PLUS Loans

Enter repayment when fully dispersed.

An automatic in-school deferment will postpone payment.

Interest begins accruing at disbursement.

Interest accrues continuously.

Maximum interest rate is 10.50%.

## Forbearance

Forbearance is the period of time when a borrower may either:

- Make reduced payments
- Postpone payments

During forbearance, interest accrues on ALL loans, including subsidized loans—potentially making this a costlier way to postpone payments. You can voluntarily pay interest during forbearance, and the interest that is not paid will be capitalized. This capitalization often occurs at the end of the forbearance period; however, according to regulation, capitalization is allowed to occur as often as each quarter, so check with your servicers for their capitalization policy.

All forbearance periods must be formally requested from the loan servicer, who, in most cases, will determine the type and length of the forbearance. For medical interns and residents, several forbearance types are available, but the type most often used is a mandatory forbearance (described below).

To learn about your forbearance options, contact your servicers.

### The Cost to Postpone

For a 2018 graduate with \$192,000 in Direct Loans, the capitalization of interest accrued during school and grace will result in a principal balance of \$222,400. During residency, an estimated \$1,100 in interest will accrue on this balance each month.

## Mandatory Forbearance for Medical Interns and Residents

Medical interns and residents are eligible for a mandatory forbearance on federal student loans. Although you must first request and provide documentation of your eligibility, once you have done this, the servicer must grant the forbearance on your federal loans. This mandatory forbearance is approved in annual increments; therefore, you need to reapply each year to keep the forbearance active for the duration of your residency.

Mandatory forbearance is a viable option to avoid making payments on federal loans during residency. Forbearance provisions may differ on some loans, such as the federal Perkins Loan, which requires you to pay at least some interest while in forbearance. Be sure to find out from your servicers what the provisions are on your loans. During forbearance, interest accrues on your entire loan balance, but you can always make voluntary payments without losing the forbearance.



# Loan Repayment

## When to Start Paying and How Much

If you are disciplined with your finances during medical school and residency, you will find the task of repaying loans easier to manage. By making smart financial decisions early and consistently, you can significantly reduce the cost of your debt.

### Debt Management Fact

The faster you reduce the principal of your loans, the less your debt will cost you.

Your Direct Unsubsidized Loans, Perkins, and other loans with a grace period will enter repayment at the end of the grace period. In the case of Direct PLUS Loans, payment is required after the post-enrollment deferment ends. For loans without a grace period, you will be required to begin repayment when you graduate, withdraw, or drop below half-time status. See the Loan Repayment Timeline on page 15 for more details.

Approximately one to two months before your first payment is due, you'll receive a notice about the exact due date. Around that same time, you'll also be asked to select a repayment plan—if you have not already done so. The plan that you opt for will determine the amount of your required monthly payment and, consequently, the amount of interest you pay over the life of the loan. Understanding the repayment plans will help you choose the best plan for your financial situation.

## Rights During Repayment

Take comfort in the fact that if your financial situation changes, you have the ability and the right to request any of the following:

- Deferment or forbearance to postpone payments
- Changes in the repayment plan (which can change the required monthly payment amount)
- Shortening of the repayment schedule
- Prepayment of loans without penalty

Contact your servicers as your circumstance requires.

### Get a Jump on Your Loan Payments

It may be a relief to know that you don't have to make payments during residency, but you still should consider making some type of payment—especially toward your most expensive (that is, highest interest rate) debt.

Making interest payments while in residency can be a very smart thing to do. Every dollar you pay now helps reduce the overall cost of your debt. The fact is, the quicker you pay off your debt, the less it will cost you.

**NOTE:** You can make payments toward any federal student loans at any time, without penalty. Your grace, deferment, or forbearance status will remain uninterrupted even after a voluntary payment is made.



## Repayment Plans: Overview

You have various repayment plans to choose from for repaying your federal student loans. The purpose of the different repayment plans is to provide flexibility in your finances.

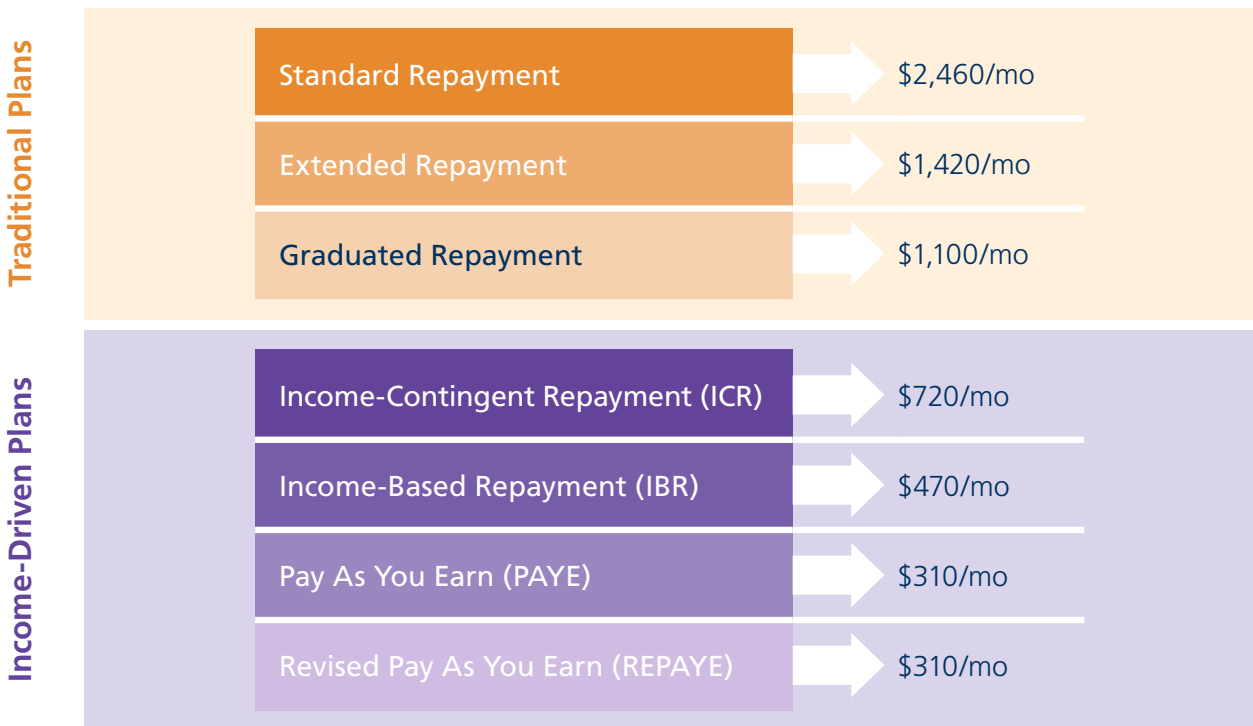
**In most cases, you can change the selected plan when your financial situation changes.**

Repayment plans can be broken down into two groups: the traditional plans and the income-driven plans. Whether your debt is large or small, the repayment plan you select will affect the total cost of the loans. A hasty decision could turn out to be a costly choice, so when the time comes, consider your financial goals and select your repayment plan wisely.

### Note for New Borrowers on or after July 1, 2014

If you choose the new borrower IBR plan as your repayment plan, your monthly payment amount will be the same as the PAYE monthly payment amount. However, the interest capitalization policy mirrors the original IBR (meaning there is no limit to the amount that capitalizes).

Review the information about IBR and PAYE on pages 23–25.



Based on an original balance of \$192,000, entering repayment after four years of medical school and six months of grace. ICR, IBR, PAYE, and REPAYE are based on a salary of \$55,700. Rounded to the nearest tenth.

## Traditional Repayment Plans

Traditional repayment plans are based on formulas that look only at the amount of debt that is owed. These plans can save you money during repayment because they are designed to fully repay the loans within a specific period of time. Keep in mind that the longer the term, the higher the cost of repayment, because more interest is allowed to accrue. When the monthly payments are higher, less interest accrues and the total cost can be less. Traditional repayment plans include Standard, Extended, and Graduated repayment, all of which are detailed in the following pages.

### Standard Repayment

When you choose this plan, your monthly payment amount will generally be the same throughout the term of the loan, which is typically 10 years. Compared with the other options, the Standard plan requires higher monthly payments but results in lower interest costs. Standard Repayment allows borrowers to pay education debt in an aggressive and cost-efficient manner.

If you fail to notify your servicers of a repayment plan choice, you will automatically be signed up for the Standard Repayment plan.

**Best option for borrowers whose primary goal is minimizing the total interest cost of their student loan debt.**

### Extended Repayment

The Extended Repayment plan allows you to stretch your current repayment term up to 25 years, which lowers the required monthly payment. To qualify for Extended Repayment, you must have an outstanding balance of principal and interest totaling more than \$30,000.

Before opting to extend your repayment term, consider the degree to which this option will increase the total interest cost of your debt.

**Best option for borrowers seeking to lower their required monthly payment (without consolidating or exhibiting a Partial Financial Hardship—see page 23).**

### Graduated Repayment

The Graduated Repayment plan allows you to begin making smaller monthly payments during the first 2 years of repayment, then significantly higher monthly payments for the remaining 8 years of a 10-year repayment term. Often, the initial payment amount in this plan is equal to the amount of interest that accrues monthly, making it potentially an interest-only payment plan.

Even though Graduated Repayment offers monthly payments that start lower than the Standard Repayment amount, this plan can lead to higher interest costs because the principal of the loan is not paid off as quickly. Additionally, in the third year of this plan, the payment may increase dramatically. For these reasons, this is not a plan that medical residents tend to select.

**Best option for borrowers seeking temporary relief from high loan payments but expecting an increase in their income shortly after repayment begins.**



## Income-Driven Repayment Plans

Income-driven repayment plans offer affordable payments on federal student loans because they are based on income and family size. However, the affordability of these payments can lead to higher costs—sometimes significantly higher—because interest may be allowed to accrue for longer. In certain cases, these plans will result in forgiveness of the balance at the end of the term (currently a taxable forgiveness). In addition to forgiveness based on the term of the plans, all income-driven plans also qualify for Public Service Loan Forgiveness (currently not taxable). Income-driven plans include Income-Contingent Repayment (ICR), two versions of Income-Based Repayment (IBR), Pay As You Earn (PAYE), and Revised Pay As You Earn (REPAYE).

### Income-Contingent Repayment (ICR)\*

The Income-Contingent Repayment (ICR) plan is an income-driven plan that is based on 20% of your discretionary income. When income is low, such as during residency, the ICR plan will require payments that are lower than the payments in traditional repayment plans. Compared with the other income-driven plans, ICR payment amounts will be greater. Additionally, while in ICR, there is no maximum for the payment amount. Therefore, as your salary increases, your ICR payment will also increase. Considering the earning potential of a physician, the ICR plan could lead to one of the highest monthly payment amounts, but this in turn could also result in the ICR plan being one of the lowest total repayment cost options.

As with the other income-driven plans, annual income documentation is needed to determine the monthly payment. This payment will be adjusted annually based on changes to your household income. Since this plan has a higher required payment than the other income-driven plans, the IBR plans, PAYE, or REPAYE may offer additional financial flexibility with lower payments.

