

Student Loans and Debt Management

Spring 2010

“ I want to heal .”

cure

help

care

lead

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

Class of '09 Indebtedness



	All Schools	Public Schools	Private Schools
Mean	\$156,456	\$148,101	\$170,012
Median	\$160,000	\$150,000	\$177,500

- 87% of class report having educational debt
- 58% of class report debt \$150,000 or higher

“ I want to heal ”
cure
help
care
lead

“An investment
in knowledge
always pays
the best interest”

- Benjamin Franklin

Agenda



- 1) Know Your Loan Portfolio
- 2) How to Postpone Payments
- 3) Repayment Plans
- 4) Options During Residency
- 5) Other Considerations

cure
help
“ I want to heal .”
care
lead

1 Know Your Loan Portfolio



cure
help
“ I want to heal .”
care
lead

Master Promissory Note

A contract with the lender

Has a multi-loan feature

Details borrower's Rights and Responsibilities

Defines Terms and Conditions of the loans

cure
help
“ I want to heal .”
care
lead

Rights and Responsibilities



Rights include the ability to:

Prepay any federal loan without penalty

Request a shorter repayment schedule

Change repayment plans

Request a deferment or forbearance

Review your promissory note for all rights

cure
help
“ I want to heal .”
care
lead

Rights and Responsibilities



Responsibilities include:

Make on time loan payments

Make payments despite receipt of bill

Notify the lender of changes in contact info

Attend an Exit Counseling session

Review promissory note for all responsibilities

cure
help
“ I want to heal .”
care
lead

A serious obligation



Student loans must be repaid whether or not:

Program was completed

Program completed in normal amount of time

Satisfied with your experience

Employment is obtained

cure
help
“ I want to heal .”
care
lead

Consequences of...



Delinquency

Reported to credit bureaus, affects your credit

Default

Negatively affects your credit

Wages and tax returns can be garnished

Lawsuit leveled against you (responsible for costs)

Other federal debt collection methods

cure
help
“ I want to heal .”
care
lead

Terms and Conditions



Discharge may be available in cases of:

Death or Total/Permanent Disability

Closed school / False certification

Certain public school service professions

Identity Theft

Bankruptcy (rarely)

Review your promissory note for all terms

“ I want to heal ”
cure
help
care
lead

Finding Your Federal Loans

www.nslds.ed.gov

A screenshot of the NSLDS Student Access website. The header includes the Department of Education logo and the slogan "START HERE GO FURTHER FEDERAL STUDENT AID". The main navigation menu contains "Financial Aid Review", "Glossary of Terms", "Browser Information/Setup", "FAQs", and "Contact Us". A "Hurricane Information" link is highlighted in red. The main content area features a photograph of a student in a red jacket using a laptop. Text on the page reads "NSLDS STUDENT ACCESS National Student Loan Data System" and "Retrieve Your Loan Information". A paragraph explains that NSLDS is the U.S. Department of Education's central database for student aid, receiving data from schools, guaranty agencies, and the Direct Loan program. A "FINANCIAL AID REVIEW" button is visible. The footer contains links for "FOIA", "Privacy", "Security", "Notices", "WhiteHouse.gov", "USA.gov", and "ED.gov".

To access you provide:

- SS#
- Date of Birth
- First 2 letters (last name)
- PIN # (www.pin.ed.gov)

Interest Rates



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

* Variable rates change every July 1 based on the 91-day treasury bill

** Interest rate for Direct Grad PLUS Loans 7.9%

Repayment Strategy

Prioritize repayment efforts –
pay the most expensive
debt FIRST!

Capitalization



Addition of unpaid interest to the principal

Increases the total amount due

The less frequent the better

Identify your lenders policy

NOTE: The Direct Loan Program capitalizes interest on unsubsidized loans at the end of grace and again at the end of uninterrupted periods of authorized deferment.