The maximum repayment term for ICR is 25 years. After that, any unpaid balance is forgiven (but will be taxable). Although ICR qualifies for Public Service Loan Forgiveness, it may be more beneficial to use a repayment plan that has a lower monthly payment.

**Best option for borrowers who want a payment that is affordable when income is low but would prefer to minimize the total interest cost of student loan debt as soon as their income increases.**

\* Income-Contingent Repayment is available only for loans originally disbursed by Direct Loans. FFEL loans have a similar plan, referred to as Income-Sensitive Repayment. Speak to your FFEL servicers for more details.

The Partial Financial Hardship (PFH) test for entering IBR or PAYE:

## IS YOUR STANDARD MONTHLY PAYMENT . . .

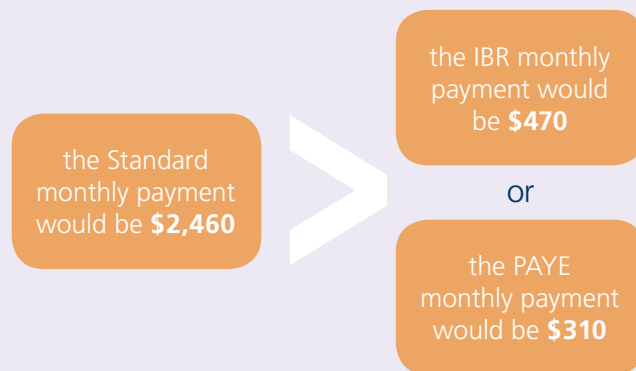
(the 10-year monthly payment amount determined when you enter the plan)

greater than  your monthly payment in IBR or PAYE   
(whichever plan you are applying for)

If "yes," you have a PFH.

## FOR EXAMPLE . . .

If you compare the monthly payments for a borrower with \$192,000 of federal student loans and a PGY-1 salary of \$55,700\* . . .



. . . you will see that the borrower has a PFH and meets the requirement to qualify for IBR or PAYE since their Standard monthly payment would be greater than their payment under IBR or PAYE.

\* Based on the AAMC estimate for the 2018 first post-MD-year median stipend.

## Income-Based Repayment (IBR)

The Income-Based Repayment (IBR) plan is available for all federal loan borrowers that exhibit a Partial Financial Hardship (PFH). The loan servicers will determine if a PFH exists, but most medical residents exhibit this hardship.

### What Is a Partial Financial Hardship (PFH)?

A PFH exists when the 10-year standard monthly payment on what you owe when you first enter repayment is more than 15% (if entering IBR) or 10% (if entering PAYE) of your discretionary income. **Discretionary income** is the difference between *your income* and *150% of the poverty guideline* (based on your family size and state of residence).

In the IBR plan, the monthly payment is equal to and capped at 15% of discretionary income. The monthly payment will be adjusted annually according to changes in household income and family size. This plan offers a partial interest subsidy that is only available for the first three years of the plan. During this time, the federal government will pay the amount of interest that accrues on the subsidized loans that exceeds the IBR payment amount. Capitalization of the

remaining interest will not occur until after the PFH ceases to exist, or you elect to leave IBR. Since many residents will show a PFH throughout residency, capitalization could be postponed until residency is over. There is no limit to how much interest can capitalize under IBR.

The IBR payment amount will adjust annually based on household income and family size—**so be sure to provide your servicers with updated information each year**. This is a requirement; however, no matter how much your income changes, you cannot be “kicked out” of the IBR plan, and the IBR payment amount will remain capped. This maximum IBR payment cannot exceed what the 10-year Standard amount would have been (based on the debt amount when you entered IBR). This maximum payment will be required when you no longer show a PFH.

If you pay under IBR for 25 years, any remaining balance that exists after this time will be forgiven (but is taxable); however, most physicians are likely to have fully repaid their loans before reaching this point. This plan also qualifies as an eligible plan for Public Service Loan Forgiveness (PSLF). With PSLF, the forgiven amount is not taxable.

**Best option for borrowers with lower salaries experiencing a financial hardship and/or for those seeking some type of loan forgiveness.**

### Example of a PGY-1 Resident

In IBR		In PAYE	
Monthly Adjusted Gross Income <sup>1</sup>	<b>\$4,640</b>	Monthly Adjusted Gross Income <sup>1</sup>	<b>\$4,640</b>
(minus) 150% of Poverty Line <sup>2</sup>	<b>– \$1,530</b>	(minus) 150% of Poverty Line <sup>2</sup>	<b>– \$1,530</b>
Discretionary Income	<b>= \$3,110</b>	Discretionary Income	<b>= \$3,110</b>
(multiplied by) <sup>3</sup>	<b>× 15%</b>	(multiplied by) <sup>3</sup>	<b>× 10%</b>
Monthly IBR Payment	<b>\$470<sup>4</sup></b>	Monthly PAYE Payment	<b>\$310<sup>5</sup></b>

1. Based on AAMC estimate for the 2018 first post-MD-year median stipend
2. Based on AAMC estimate of 2018 federal poverty guideline for a family size of one in the 48 contiguous states.
3. Based on 2015 federal regulations.
4. New borrowers on or after July 7, 2014, qualify for the “new” IBR plan, but the PAYE plan may lead to lower total repayment cost.
5. Rounded to the nearest tenth.

**NOTE:** If you’re a new borrower on or after July 1, 2014, the “new” IBR payment plan amount will be equal to the PAYE amount, but the capitalization policy will mirror the original IBR (that is, there will be no limit to how much interest can capitalize).

### Income-Based Repayment for New Borrowers (as of July 1, 2014)

Another version of the IBR plan is now available for new federal loan borrowers who began borrowing on or after July 1, 2014. Under this more recent version of IBR, you must still show a Partial Financial Hardship (PFH) to enter the plan. Just like the original IBR plan, the new IBR plan adjusts payments annually, provides a partial interest subsidy for the first three years, and capitalizes unpaid interest—with no limit to the amount that capitalizes. This repayment plan also qualifies for Public Service Loan Forgiveness (PSLF).

The primary difference between the original and the new IBR plans is that the new IBR plan will have payments capped at 10% of discretionary income, rather than 15%—likely making the new-borrower IBR plan more affordable than the original IBR plan.

Additionally, if you pay under the new IBR plan for 20 years (rather than 25 years, as the original IBR requires), any remaining balance will be forgiven (but is taxable). Obtaining a “term” forgiveness with the new IBR plan is more likely since the term is shorter.

Although similar to PAYE, the new IBR plan will likely cost more in interest than the PAYE plan because interest accrual is limited inside PAYE, while the new IBR plan has no limit on accrued interest. The limited interest accrual of the PAYE plan makes it preferable to the new IBR plan.

## Pay As You Earn (PAYE)\*

Pay As You Earn (PAYE) is similar to the IBR plans in that it is only available for those experiencing a Partial Financial Hardship (PFH). Since many medical residents exhibit a PFH throughout residency, it can be easy for a resident to enter and remain in the PAYE plan throughout residency and beyond. An interest subsidy is available for the first three years in this plan and covers the interest accruing on the subsidized loans that is greater than the PAYE payment amount.

Unlike the original IBR plan, the PAYE plan bases monthly payments on 10% of discretionary income—making the PAYE payments lower than the original IBR plan payments. Furthermore, the amount of unpaid interest that can capitalize under the PAYE plan is equal to 10% of the principal amount when the borrower entered into this plan. Once the maximum amount has capitalized, interest will continue to accrue, but it will not be capitalized.

\* *Only Direct Loans are eligible.*

### **For a qualified medical resident, there are several reasons to choose PAYE:**

1. Partial interest subsidy (free money available only for those with subsidized loans)
2. Limit to the amount capitalized and a potential postponement of capitalization
3. Capped maximum payment amount
4. Several possible forgiveness programs
5. Possibly the lowest required payment during residency

The PAYE payment amount will adjust annually based on household income and family size; however, no matter how much income increases, the PAYE payment is capped at a predetermined amount. This maximum amount cannot exceed what the 10-year Standard Repayment amount would have been (based on the debt amount when the borrower entered the PAYE plan). The maximum payment is required when the PFH ceases to exist.

The repayment term for PAYE is up to 20 years. After that, any unpaid balance is forgiven (and is taxable). This plan also qualifies as an eligible payment plan for Public Service Loan Forgiveness (PSLF).

**Best option for qualified borrowers with a lower income who are experiencing a financial hardship and/or seeking some type of loan forgiveness.**

### Quick PAYE Tips

To qualify for PAYE, you must:

1. Be a new borrower on or after October 1, 2007 (meaning you owed no federal loans as of this date)

#### **AND**

2. Have received a Direct Loan disbursement on or after October 1, 2011

#### **Not sure if you owed loans as of October 1, 2007?**

Review your NSLDS account.

## Revised Pay As You Earn (REPAYE)

In 2015, a version of the PAYE plan called Revised Pay As You Earn (REPAYE) was made available for federal student loan borrowers. The purpose of REPAYE is to provide more student loan borrowers access to the affordable terms of the income-driven plans. REPAYE accomplishes this by providing lenient terms:

- **There are no** income requirements.
- A Partial Financial Hardship (PFH) is **not** needed to enter the plan.
- The loan disbursement dates do **not** affect the borrower's eligibility.

REPAYE allows borrowers who do not qualify for PAYE or IBR to make affordable monthly payments (equal to 10% of their discretionary income). REPAYE payments are adjusted annually.

For their subsidized loans, borrowers do not have to pay the accrued interest (interest that's not covered by the regular monthly payment amount) for the first three consecutive years of repayment. After the three-year period, borrowers are only responsible for 50% of the accrued interest on the subsidized loan that's not covered by their regular monthly payment amount. For unsubsidized loans, the policy is slightly different; for the **entire** REPAYE payment period, borrowers are only responsible for 50% of the accrued interest that's not covered by their regular monthly payment amount—the other half is subsidized by the U.S. Department of Education.

REPAYE payments qualify for Public Service Loan Forgiveness (PSLF), and loan forgiveness is available for graduate-level students after 25 years of payments (rather than 20 years with PAYE). Currently, the amount forgiven is taxable.

**Best option for borrowers who are seeking lower required monthly payments and/or some type of loan forgiveness.**

## Married Borrowers and Income-Driven Repayment Plans

Marriage can affect student loan repayment for medical graduates. Some plans, including the traditional repayment plans, are unaffected by a borrower's marital status. Other plans, like the income-driven repayment plans, are severely altered. Below is an overview of how a borrower's change in marital status, from single to married, may affect certain income-driven repayments plans.

### The Impact of a Spouse's Income

The effect of your spouse's income on your repayment differs by plan. Several of the income-driven plans only factor in your spouse's income **in certain** situations, while other income-driven repayment plans always consider both your income and your spouse's income.

**Revised Pay As You Earn (REPAYE)**—In REPAYE, although your eligibility to enter REPAYE is unaffected by your spouse's earnings, both your income and your spouse's income are used to determine your monthly loan payment. This is the case whether you and your spouse file your federal income taxes jointly or separately.

**Pay As You Earn (PAYE), Income-Based Repayment (IBR), and Income-Contingent Repayment (ICR)**—In these income-driven plans, how the servicer looks at your spouse's income will depend on your tax filing status. If you file separately, your servicer will only use your income (the borrower's) to determine both your eligibility for the plan and the amount of your monthly payment. If you file jointly, both your income and your spouse's incomes will be factored into your eligibility and payment amount for these repayment plans.

*Check with a tax advisor to determine whether you and your spouse should file jointly or separately because this decision can affect more than just your student loan payments.*

### The Impact of a Spouse's Debt

A spouse's federal student loan debt is treated in the same manner as their income: certain plans add it into the household's debt, while others may ignore it.

**REPAYE**—Loan servicers will always determine your monthly payment (and your spouse's) based on joint income and debt; however, the amount that each spouse owes their servicer is proportionate to how much of the total debt is theirs. Here is an example provided by the Department of Education: if the calculated REPAYE payment amount for you and your spouse (based on your joint income) is \$200, and you owe 60% of your combined loan debt and your spouse owes 40%, your individual REPAYE payment would be \$120, and your spouse's individual REPAYE payment would be \$80. So, when a married couple is told how much the household owes, it does not mean that each spouse owes that amount but rather that each spouse owes a proportionate amount of the payment to their servicer(s).

**PAYE or IBR**—In PAYE or IBR, your spouse's federal student loan debt and income are ignored if you and your spouse file your taxes separately. If you file jointly, both your spouse's income and debt are factored into your repayment plan.



## Repayment Plans Compared: Which One Works for You?

	Traditional Plans			
	Standard	Extended	Graduated	Income-Contingent Repayment (ICR)
<b>Available in Which Loan Program?</b>	Direct and FFEL	Direct and FFEL	Direct and FFEL	Direct only
<b>What Are the Advantages of This Plan?</b>	May provide the lowest total repayment cost (due to less interest accruing)	Reduced monthly payment, without consolidating	Can offer temporary relief to borrowers expecting an income increase in the near future	Payments may initially be lower than traditional plan payments but will increase as income increases. Capitalized interest cannot exceed 10% of original loan balance. After this, interest accrues but does not capitalize.
<b>How Is the Monthly Payment Determined?</b>	Payments calculated equally over the repayment term; payment based on total amount owed	Equal monthly payments stretched over a longer term; payment based on total amount owed	Payments begin lower (interest only in the first 2 years of a 10-year term) and then increase	Payments are based on the lesser of 20% of your monthly discretionary income or your monthly payment on a 12-year plan times a percentage factor based on your income.
<b>What Is the Repayment Term?</b>	10 years (up to 30 years if consolidated)	25 years	10 years (up to 30 years if consolidated)	Up to 25 years (after which any remaining balance is forgiven but will be taxable)
<b>What Are the Eligibility Requirements?</b>	Plan available upon request	Must owe more than \$30,000 in Direct Loans or FFEL	Available upon request	No initial income eligibility. Payments are based on income and family size.
<b>Does It Qualify for PSLF?</b>	Yes	No	No	Yes
<b>What Else Should You Know About This Plan?</b>	This is the default plan if no other plan is selected. A consolidation loan must be repaid on a 10-year Standard plan (or an income-driven plan) to qualify for PSLF.	This plan will generally cost more than the other traditional plans due to the longer repayment term and the resulting increase in interest costs.	The minimum payment is interest only, which can result in higher interest costs compared with the Standard plan.	Income and family size must be verified annually; no cap on the maximum payment amount.



## Income-Driven Plans

Income-Based Repayment (IBR) (for those who borrowed before 7/1/14)	Income-Based Repayment (IBR)(for new borrowers as of 7/1/14)	Pay As You Earn (PAYE)	Revised Pay As You Earn (REPAYE)
Direct and FFEL	Direct only	Direct only	Direct only
Provides affordable payments based on family size and adjusted gross income (AGI) for the household, but there is no limit to interest capitalization.	Payments mirror the PAYE payments, but there is no limit to interest capitalization.	May allow for the lowest possible monthly payment (of any plan). Capitalized interest cannot exceed 10% of the original loan balance. After this, interest accrues but does not capitalize.	May allow for the lowest possible monthly payment (of any plan). When the monthly payment doesn't cover the interest, you are responsible for only 50% of the accrued and unpaid interest.
Payments are capped at 15% of your monthly discretionary income and are based on your AGI and family size.	Payments are capped at 10% of your monthly discretionary income and are based on your AGI and family size.	Payments are calculated at 10% of your monthly discretionary income and are based on your family size and AGI for the household. The amount is capped at the 10-year Standard payment amount (determined when you enter PAYE).	Payments are calculated at 10% of your monthly discretionary income and are based on your family size and AGI for the household. There is no cap on the maximum payment amount.
Up to 25 years (after which any remaining balance is forgiven but will be taxable)	Up to 20 years (after which any remaining balance is forgiven but will be taxable)	Up to 20 years (after which any remaining balance is forgiven but will be taxable)	Up to 25 years for a graduate-level student borrower (after which any remaining balance is forgiven but will be taxable)
Must have a Partial Financial Hardship to qualify	Must be a new borrower on or after 7/1/2014, and also have a Partial Financial Hardship to qualify	Must have a Partial Financial Hardship, be a new borrower on or after 10/1/2007, and have a Direct Loan disbursement on or after 10/1/2011. Available only for Direct Loans.	Available only for Direct Loans. There are no additional eligibility requirements.
Yes	Yes	Yes	Yes
Income and family size must be verified annually; payments can be as low as \$0/month.	Income and family size must be verified annually; payments can be as low as \$0/month.	Income and family size must be verified annually; payments can be as low as \$0/month.	No cap on the maximum payment amount or on the amount of interest that can capitalize. Income and family size must be verified annually; payments can be as low as \$0/month.



# Repayment Options

## Monthly Payment Amounts

Estimates of monthly payment amounts are provided in the charts on pages 31–32. The first chart depicts payment amounts for Direct Unsubsidized Loans, and the second chart shows payment amounts for Direct PLUS Loans. These breakouts show the:

- Original principal balance (first column)
- Balance after the initial capitalization (second column)
- Estimated payment amounts for medical residents (all remaining columns)

To see your estimated monthly payment amount, find the row with the debt level that most closely correlates to your loan balance. If you have both Direct Unsubsidized Loans and Direct PLUS Loans, you will need to use both charts and add the two correlating payment amounts together when viewing the Standard and the Extended plans. The IBR, PAYE, and REPAYE plans are income driven, so the amounts shown in the two charts do not need to be added together because they do not change if the amount of debt changes.

For repayment estimates based on your debt amount, use the **AAMC MedLoans® Organizer and Calculator** at [aamc.org/medloans](https://aamc.org/medloans). For exact repayment amounts, contact your servicers.



## AAMC Monthly Payment Estimator for Medical Students—Direct Unsubsidized Loans

Direct Unsubsidized Loans for a Borrower With a \$225,000 Starting Salary After Four-Year Residency						
Loan Amount	Balance at Repayment	Standard	Extended	IBR	PAYE	REPAYE
		10-Year Term	25-Year Term	Post-Residency Payment and Years		
				\$470–\$580 during residency	\$310–\$380 during residency	\$310–\$380 during residency
\$100,000	\$115,593	\$1,275	\$734	\$1,275 for 10.3 years	\$1,275 for 11.3 years	\$1,949–\$2,155 for 5.8 years
\$110,000	\$127,152	\$1,402	\$808	\$1,402 for 10.6 years	\$1,402 for 11.5 years	\$1,949–\$2,199 for 6.6 years
\$120,000	\$138,711	\$1,530	\$881	\$1,530 for 10.8 years	\$1,530 for 11.7 years	\$1,949–\$2,256 for 7.3 years
\$130,000	\$150,271	\$1,657	\$954	\$1,657 for 11 years	\$1,657 for 11.8 years	\$1,949–\$2,314 for 8.1 years
\$140,000	\$161,830	\$1,784	\$1,028	\$1,784 for 11.2 years	\$1,784 for 11.9 years	\$1,949–\$2,314 for 8.8 years
\$150,000	\$173,389	\$1,912	\$1,101	\$1,912 for 11.3 years	\$1,912 for 12 years	\$1,949–\$2,374 for 9.6 years
\$160,000	\$184,949	\$2,039	\$1,175	\$2,039 for 11.4 years	\$1,949–\$2,039 for 12.2 years	\$1,949–\$2,435 for 10.3 years
\$170,000	\$196,508	\$2,167	\$1,248	\$2,167 for 11.6 years	\$1,949–\$2,167 for 12.7 years	\$1,949–\$2,498 for 11.2 years
\$180,000	\$208,199	\$2,231	\$1,285	\$2,299 for 11.7 years	\$1,949–\$2,299 for 13.4 years	\$1,949–\$2,562 for 12.1 years

This chart shows the repayment plans most commonly chosen by medical school borrowers. For a full list of all possible repayment plans, consult your servicer or the Federal Student Aid website ([studentaid.ed.gov/repay-loans/understand/plans](http://studentaid.ed.gov/repay-loans/understand/plans)). These figures provide a borrower with estimates of balances and monthly payment amounts. They are estimates only, based on federal regulations, and are subject to change. (*Values are rounded to the nearest dollar.*) Contact your servicer(s) to discuss your exact balance and payment amounts. The loan amount is assumed to be spread out over four years in eight equal disbursements.

All values above are based on the following assumptions:

- Direct Unsubsidized Loans with interest rates of 6.21% for the first year, then 5.84%, then 5.31%, and then 6.00% for the final year of medical school.
- Four years of medical school and then a six-month grace period with the capitalization of all accrued interest occurring at the end of the grace period. Per federal regulations, income-driven repayment amounts are based on federal poverty guidelines, family size, and stipend/salary.

**The IBR, PAYE, and REPAYE values above are based on the following assumptions:**

- Family size of one in the 48 contiguous states.
- Monthly payment amounts increase gradually each year starting at an estimated \$310/PAYE and REPAYE or \$470/IBR in year one, up to an estimated \$380/PAYE and REPAYE or \$580/IBR in year four (based on estimated median stipend amounts from the AAMC Survey of Resident/Fellow Stipends and Benefits). Actual monthly payment amounts will vary depending on borrower salary/stipend.
- After a four-year residency, the borrower earns a starting salary of \$225,000 (in 2016 dollars).