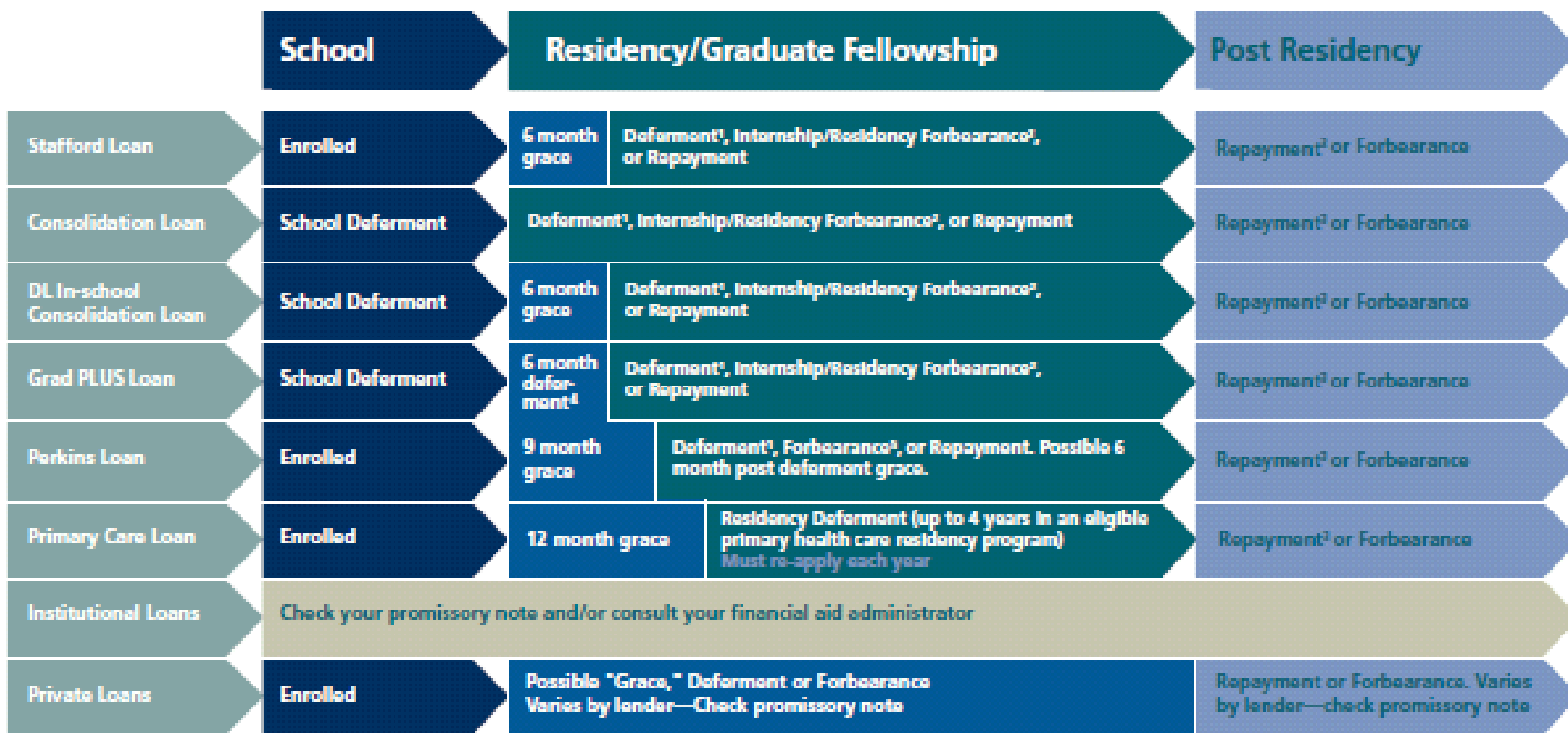
cure
help
" I want to heal."
care
lead

Repayment Strategy

Pay the interest on
unsubsidized loans PRIOR to
capitalization

Loan Repayment Timeline

Loan Repayment Timeline



2 How to Postpone Payments

“ I want to heal ”
cure
help
care
lead

Postponement Options



Deferment

A period when payments are not required

Must apply and qualify

Interest does not accrue on subsidized loans

Unsubsidized loans continue to accrue interest

NOTE: For a list of deferment types, see page 13 of the Education Debt Manager.

For additional details on deferment, contact your lender/servicer(s).

Postponement Options



Forbearance

A period when payments are not required

Must request from the lender/servicer

Interest accrues on sub and unsubsidized loans

Many types (administrative, discretionary, mandatory)

NOTE: For more details on forbearance or to request a forbearance period, contact your lender/servicer(s). I want to heal.

cure
help
heal
care
lead

Mandatory Medical Residency/Internship

Used to postpone payments

Interest accumulates on sub and unsub loans

Requested annually from lender

Continuous periods may avoid capitalization*

*Check your lender's capitalization policy

“ I want to heal ”
cure
help
care
lead

3 Repayment Plans



cure
help
“ I want to heal .”
care
lead

Repayment Strategy

To reduce the cost of
student loans -
make additional principal
payments

Repayment Plans



Determines payment amount and interest cost

Standard (Level)

Extended

Graduated

Income Sensitive (FFEL)

Income Contingent (Direct Loans)

Income Based Repayment (IBR)