## AAMC Monthly Payment Estimator for Medical Students—Direct PLUS Loans

Direct PLUS Loans for a Borrower With a \$225,000 Starting Salary After Four-Year Residency						
Loan Amount	Balance at Repayment	Standard	Extended	IBR	PAYE	REPAYE
		10-Year Term	25-Year Term	Post-Residency Payment and Years		
				\$470–\$580 during residency	\$310–\$380 during residency	\$310–\$380 during residency
\$5,000	\$5,912	\$68	\$41	\$68–\$77 for 11.6 years	\$60–\$78 for 12.5 years	\$60–\$85 for 11 years
\$10,000	\$11,824	\$136	\$82	\$135–\$153 for 11.7 years	\$116–\$155 for 12.9 years	\$116–\$172 for 11.4 years
\$15,000	\$17,736	\$205	\$124	\$203–\$228 for 11.7 years	\$169–\$238 for 13.2 years	\$169–\$247 for 11.9 years
\$20,000	\$23,648	\$273	\$165	\$270–\$303 for 11.7 years	\$218–\$311 for 13.7 years	\$218–\$334 for 12.3 years
\$25,000	\$29,560	\$341	\$206	\$338–\$378 for 11.8 years	\$266–\$400 for 14.2 years	\$266–\$401 for 12.8 years

This chart shows the repayment plans most commonly chosen by medical school borrowers. For a full list of all possible repayment plans, consult your servicer or the Federal Student Aid website ([studentaid.ed.gov/repay-loans/understand/plans](http://studentaid.ed.gov/repay-loans/understand/plans)). These figures provide borrowers with estimates of balances and monthly payment amounts. They are estimates only, based on federal regulations, and are subject to change. The loan amount borrowed is assumed to be spread out over four years in eight equal disbursements. (*Values are rounded to the nearest dollar.*)

Because Direct PLUS Loans are unsubsidized, the values can be added together to determine payments for larger loan amounts. For example, the values for a loan amount of \$40,000 would be equal to the values in the \$20,000 row multiplied by two; note the values in the \$20,000 row are twice the values shown in the \$10,000 row. This is only applicable for the Standard and Extended repayment plans.

All values above are based on the following assumptions:

- Direct PLUS Loans with interest rates of 7.21% for the first year, then 6.84%, then 6.31%, and then 7.00% for the final year of medical school.
- Four years of medical school and then a six-month post-enrollment deferment with the capitalization of accrued interest occurring at the end of the in-school deferment and, if taken, at the end of the post-enrollment deferment.

**For IBR, PAYE, and REPAYE, Direct PLUS Loans are assumed to be in addition to \$162,000 of Direct Loans. Under these plans, the monthly payment is applied proportionately between Direct Loans and Direct PLUS Loans (based on the percentage of total owed for each loan type). For example, if the monthly payment amount is \$500 and the Direct PLUS balance is 10% of the total owed, 10% of the payment (or \$50) would be applied to the Direct PLUS balance.**

Per federal regulations, income-driven repayment amounts are based on federal poverty guidelines, family size, and stipend/salary.

The IBR, PAYE, and REPAYE values above are based on the following assumptions:

- Family size of one in the 48 contiguous states.
- Monthly payment amounts increase gradually each year starting at an estimated \$310/PAYE and REPAYE or \$470/IBR in year one, up to an estimated \$380/PAYE and REPAYE or \$580/IBR in year four (based on estimated median stipend amounts from the AAMC Survey of Resident/Fellow Stipends and Benefits). Actual monthly payment amounts will vary depending on borrower salary/stipend.
- After a four-year residency, the borrower earns a starting salary of \$225,000 (in 2016 dollars).

## Residency and Payments

After medical school, residents choose between two common options to manage their educational loans: making payments or postponing payments. To better understand the financial impact of each of these options, compare the results in the following charts.

### Making Payments During Residency

If you choose to pay during residency, the most feasible repayment plans are the IBR, PAYE, and REPAYE plans. These plans offer similar benefits and more affordable payments. Below is an example of what monthly payments would look like during a four-year residency if one of the IBR, PAYE, or REPAYE payment plans is chosen to repay \$192,000 in principal borrowed during medical school.

PAYE Payments During a Four-Year Residency					
Monthly Payment During Residency	Repayment Plan	Repayment Years After Residency	Estimated Monthly Payment After Residency	Interest Cost	Total Repayment
\$310 to \$380	<b>PAYE</b> during and after residency	14.5	\$1,900 to \$2,500	\$213,000	\$405,000
\$310 to \$380	<b>PAYE</b> during residency then Standard	6	\$4,300	\$133,000	\$325,000
\$310 to \$380	<b>PAYE</b> during residency then Extended	21	\$1,800	\$278,000	\$470,000

REPAYE Payments During a Four-Year Residency					
Monthly Payment During Residency	Repayment Plan	Repayment Years After Residency	Estimated Monthly Payment After Residency	Interest Cost	Total Repayment
\$310 to \$380	<b>REPAYE</b> during and after residency	13.3	\$1,900 to \$2,600	\$177,000	\$369,000
\$310 to \$380	<b>REPAYE</b> during residency then Standard	6	\$4,000	\$111,000	\$303,000
\$310 to \$380	<b>REPAYE</b> during residency then Extended	21	\$1,700	\$246,000	\$438,000

IBR Payments During a Four-Year Residency					
Monthly Payment During Residency	Repayment Plan	Repayment Years After Residency	Estimated Monthly Payment After Residency	Interest Cost	Total Repayment
\$470 to \$580	<b>IBR</b> during and after residency	12	\$2,500	\$182,000	\$374,000
\$470 to \$580	<b>IBR</b> during residency then Standard	6	\$4,100	\$131,000	\$323,000
\$470 to \$580	<b>IBR</b> during residency then Extended	21	\$1,700	\$271,000	\$463,000

Assumptions: A medical student borrows \$192,000 in principal during medical school via Direct Unsubsidized (\$175,000) and Direct PLUS (\$17,000) loans with interest rates that change annually. After graduating, the borrower immediately begins a six-month grace period and then chooses Pay As You Earn (PAYE), Revised Pay As You Earn (REPAYE), or Income-Based Repayment (IBR) during a four-year residency. Post residency starting salary is \$225,000 (in 2016 dollars). Unpaid interest from residency will capitalize per payment plan regulations. Total repayment includes payments made during four-year residency. (Values are rounded.)



## Postponing Payments During Residency

Residents who choose to reduce or postpone payments most often do so by using a Mandatory Medical Residency Forbearance. Below is an example of what repayment of \$192,000, borrowed during medical school, may look like post-residency if no payments are made during a four-year residency.

Forbearance During a Four-Year Residency					
Monthly Payment During Residency	Repayment Plan	Repayment Years After Residency	Estimated Monthly Payment After Residency	Interest Cost	Total Repayment
\$0	<b>Standard</b>	10	\$3,000	\$174,000	\$366,000
\$0	<b>Extended</b>	25	\$1,800	\$337,000	\$529,000
\$0	<b>Graduated</b>	10	\$1,400 for 2 years then \$3,600 for 8 years	\$187,000	\$379,000
\$0	<b>ICR</b>	7	\$4,000 over 7 years	\$145,000	\$337,000
\$0	<b>IBR</b>	10.2	\$2,900 to \$3,000 over 10.2 years	\$175,000	\$367,000
\$0	<b>PAYE/REPAYE</b>	16	\$1,900 to \$2,800 over 16 years	\$245,000	\$437,000

Assumptions: A medical student borrows \$192,000 in principal during medical school via Direct Unsubsidized (\$175,000) and Direct PLUS (\$17,000) loans with interest rates that change annually. After graduating, the borrower immediately begins a six-month grace period and then chooses forbearance during a four-year residency. Post-residency starting salary is \$225,000 (in 2016 dollars). The repayment balance would be approximately \$275,000, which includes \$30,000 in unpaid medical school interest that capitalizes at the end of the grace period and \$53,000 in unpaid residency interest that capitalizes at the end of residency. (Values are rounded.)

These charts depict a valuable debt management principle that you should be aware of throughout the repayment of your federal student loans:

The lower the monthly payment, the higher the total interest cost.

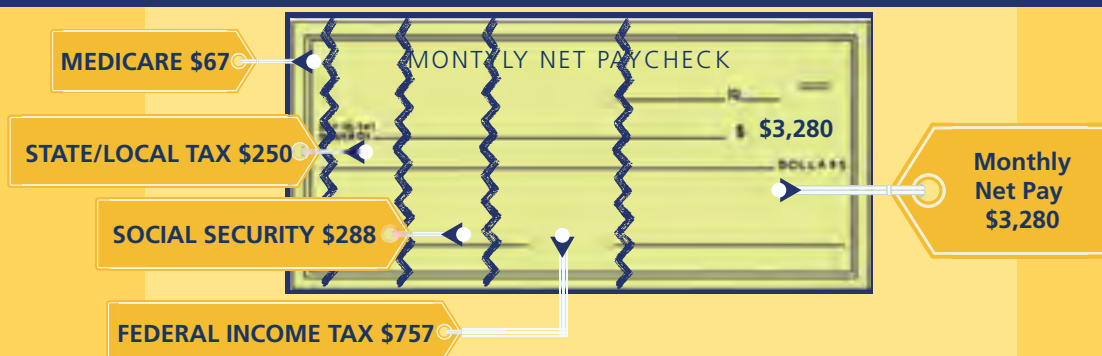
**To see numbers that are more reflective of your loan portfolio, use the MedLoans® Organizer and Calculator at [aamc.org/medloans](http://aamc.org/medloans) (login details available on page 4). For exact repayment amounts, contact your servicers.**

## LIVING ON A RESIDENT STIPEND OF \$55,700\*

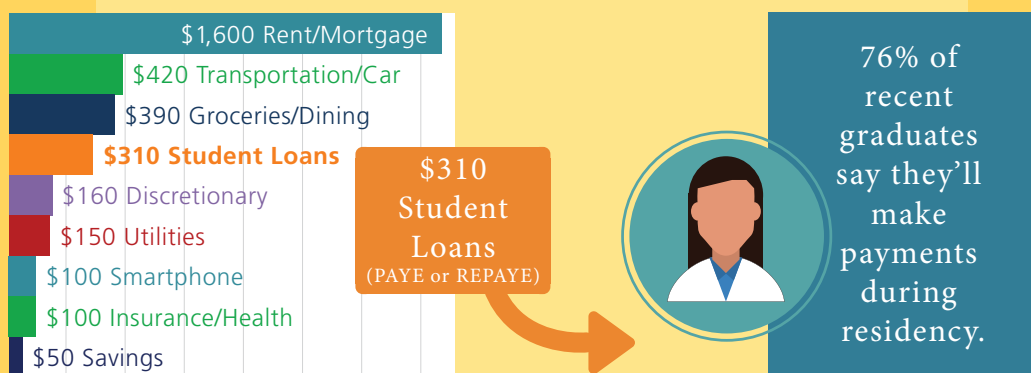
### CAN YOU AFFORD A STUDENT LOAN PAYMENT?



### WHAT HAPPENS TO YOUR PAYCHECK?



### PAYMENTS DURING RESIDENCY ARE POSSIBLE.



\* Based on a projected 2018 first-year resident stipend. Paycheck breakdown and budgeted living costs are based on FIRST analysis of national averages.



# Budgeting




Having a spending plan is the cornerstone of a solid financial foundation. All other efforts for borrowing wisely or strategic repayment will be undermined if you don't have a plan of action for managing your finances. Living on a budget is possible, and by doing so, you will realize your financial goals sooner.

## Benefits of Budgeting

Let's face it. Money will probably be tight during residency; that's why having a realistic spending plan is essential for you to most efficiently accomplish the following:

- Track and control your spending
- Identify leaks in your cash flow
- Avoid credit card debt
- Reduce your medical education debt

**Spending Plan Steps**

-  1. Put it in writing.
-  2. Review it periodically.
-  3. Make necessary adjustments.

## Creating a Budget

The most difficult part of developing a spending plan is taking the time to sit down and create it. This task may seem overwhelming at first, but it can be accomplished by using templates, guides, and other budgeting tools and websites. To get you started, the AAMC offers several tools to help create a budget, including a [budgeting worksheet](#), [articles](#), [ideas and tips](#), and [other budgeting resources](#). Visit [aamc.org/FIRST](http://aamc.org/FIRST).

$$\text{Your Total Income} - \text{Your Total Expenses} = \text{Your Discretionary Income}$$





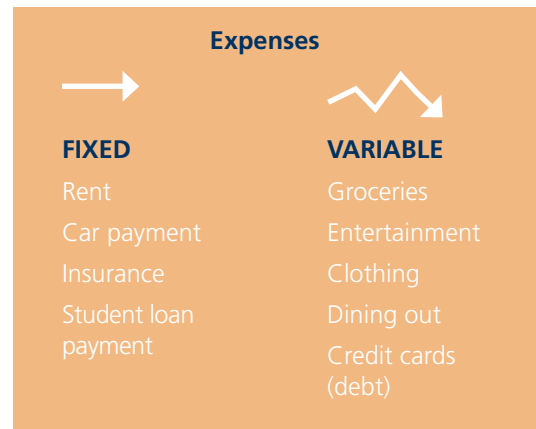
## Basics of Budgeting

**Income.** The first step in creating a budget is to document all your incoming funds. If you are married, include your spouse's income as well. If you consistently receive gifts from family members, add this to your income. Any incoming funds, such as refund checks from the financial aid office, should be included in your income calculations.

**Expenses.** Next, identify all your monthly expenses or monies that are outgoing. There are two types of expenses, with the most obvious being routine, fixed amounts—such as rent, car payments, insurance, and loans. Then, there are the expenses that fluctuate and that you have to dig a little deeper for—like eating out, gas, cell phone, groceries, and utilities. Total your monthly expenses, then subtract that amount from your income. What's left is your discretionary income.

**Discretionary Income.** Once all income has been determined and expenses have been honestly accounted for and properly subtracted, the remaining number is your bottom line (discretionary income). If you're being completely honest in your planning, you may find that your discretionary income is a negative number. If so, go back and adjust until you break even.

On the other hand, if you have a positive bottom line (meaning there is money left over), consider: Have you accurately documented all your expenses? Typically, during residency, there won't be a lot of discretionary income.



**TIP:** Choose to live like a resident when you are a resident so you don't have to live like a resident after training is over.

## Finding Alternatives

Having a budget doesn't mean eliminating all the joy from your life; rather, it means keeping many of those "good" things and finding alternatives when necessary. Once your cash flow is visible in black and white, it will be easier to consciously reduce your cost of living. By periodically reviewing your budget for any imbalances, you'll realize that small adjustments can make a big difference.

Common alternatives for residents living on a budget include:

- Buying groceries instead of eating out
- Brewing your own coffee instead of going to a gourmet coffee shop
- Choosing generic products instead of name brand
- Opting for free TV instead of Netflix, or Netflix instead of the movies, or occasional matinees instead of cable TV
- Getting a roommate ... or two instead of living alone



## Credit Cards

Credit cards aren't bad; they have many positive financial aspects including the ability to use someone else's money for free for 30 days (depending on the terms of the card). Credit cards can also be used to improve your credit score, as a tool to track your spending, and as a source of "rewards" for the purchases that you make. They may also be helpful in emergencies. Despite these advantages, we are more familiar with the negative side of credit cards. What we hear about repeatedly is America's bad relationship with debt, which most often comes in the form of credit card debt. Credit cards that are not used responsibly will have a negative impact on your financial well-being.

In the 2017 AAMC Graduation Questionnaire (GQ) survey, 14% of medical graduates reported having a median amount of \$5,000 in credit card debt, while 3% of the same class reported having a median amount of \$12,000 in residency and relocation loans.

### THE MINIMUM PAYMENT TRAP

**\$5,000 @ 18%**  
\$5,000 financed at 18%

**23 Years**

Paying the minimum monthly payment means it will take you almost 23 years to fully repay.

**\$12,000**  
**Total Paid**

Paying the minimum monthly payment means you will pay \$7,000 in interest.

What could possibly be worth paying more than twice its original value?



## Budget Worksheet for Residents

### MONTHLY INCOME:

Salary (after deductions) \_\_\_\_\_  
 Spouse salary (after deductions) \_\_\_\_\_  
 Investment income \_\_\_\_\_  
 Gifts \_\_\_\_\_  
 Other \_\_\_\_\_  
**Total Fixed Income** \_\_\_\_\_

### MONTHLY FIXED EXPENSES:

Regular savings \_\_\_\_\_  
 Rent/mortgage \_\_\_\_\_  
 Phone \_\_\_\_\_  
 Taxes (federal, state) \_\_\_\_\_  
 Vehicle payments \_\_\_\_\_  
 Other transportation \_\_\_\_\_  
 Personal loans \_\_\_\_\_  
 Education loans \_\_\_\_\_  
 Insurance (life and health) \_\_\_\_\_  
 Home/renters insurance \_\_\_\_\_  
 Auto insurance \_\_\_\_\_  
 Auto registration/taxes \_\_\_\_\_  
 Other \_\_\_\_\_  
**Total Fixed Expenses** \_\_\_\_\_

### MONTHLY VARIABLE EXPENSES:

Food/household supplies \_\_\_\_\_  
 Dining out \_\_\_\_\_  
 Clothes \_\_\_\_\_  
 Laundry/dry cleaning \_\_\_\_\_  
 Gas, oil, auto maintenance \_\_\_\_\_  
 Parking \_\_\_\_\_  
 Medical/dental/eye care \_\_\_\_\_  
 Entertainment \_\_\_\_\_  
 Travel/vacation \_\_\_\_\_  
 Utilities \_\_\_\_\_  
 CDs/books/journals \_\_\_\_\_  
 Personal care \_\_\_\_\_  
 Subscriptions \_\_\_\_\_  
 Cable TV and internet \_\_\_\_\_  
 Credit card payments \_\_\_\_\_  
 Charity/contributions/gifts \_\_\_\_\_  
 Savings for interviews/relocation \_\_\_\_\_  
 Test prep course/materials \_\_\_\_\_  
 Exam/licensing fees \_\_\_\_\_  
 Other \_\_\_\_\_

**Total Variable Expenses** \_\_\_\_\_

**Plus Total Fixed Expenses** \_\_\_\_\_

**Equals Total Monthly Expenses** \_\_\_\_\_

**Total Income** \_\_\_\_\_

**Less Total Expenses** \_\_\_\_\_

**Equals Total Discretionary Income  
(or Deficit)** \_\_\_\_\_

# Financial Literacy

## Identity Theft

In 2016, identity theft was a \$16 billion crime that affected 15.4 million victims. These numbers reflect a significant increase in risk for consumers, especially students. Don't become a statistic!



Sources: Javelin Strategy and Research, 2011–2017; Bureau of Justice Statistics, 2014.

## Stay Safe Online

- Check your credit report ([annualcreditreport.com](http://annualcreditreport.com)).
- Install and update firewalls, antivirus software, and antispyware.
- Use and recognize secure websites.
- Avoid accessing personal accounts or sharing personal information (credit cards).
  - On public computers
  - On unsecured WIFI connections
- Watch out for emails and attachments from imitators (banks, government, etc.).
- Use safe passwords.
  - Do not use the word “password.”
  - Integrate numbers into your password.
  - Make your password at least eight characters long.



## Stay Safe Offline

- Check your credit report at least annually.
- Consider credit monitoring or identity theft insurance.
- Keep personal documents, at home and work, safe and out of sight.
- Avoid sharing your Social Security number.
- Ask for an alternative identifier unrelated to your Social Security number.
- Carry only necessary documents and cards with you.
- Shred all documents with sensitive information.
- Request electronic statements.
- Use online bill pay.
- Opt out of preapproved credit card offers ([optoutprescreen.com](http://optoutprescreen.com)).
- Enter your debit card PIN discreetly.
- Be aware of your surroundings at all times.
- Pay attention to breach notification letters—one in four breaches results in identity theft.

## Be Social. Be Responsible.

There are a number of precautions to take when using social media. Here are just a few tips.

Be careful when revealing personal information on social media sites. Potential hackers could search your postings for details like your date of birth, pets' names, high school name, etc., and then use that information to change the password on your account. Hackers who can answer a security question with your personal information can then change your password and gain access to your account.

Use caution with social networking applications. Some applications may access your private information if it's not secure.

Be selective in choosing people to communicate with on social media sites. If you don't know the person requesting communication, don't accept the invitation.

Assume everything you post is permanent. Everyone wants to share good times and special events, but think about who may view a photo or something you said that could be taken as irresponsible or unprofessional.

## SALT

It's never too late or too early to learn the basics of having a healthy financial life. To gain access to guidance on all financial matters and improve your financial skills, log in to your free account with SALT ([saltmoney.org/aamc](http://saltmoney.org/aamc)).



## Signs You Could Be Heading for Trouble

These are tangible signs that either you're headed for trouble—or you're already there:

- Relying on credit cards to pay for the basics, such as food and utilities
- Continually responding to offers to transfer balances from one card to another
- Increasing your credit line or applying for new credit cards
- Not maintaining financial cushioning for a small or unplanned expenditure
- Making only minimum monthly payments
- Ignoring credit card statements
- Maxing out all your credit cards



## Fixing the Problem

First and foremost: GET HELP. You don't have to face this alone. It's easy to lose control of your credit card debt and to let it run away from you, but there are ways to take back control. Depending on your situation, there may be a variety of solutions.

- Talk to the financial aid office. Often, they have dealt with similar situations and will be able to provide guidance.
- Go back to the basics and work on a budget; determine how to start paying down your credit card balances.
- Call your credit card companies to work out a repayment plan.
- Negotiate! You can often negotiate a better rate, especially if you've been a good customer.

If your situation is more complicated, seek the advice of a professional credit counselor.

Creditors would rather work with you than have you default on your debt.



# Credit

## Your Credit Score: What It Is and Why It Matters

A credit score is an indicator of the creditworthiness of an individual. In other words, it is a numerical value that represents the probability that a borrower will repay a debt. This score is an important number because it will directly affect your approval rate (for loans, insurance, housing, utilities, and more) as well as your interest rate for products and services. In most situations, the better your credit score, the less it will cost you to borrow.

During residency, focusing on the following items will improve your credit score:

1. Pay your bills on time.
2. Pay down your debt.
3. Don't close accounts, and do limit opening new ones.

After four or more years of watching and protecting your credit, it's possible that you'll have a better credit score than when you started medical school.

## How Your Credit Score Is Determined

A credit score is based on the content of your credit report. The best known and most commonly used credit score is a FICO Score, with values ranging from 300 to 850. Knowing your exact FICO Score is not as important as understanding what determines this number.

### Nothing in Life Is Free, Right?

If you want to know your FICO Score, it's likely you will either pay a fee or agree to a financial obligation (like signing up for a subscription) before you're able to see it. Time is better spent reviewing your credit report, which you can do here: [annualcreditreport.com](https://annualcreditreport.com) (Where it really is free!)

A credit score, or FICO Score, is based on five factors, none of which considers employment status, income, or profession. Be aware of these factors because even though you will be an MD, a good credit score is not guaranteed.



### PAYMENT HISTORY (35%)

This is the largest portion of your score. Delinquent payments can have a negative impact on scoring, but consistent on-time payments will raise a credit score.

**TIP:** As a resident, be proactive about paying on time. Set up automatic withdrawal, or schedule online bill-pay services with your bank so that a recurring monthly payment (such as for a credit card) is never late.

### AMOUNT OWED (30%)

The total amount of the credit line that you are currently using will affect your credit score. The goal is to use less than 30% of your line of credit (add up the maximum credit line on all your credit cards and multiply by 0.30 to determine the goal for your utilization rate).

**TIP:** During residency, make a focused effort to pay down your credit card debt or, at a minimum, avoid increasing the balance on these cards.

### LENGTH OF HISTORY (15%)

The longer the history, the higher the score, so avoid starting new lines of credit. The length of your credit history is determined by calculating the average age of all your lines of credit; new lines of credit will reduce this average.

**TIP: Avoid opening new lines of credit and** take care of your old lines of credit (do not close them if you don't have to). Closed accounts eventually fall off your report, and this could hurt your history.

### NEW CREDIT (10%)

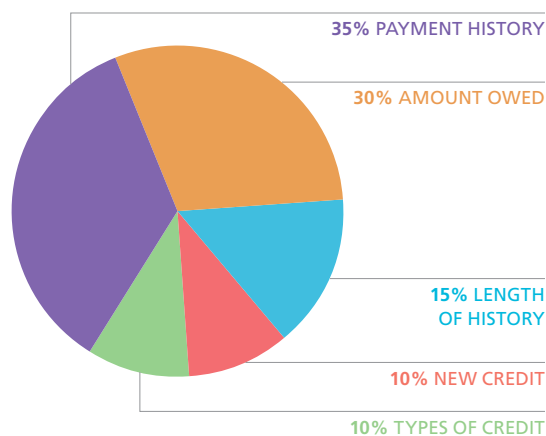
Even a single new line of credit can hurt your score, but a lot of inquiries from lenders viewing your credit report, because of your requests for new lines of credit, can cause a double-digit drop. Only request new lines of credit when it's absolutely necessary.

**TIP:** When you're checking out at your favorite store, if the salesperson asks if you would like to apply for the store credit card, just say no.

### TYPES OF CREDIT (10%)

Having a variety of types of credit (e.g., a mortgage, credit cards, student loans, car loan) is good for your credit score.

**TIP:** Having too much of one thing—such as lines of revolving credit (e.g., credit cards)—is never good for your credit, so be aware of how many credit cards you have. For more information, visit [myfico.com](http://myfico.com).





## Benefits of Good Credit

Good credit means you are more likely to get a loan approved. Beyond that, you'll enjoy:

- Better loan offers (rates, terms, and conditions)
- Lower interest rates on credit cards
- Faster credit approvals
- Increased leasing and rental options
- Reduced security deposits
- Reduced premiums on auto, home, renter, and life insurance

Being proactive about your credit is the way to begin making smart financial decisions that will give you a solid financial foundation for years to come.

## Credit Reports

You have three credit reports. A separate credit report is maintained by each of the three major credit reporting agencies—Equifax, Experian, and TransUnion. These three reports accomplish the same purpose, but the information on each report may vary. To protect yourself from mistakes and identity theft, you should review each of your credit reports annually.

### Reality Check: Scrutinize Your Credit Report

It is a good idea to review your credit report at least once a year. You can request a copy of your free report from each of the three major credit bureaus on the web.

To order your free annual credit report, visit [annualcreditreport.com](https://annualcreditreport.com).

**You are entitled to a free report from each credit bureau once a year—take advantage of this!**

## Other Considerations

### Public Service Loan Forgiveness (PSLF)

If you decide to work in public service, you may be eligible for federal student loan forgiveness after 10 years of full-time work. The information below outlines the qualifying components of the PSLF program, and a timeline of action to enter PSLF is included on page 48.

#### Five steps to ensure eligibility for Public Service Loan Forgiveness

- Step 1:** Request a qualifying repayment plan for your eligible loans (re-request annually).
- Step 2:** If necessary, consolidate eligible FFEL, LDS, and Perkins Loans into a Direct Consolidation Loan.
- Step 3:** Submit an Employment Certification Form (ECF) to FedLoan Servicing (resubmit annually).
- Step 4:** Make 120 qualifying payments while completing eligible work.
- Step 5:** Upon completion of requirements, apply with FedLoan Servicing for the actual forgiveness.

#### Checklist for Public Service Loan Forgiveness

**ELIGIBLE LOANS** Only the following loan types are eligible:

- Direct Loans (Subsidized and Unsubsidized)
- Direct PLUS and parent PLUS Loans
- Direct Consolidation Loans
- Other federal student loans\* can be made eligible by including them in a Direct Consolidation Loan.\*\*

\* FFEL Stafford, Grad PLUS, Federal Consolidation, Perkins, LDS, and certain other FFEL Loans

\*\* For more information, visit [studentloans.gov](http://studentloans.gov).

NOTE: Defaulted loans, private loans, and any consolidation loan containing a spousal consolidation loan are not eligible.

**QUALIFYING PAYMENTS** While simultaneously working in a qualifying public service position, you must make 120 on-time and scheduled payments\* under a qualifying repayment plan.

The following plans qualify:

- Income-Based Repayment (IBR)
- Pay As You Earn (PAYE)
- Revised Pay As You Earn (REPAYE)
- Income-Contingent Repayment (ICR)
- Standard Repayment plan (or a repayment plan where the monthly amount paid is not less than the monthly amount required under the 10-year Standard Repayment plan)

\* Payments do not have to be consecutive, allowing for changes in employers and periods of nonwork.

**QUALIFYING WORK** You must be employed full-time\* for a total of 10 years in a public service position. For the work to be considered public service, your employer must be one of the following:

- Nonprofit tax-exempt 501(c)(3) organization (includes many medical schools and residency programs)
- Federal, state, local, or tribal government organization, agency, or entity
- A branch of the military
- Public service organization—a private organization providing a public service

*Submit questions about eligible employers to FedLoan Servicing ([myfedloan.org](http://myfedloan.org)). They are the servicer that oversees PSLF.*

\* Full-time work is considered to be 30 hours per week or the number of hours the employer considers to be full-time.

**This checklist is a general guideline only.** For more information regarding eligibility, visit [studentaid.ed.gov/publicservice](http://studentaid.ed.gov/publicservice).



## Action Plan: Entering PSLF

### FOR EVERY PSLF APPLICANT

**ACTION 1: Request the income-driven repayment plan** that offers you the lowest monthly payment. This action can be initiated online before you graduate ([studentloans.gov](http://studentloans.gov)). Final documents needed to complete entry into the plan cannot be submitted until approximately 90 days before the end of your grace period. Thus, before Action 1 is complete, one or more of the items below will also be completed.

### IF YOU HAVE FFEL OR PERKINS LOANS\*

**ACTION 2:** After separating from school, **apply to consolidate your FFEL/Perkins Loans** ([studentloans.gov](http://studentloans.gov)), indicate your interest in PSLF, and select FedLoan Servicing as your servicer. (Direct Loans do not need to be consolidated; they are eligible for PSLF as is.) You may also want to **establish an online account** with FedLoan Servicing to track your consolidation application.

*NOTE: All qualifying payments made toward federal student loans will be lost if those loans are included in a consolidation. So, consolidate ineligible loans before making PSLF qualifying payments. If you want to experience your full grace period and then consolidate, request processing to begin a month or two before grace is over (so that payments aren't due until after the consolidation has been disbursed). Processing of a consolidation takes 30–60 days. Payments made toward the consolidation loan must be under a qualifying repayment plan—see page 47 for a list of these.*

**ACTION 3:** When you begin full-time work in your residency program, you should **submit an Employment Certification Form (ECF) to FedLoan Servicing**. At this point, all your existing Direct Loans will be transferred to FedLoan Servicing (if the loans aren't already there). ([myfedloan.org/documents/repayment/fd/pslf-ecf.pdf](http://myfedloan.org/documents/repayment/fd/pslf-ecf.pdf))

*NOTE: Processing the ECF, including the transfer of loans, may take 30–45 days.*

**ACTION 4:\*\* Work toward PSLF by making your required payments** to FedLoan Servicing. It is highly recommended that you **use your online account with FedLoan Servicing** to track payments and **enroll in Direct Debit** to ensure on-time payments.

### IF YOU HAVE ONLY DIRECT LOANS

**ACTION 2:** When you begin full-time work in your residency program, you should submit **an Employment Certification Form (ECF) to FedLoan Servicing**. At this point, all your existing Direct Loans will be transferred to FedLoan Servicing (if they are not already there). ([myfedloan.org/documents/repayment/fd/pslf-ecf.pdf](http://myfedloan.org/documents/repayment/fd/pslf-ecf.pdf))

*NOTE: Processing of the ECF, including the transfer of loans, may take 30–45 days.*

**ACTION 3:\*\* Work toward PSLF by making your required payments** to FedLoan Servicing. It is highly recommended that you **establish an online account with FedLoan Servicing** to track payments and **enroll in Direct Debit** to ensure on-time payments.

\* For more information on these loans, see the lenders section on pages 5–6.

\*\* **Reminder: Each year, you will need to update your income and family size information with FedLoan Servicing so they can accurately calculate future monthly payments. It is also recommended that you annually submit an updated Employment Certification Form (ECF) to FedLoan Servicing.**



## Federal Loan Consolidation

Federal loan consolidation allows you to combine one or more existing federal student loans into a single loan. A consolidation loan pays off the old loans and gives you a single new loan with new terms, conditions, and possibly a new interest rate. The advantages and disadvantages of consolidating depend on what loans you include in the consolidation and when you consolidate. To consolidate your loans, visit [studentloans.gov](https://studentloans.gov).

Advantages	Disadvantages
<ul style="list-style-type: none"><li>• A single payment to a single servicer</li><li>• Possible lower monthly payment</li><li>• Extended repayment period</li><li>• No prepayment penalty</li><li>• Ability to change repayment plans</li><li>• Possible eligibility for PSLF</li><li>• Possible eligibility for an income-driven repayment plan</li><li>• Possible acceleration of repayment start date by forfeiture of grace time</li></ul>	<ul style="list-style-type: none"><li>• Longer repayment period resulting in possibly higher interest costs</li><li>• Possible loss of current borrower benefits</li><li>• Possible disqualification of past eligible PSLF payments</li><li>• Higher interest rate (interest rate is the weighted average of the loans rounded up to the nearest one-eighth of a percent)</li><li>• Possible negative effect on grace, deferment, or forgiveness options</li></ul>

For many medical students leaving school, the primary reason to consolidate is to simplify the repayment process during residency. This is especially true when multiple payments are required. Alternatively, if you would prefer to avoid consolidation, scheduling automatic payments from your bank account can simplify repayment (and eliminate the need to consolidate). Use the information on pages 52–55 to help determine if consolidation is right for you.

**Borrowers enrolled in school are not eligible to consolidate.**

### Reality Check: Consolidation May Mean Paying More Interest

It's important to realize that although loan consolidation can give you a lower monthly payment with a longer repayment term, this longer term can significantly increase the total cost of the debt.

The longer you take to repay a loan, the more it will cost because interest is accruing for a longer period of time. Also, most of your federal loans already have fixed interest rates, meaning that consolidation could result in a higher fixed interest rate (due to rounding).

Understand how consolidation works before consolidating—in many cases, it is permanent.

## Effects of Federal Student Loan Consolidation

Loan Type	Simplify Repayment <sup>1</sup>	Lower Monthly Payment <sup>2</sup>	Make Eligible for PSLF/PAYE/REPAYE <sup>3</sup>	Forfeit Grace Period <sup>4</sup>	Fix a Variable Rate <sup>5</sup>	Make Eligible for Residency Forbearance or IBR <sup>6</sup>	Loss of Interest Subsidy <sup>7</sup>	Grace and Deferment Options Lost <sup>8</sup>
Direct Subsidized Loans	x	x	x	x				
Direct Unsubsidized Loans	x	x	x	x				
Federal Subsidized Stafford Loans	x	x	x	x				
Federal Unsubsidized Stafford Loans	x	x	x	x				
Direct PLUS Loans	x	x		x				
Grad PLUS Loans	x	x	x	x				
Perkins Loans	x	x	x	x		x	x	x
LDS Loans	x	x	x	x		x	x	x
Direct Consolidation Loans	x	x						
Federal Consolidation Loans	x	x	x					

■ = Benefits  
■ = Consequences

- 1. Simplify Repayment.** The main benefit of loan consolidation for medical residents is simplification of the repayment process by combining all federal student loans into a single new loan with one point of contact and a single required monthly payment. This is a valuable benefit for those who have little time or energy to manage personal financial matters.
- 2. Lower Monthly Payment.** Before consolidating, most loans have a 10–25-year repayment term, but after consolidating, the loan term is lengthened up to 30 years. This longer term causes the required monthly payment to decrease significantly—a great benefit if cash flow is limited. On the other hand, an extended term can also mean higher interest costs. The good news is that there is no prepayment penalty for federal loans, so extra payments are allowed and encouraged at any time to reduce the total interest cost.
- 3. Make Eligible for PSLF/PAYE/REPAYE.** Loans that were not originally disbursed from Direct Loans are not eligible for Public Service Loan Forgiveness (PSLF) or the Pay As You Earn (PAYE) and Revised Pay As You Earn (REPAYE) repayment plans. However, if eligible federal student loans (like Perkins Loans) are included in a Direct Consolidation Loan, they become eligible for PSLF and the PAYE and REPAYE repayment plans. Other eligibility requirements also need to be met.



**4. Forfeit Grace Period.** Consolidation loans do not have a grace period, and monthly payments will be required within 60 days of the consolidation loan being disbursed. For this reason, if you want to use your entire grace period, you will need to either 1) request that the servicer delay the processing of the consolidation until the end or near the end of the grace period (this request is made in the consolidation application) OR 2) wait to complete a consolidation application until after all grace periods have been fully exhausted. On the other hand, consolidation is the only way to “skip” the grace period—call it an unintended loophole. Borrowers seeking loan forgiveness may want to begin making payments immediately after graduation because the sooner payments are begun, the earlier forgiveness can be obtained in a number of programs; consolidation will accelerate the start time of these payments by “skipping” the grace period.

PLUS Loans do not have a grace period; however, they do have a post-enrollment deferment that behaves much like a grace period (postponing payments) and lasts for six months. This deferment occurs automatically and is lost if the PLUS Loans are consolidated before the entire six months of post-enrollment deferment have occurred.

**5. Fix a Variable Rate.** (This benefit is applicable only to loans disbursed before July 1, 2006.) The interest rate on a consolidation loan is based on the weighted average of the underlying loans, rounded up to the nearest one-eighth of a percent, and then fixed for the life of the loan. A fixed rate is protected from rate changes and may be financially worthwhile for variable rate loans. However, very few medical graduates have these older variable rate student loans; therefore, the effect of consolidation on fixed interest rate loans is likely to be an increase in the interest rate because of the rounding process.

**6. Make Eligible for Residency Forbearance or IBR.** Perkins Loans and LDS Loans are not eligible for Mandatory Medical Residency Forbearance or the Income-Based Repayment (IBR) plan in their original form. These loans, however, can be included in a Direct Consolidation Loan, making the debt eligible to be postponed with a resident forbearance or repaid under IBR. All other federal student loans are eligible for repayment under IBR in their original form and with their current servicer. (Note: Parent PLUS Loans are not eligible for IBR.)

**7. Loss of Interest Subsidy.** In their original form, Perkins and LDS Loans are subsidized, which means that interest does not accrue while the loan is in an in-school, grace, or deferment status. When a Perkins or LDS Loan is consolidated, the balance of the loan becomes unsubsidized.

**8. Grace and Deferment Options Lost.** Certain loans are eligible for additional time in grace or deferment, but when these loans are consolidated, the remaining balance on these loans loses these options.

**Be advised:** Consolidation will erase prior payments made on the loans being consolidated, which will negatively affect your pursuit of PSLF. Is the consolidation worth resetting the payment count on your PSLF eligibility?



## Should You Consider a Direct Consolidation Loan?

Are you wondering if consolidation is right for you? Answer these questions to find out.

### 1. Do you have multiple servicers for your federal student loans?



**Yes**, a consolidation with Direct Loans may offer you the much-needed benefit of simplification: one loan, one point of contact, and one payment. In fact, one of the top reasons medical residents consolidate is to simplify the management of their federal student loans during residency.



**No**, loan consolidation would not provide an obvious benefit in managing your loans.

### 2. Are you considering work in public service and Public Service Loan Forgiveness (PSLF)?



**Yes**, a Direct Consolidation Loan may be necessary to make some of your debt eligible for this forgiveness program. You would NOT need to include all your loans in the consolidation. Only the federal loans that do not already have the word “Direct” in their name would need to be consolidated—since these are ineligible for PSLF in their current form. For a list of all your federal student loans, visit [nslds.ed.gov](https://nslds.ed.gov).

(Note: Consolidation erases all prior payments that qualified for PSLF.)



**No**, loan consolidation would not provide any obvious benefit based on your career goals.



**Possibly** . . . see the advice for those who answered yes (to the left), and then strongly consider following it. This approach leaves your options open: in the future, you can choose between continuing on the path toward forgiveness under PSLF or leaving public service without penalty.

### 3. Would you benefit from a lower required monthly payment?



**Yes**, loan consolidation may benefit your monthly budget because it can dramatically reduce your required monthly payment. This is accomplished by stretching the term of the original loans from 10 years to up to 30 years. Keep in mind, the longer it takes to pay off a loan, the more the loan can cost. However, there are no prepayment penalties on federal student loans, so a consolidation loan can be paid off earlier than required by sending extra money when possible, which will help avoid the additional interest costs.

Alternatively, a lower monthly payment can be obtained without consolidating. By changing your selected repayment plan to an income-driven plan, you could qualify for an even lower monthly payment during residency—possibly making consolidation unnecessary. Discuss this option with your loan servicers.



**No**, loan consolidation would not provide an obvious benefit to your financial situation. By not consolidating, you avoid stretching out the term of the loan. Therefore, you'll probably repay the balance of your debt sooner, which will cost you less in interest.



**Possibly** . . . see the advice for those who answered yes (to the left), and then strongly consider following it. This approach gives you the flexibility to pay less when you need to and more when you can.



#### 4. Do you have private student loans in addition to your federal student loans?

Yes

**Yes,** medical residents sometimes find it difficult to repay both private and federal loans—at least during residency. A helpful strategy may be to consolidate all federal loans, to obtain a single servicer (a benefit discussed in Question 1), and then to request a postponement of payment while in residency. Postponement is easily accomplished with a Mandatory Medical Residency Forbearance. Then, while payments on your federal loans are postponed, you can focus on the private debt and attempt to repay it in full, as soon as possible.

No

**No,** loan consolidation would not provide an obvious benefit in managing your loans.

#### 5. Are you considering an income-driven repayment plan?

Yes

**Yes,** a Direct Consolidation may be needed to make some of your loans eligible for these repayment plans. Specifically, Perkins and LDS Loans are not eligible for income-driven repayment plans—so these loans would need to be consolidated to become eligible. Your federal student loans that do not have the word “Direct” in their name would need to be consolidated to gain eligibility for the PAYE/REPAYE repayment plans. For questions about eligibility, call your servicers.

No

**No,** loan consolidation would not provide an obvious benefit in regard to your repayment plan options.

#### 6. After graduating, do you want to start making required payments as soon as possible?

Yes

**Yes,** although there is no way to forfeit or skip the grace period on federal student loans; when these loans are included in a Direct Consolidation Loan, any existing grace periods are gone/lost/forfeited ... or “skipped” when the new consolidation loan is disbursed. Therefore, consolidation provides an unintended consequence that can benefit those seeking to begin repayment immediately (which may allow borrowers to obtain loan forgiveness four to six months earlier because the sooner you start making required payments, the earlier you are possibly able to reach forgiveness).

No

**No,** loan consolidation would not provide an obvious benefit to your financial situation. By not consolidating, you leave your grace period intact—allowing you the time you need to transition (financially and physically) out of medical school and into residency.



## Private Consolidation (Refinancing)

There are companies willing to consolidate your federal student loans into a private consolidation. This process is also known as refinancing. There is a significant difference between a private consolidation loan and a federal consolidation loan. **If your federal loans are put into a private consolidation, you will lose all rights, terms, and conditions that are currently guaranteed to you (like student loan tax deductions, discharge in case of death or disability, and forbearance while in residency, to name a few).** Additionally, most of the repayment options discussed in these pages for federal loans are not an option for private loans.

For details on the repayment options for a private loan, you must contact the private loan lender.

## Should I Refinance My Federal Loans?

Answer these questions to find out.

If you have excellent credit, you may be able to refinance your existing **federal student loans** into a private loan. Before doing that, it's important to understand the full impact of making this permanent change to your loans.

### 1. Will this new private loan have a variable interest rate?

Yes



**Yes**, if you refinance into a private loan with a low variable rate today, over time, the rate could rise higher than the current fixed rate on your federal loans. Variable rates are tied to an index causing the rate to rise or fall, which makes the total cost of variable rate debt impossible to calculate. Choosing variable rate loans involves taking some financial risk. Before committing to a variable rate loan, understand exactly how often the rate may change and how high it may rise. A variable rate loan could be a good option IF you will fully repay the loan in the near future.

No



**No**, fixed rate loans offer stability to a borrower's repayment, making them a good option for borrowers who don't like risk. To make an accurate comparison of fixed rate private loans with other loans, be sure you know the terms, conditions, and fees (e.g., origination fees) of all the loans. **A fixed rate loan may be the best option if high levels of debt and long repayment terms are involved.**

### 2. Will you be working in public service? (This may include work during residency or a fellowship or while you are employed at an academic institution.)

Yes



**Yes**, after completing 10 years of public service work, as well as satisfying several other requirements, forgiveness may be granted on some or all of your remaining federal student loans. **Private loans are not eligible for Public Service Loan Forgiveness (PSLF). Only Direct Loans qualify for the PSLF program.**

No



**No**, based on your expected career path, forfeiting access to Public Service Loan Forgiveness is not a factor you need to consider when deciding whether to refinance.

### 3. Will the payments be affordable and/or is postponing payments an option during residency?

Yes

**Yes**, the lender determines the terms of private loans. If you cannot make your payments, you will be restricted to the accommodations offered by the private lender. However, with federal loans, a borrower has access to a variety of affordable payment plans and postponement options. For this reason, if you refinance with a private loan, select a reputable lender and thoroughly read the fine print.

No

Possibly

**No or not sure**, repaying private student loans can be burdensome if you don't have access to the kind of flexible repayment and postponement options that federal student loans offer. So, know your current options in the federal program (such as income-driven repayment plans that limit the payment amounts and can lead to forgiveness or the ability to easily postpone payments during residency) and then question the private lender to see exactly how their terms and conditions compare. **In general, reputable lenders will warn you about the benefits you are giving up when refinancing federal student loans.**

### 4. Are you comfortable with assuming more risk in your financial life?

Refinancing with a private loan may be a good option if you are highly motivated to repay your student debt; have a secure job, emergency savings, and strong credit; are unlikely to benefit from forgiveness options; and have a low fixed rate option available OR you will have access to sufficient funds in the near future. However, if you do not meet these criteria, many financial advisors suggest that trading in federal loans for private loans will expose you to additional financial risk. Therefore, before you assume possible financial risk, evaluate your current situation to determine whether you could make it through if something unexpected

No matter what your future holds, federal student loans will give you the ability to benefit from their flexible terms and conditions, including access to income-driven repayment plans and possible loan forgiveness, potential interest subsidies, limits to monthly payment amounts, the availability of a death and disability discharge, and possible student loan tax deductions. Be sure the potential reward received in a refinance is enough to offset the potential risk you will assume.

**Private debt and federal debt can operate very differently, especially when it comes to repayment. Know what you're giving up and what you will gain because refinancing federal loans into a private loan cannot be undone.**

## Borrower Benefits

Good news: Your federal loans may have borrower benefits tied to them that can help you save time and money over the course of your repayment. These benefits are incentives, such as reduced interest rates, reimbursement of loan fees, or even getting money back. To obtain these benefits, you must perform a specific action like making uninterrupted, on-time payments or having funds automatically debited from your bank account. A common benefit available from many servicers at this time is a 0.25% interest rate reduction when you are signed up for automatic payment withdrawal. To find out what your benefits may be, contact your servicers. Also, be advised that existing borrower benefits could be permanently lost when you obtain a consolidation loan—so carefully consider your borrower benefits BEFORE consolidating.

## Student Loan Interest—A Tax Deduction

More good news: The interest you pay on your student loans may be tax deductible (up to \$2,500 annually). There are certain parameters that must be met.

The maximum allowable deduction (\$2,500) diminishes as your income increases according to your MAGI (modified adjusted gross income). This means that paying interest while in school and/or residency will not only help reduce capitalization and interest costs, it also could allow you to take advantage of a deduction that you may not qualify for in the future when your income increases.

	Full Deduction	Partial Deduction	No Deduction
Single	\$65,000 or less	\$65,001 to \$79,999	\$80,000 or more
Married filing jointly	\$130,000 or less	\$130,001 to \$159,999	\$160,000 or more

Source: IRS Publication 970 (01/2017).

**For more detailed information, visit [irs.gov](https://www.irs.gov) and review IRS Publication 970, Tax Benefits for Higher Education.**

## Lifetime Learning—A Tax Credit

A maximum of \$2,000 in tax credits per year, called the Lifetime Learning Credit, is available for eligible students that have qualifying education expenses. As a credit, this tax benefit can only be used to reduce the amount of taxes owed and will not result in refundable cash if your income tax liability is less than \$2,000. For more details about this tax credit and other possible tax benefits available to students, visit [irs.gov](https://www.irs.gov) and review IRS Publication 970, Tax Benefits for Higher Education.

## Avoiding Delinquency and Default

Count yourself in good company: the default and delinquency rate among medical school borrowers is very low. Although low, it is certainly not zero. Usually, if borrowers run into difficulty during their residency years, it's because they don't keep in touch with their loan servicers or because they are late in filing deferment or forbearance forms. You have sacrificed too much and come too far to let this happen. Don't risk your financial future with carelessness—be organized about your repayment. Make sure you contact your servicers whenever your enrollment status, name, email address, or mailing address changes. Keep your calendar up-to-date and accurate so you'll know when it's time to file important forms. Steps like these will help you protect yourself and your credit.

### What Should I Do If I Cannot Pay?

#### **Call your servicers immediately!**

Financial difficulties happen—it's a fact of life. Your loan servicers know this, so if you have trouble making your loan payment, contact them.

Your servicers know all the options available to you and will help you devise a plan to successfully complete the repayment of your student loans.



## Private Loans

If private education loans are a part of your debt portfolio, you'll find that the repayment of these loans may differ from that of your federal debt and could include higher and/or variable interest rates, lack forgiveness programs, and have limited postponement options and/or reduced control over the amount of the required monthly payment.

Federal and private student loans are different because private education debt is not guaranteed by the federal government or regulated by the legislation that governs your federal loans. The terms and conditions of private loans are set by the lender. In fact, most of the repayment options discussed in this booklet are applicable only to your federal student loans.

## Debt Management Strategies for Private Loans

Two possible strategies to consider for repayment of private loans are detailed below.

**Forbearance:** A repayment strategy medical graduates who have both federal and private loans can use is to request a Mandatory Medical Residency Forbearance on their federal loans—causing the required payment on the federal loans to be zero. This postponement of payments for the federal loans allows aggressive payments to be made towards private debt. This strategy is most beneficial if the interest rates on the private loans are higher than the rates on the federal debt. In fact, paying off loans with a high interest rate quickly is a wise strategy. However, interest rates aside, even if the rate of the private debt is not higher than that of the federal loans, the strategy of postponing federal payments may simply free up your cash flow and allow you to make your private loan's required monthly payments during residency.

**Consolidation/Refinancing:** Another repayment strategy is to find a private consolidation loan to refinance some or all of your private student debt. The first step to do this is to shop around for the loan with the best terms. You can start your search at your school's financial aid office. Your chance of obtaining a better interest rate on the new loan increases if your credit score has improved since you originally received the private loans or if you can get a creditworthy cosigner. However, the opposite is also true: a lower credit score may lead to higher interest costs. Also be aware that if the refinanced loan offers a longer period of time for repayment, which will reduce the monthly payment, you will pay more in interest. Ideally, refinance into a loan that offers no prepayment penalty.

When you are using private consolidation to manage the repayment of private debt, the most important advice is to read the fine print for the loan, paying special attention to the terms, conditions, and costs of the new loan. Refinancing private debt has the potential of doing more harm than good if it involves origination fees, increases your interest rate, or results in the loss of positive terms and conditions. So, proceed with caution.

**Be sure to read all the fine print before signing.**

## Final Note

Don't forget the financial aid office staff at your institution. They are available to help you and are keenly aware of issues affecting medical students. Repaying your loans can be a lot to sort through, so take it one step at a time.



## Next Steps

The following is a brief guideline for soon-to-be graduates about the possible first steps for managing federal student loans as medical school transitions into residency.

<p><b>STEP 1</b> Immediately</p>	<p><b>ORGANIZE YOUR LOANS</b> (see pages 4–6)</p> <ul style="list-style-type: none"> <li>• What types of loans do you have?</li> <li>• Who services the loans?</li> <li>• When is the first payment due?</li> </ul>
<p><b>STEP 2</b> 30 Days Before Graduation</p>	<p><b>HANDLE LOANS WITHOUT A GRACE PERIOD</b> (see pages 14–29)</p> <ul style="list-style-type: none"> <li>• Contact your servicers to request either a repayment plan or a forbearance to postpone payments.</li> </ul> <p><b>CONSIDER PAYING SOME OF THE ACCRUED INTEREST</b> (see pages 11–13)</p> <ul style="list-style-type: none"> <li>• Check with the servicers to determine when your loans will capitalize.</li> </ul>
<p><b>STEP 3</b> Upon Graduation</p>	<p><b>CONSOLIDATION IS AN OPTION</b> (see pages 49–53)</p> <ul style="list-style-type: none"> <li>• You can submit your application for immediate processing, or you can request processing to begin at (or near) the end of the grace period. Consolidation processing takes 30–60 days, and consolidation applications can be submitted now or anytime in the future.</li> </ul>
<p><b>STEP 4</b> When Residency Begins</p>	<p><b>IF YOU PLAN TO USE PSLF, COMPLETE AN EMPLOYMENT CERTIFICATION FORM (ECF)</b> (see pages 47–48)</p> <ul style="list-style-type: none"> <li>• <a href="#">Employment Certification Forms</a> may be submitted now or anytime in the future (see pages 47–48).</li> </ul>
<p><b>STEP 5</b> Before the End of the Grace Period</p>	<p><b>DECIDE IF YOU WILL POSTPONE OR BEGIN LOAN REPAYMENT</b> (see pages 33–34)</p> <ul style="list-style-type: none"> <li>• <b>90 days before the end of the grace period</b>, if you want to be in an income-driven repayment plan, you will submit your final application to the loan servicers (see pages 21–26).             <ul style="list-style-type: none"> <li>◦ Earlier submissions will be denied even if you are eligible for the income-driven repayment plan you selected.</li> <li>◦ If you would prefer to make payments under the Standard, Extended, or Graduated repayment plans, contact your loan servicers 30 days before the grace period expires or anytime thereafter.</li> </ul> </li> <li>• <b>30 days before the end of the grace period</b>, or anytime during residency, you are able to postpone payments with a Mandatory Medical Residency Forbearance (see page 17).             <ul style="list-style-type: none"> <li>◦ Contact your loan servicers to request this postponement option.</li> </ul> </li> </ul>
<p><b>STEP 6</b> Before the End of the First Year</p>	<p><b>SUBMIT RECERTIFICATION PAPERWORK TO YOUR SERVICERS</b></p> <ul style="list-style-type: none"> <li>• To continue in an income-driven repayment plan, submit paperwork about 90 days before the end of the first year of repayment.</li> <li>• To continue to postpone payments, reapply 30 days before the end of the first year of forbearance.</li> <li>• Consider completing the Employment Certification Form annually.</li> <li>• Repeat this step annually as appropriate.</li> </ul>



FIRST is a program of the Association of American Medical Colleges (AAMC).

The AAMC has a variety of financial information, resources, services, and tools for students and residents concerned about debt management.

The AAMC's FIRST team encourages you to use this resource to help accomplish your financial goals, and to visit the FIRST website at [aamc.org/FIRST](https://www.aamc.org/FIRST).

Congratulations on your graduation from medical school and best of luck as you embark on your career as a physician!



**Association of  
American Medical Colleges**

655 K Street, NW, Suite 100, Washington, DC 20001-2399

T 202 828 0400

[aamc.org](https://www.aamc.org)

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