Repayment Plans

Effects of each Repayment Plan on Cost Debt Manager Booklet: Page 17-18

Interest Cost Comparison: Forbearance during Residency					
Monthly Payment During Residency	Repayment Plan	Repayment Years after Residency	Estimated Monthly Payment	Interest Cost	Total Repayment
\$0	Standard	10	\$2,500	\$150,000	\$300,000
\$0	Graduated	10	\$1,200 for 2 years then \$2,900 for 8 years	\$162,000	\$312,000
\$0	Extended	25	\$1,500	\$303,000	\$453,000
\$0	Income-Sensitive	10	\$1,200 for 3 years then \$3,300 for 7 years	\$168,000	\$318,000
\$0	Income-Contingent	8.1	\$2,600 to \$3,300 over 8.1 years	\$136,000	\$286,000
\$0	Income-Based	12	\$1,900 to \$2,500 over 12 years	\$175,000	\$325,000

Repayment Plans

Standard

- Equal monthly payments
- Higher monthly payments
- Lower total cost

Extended

- Repayment term of 25 years
- Low monthly payment
- Likely the most expensive option

“ I want to heal ”
cure
help
care
lead

Repayment Plans



Income Sensitive (FFEL) / Income Contingent (DL)

Lower initial payments (tied to income)

Possible higher costs

Graduated

Payments start low, increase over time

Possible higher costs

Income-Based Repayment

Likely the lowest monthly payment

cure
help
“ I want to heal .”
care
lead

Debt Fact

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

Repayment Plans



Estimated Monthly Payment Amounts Debt Manager Booklet: Page 19-20

Federal Stafford Loans with 6.8% annual interest

Medical School Stafford Loan Amount	Balance at repayment	Standard	Graduated		Extended	Income-Based Repayment (IBR)			Income-Sensitive		Income-Contingent Repayment (ICR)		
		10-year repayment term	Years 1-4 (Interest Only)	Years 5-10	25-year repayment term	Years 1-4	Balance (after a 4 year residency)	Payment and years based on balance at start of IBR	Years 1-4 (Interest Only)	Years 5-10	Years 1-4	Balance (after a 4 year residency)	Payment and remaining years
\$75,000	\$82,377	\$948	\$467	\$1,397	\$572		\$83,088	\$948 for 10.2 yrs.	\$467	\$1,397		\$71,125	\$1,257 for 5.8 yrs.
\$80,000	\$88,276	\$1,016	\$500	\$1,497	\$613		\$90,179	\$1,016 for 10.3 yrs.	\$500	\$1,497		\$78,862	\$1,347 for 6 yrs.
\$90,000	\$100,075	\$1,152	\$567	\$1,697	\$695		\$104,508	\$1,152 for 10.7 yrs.	\$567	\$1,697		\$94,338	\$1,529 for 6.4 yrs.
\$100,000	\$111,875	\$1,287	\$634	\$1,897	\$776		\$118,980	\$1,287 for 11 yrs.	\$634	\$1,897		\$109,814	\$1,709 for 6.8 years
\$110,000	\$123,674	\$1,423	\$701	\$2,097	\$858	\$380 to	\$133,554	\$1,423 for 11.3 yrs.	\$701	\$2,097	\$600 to	\$125,289	\$1,889 for 7 years
\$120,000	\$135,473	\$1,559	\$768	\$2,297	\$940	\$500	\$148,204	\$1,559 for 11.4 yrs.	\$768	\$2,297	\$760	\$140,765	\$2,069 for 7.3 years
\$130,000	\$147,272	\$1,695	\$835	\$2,497	\$1,022	per	\$162,911	\$1,695 for 11.7 yrs.	\$835	\$2,497	per	\$156,240	\$2,249 for 7.4 years
\$140,000	\$159,071	\$1,831	\$901	\$2,697	\$1,104	month	\$177,664	\$1,831 for 11.8 yrs.	\$901	\$2,697	month	\$171,715	\$2,429 for 7.6 years
\$150,000	\$170,870	\$1,966	\$968	\$2,897	\$1,186		\$192,451	\$1,966 for 12 yrs.	\$968	\$2,897		\$187,191	\$2,609 for 7.8 years
\$160,000	\$182,670	\$2,102	\$1,035	\$3,097	\$1,268		\$207,267	\$2,102 for 12.1 yrs.	\$1,035	\$3,097		\$202,667	\$2,631 to \$2,789 for 8 yrs.
\$162,000	\$185,029	\$2,129	\$1,048	\$3,137	\$1,284		\$210,233	\$2,129 for 12.2 yrs.	\$1,048	\$3,137		\$205,761	\$2,631 to \$2,825 for 8.1 yrs.
\$170,000	\$194,469	\$2,238	\$1,102	\$3,297	\$1,350		\$222,106	\$2,238 for 12.3 yrs.	\$1,102	\$3,297		\$218,143	\$2,631 to \$2,969 for 8.4 yrs.
\$180,000	\$206,268	\$2,374	\$1,169	\$3,497	\$1,432		\$236,965	\$2,374 for 12.3 yrs.	\$1,169	\$3,497		\$233,618	\$2,631 to \$3,149 for 8.9 yrs.
\$188,668	\$216,495	\$2,491	\$1,227	\$3,670	\$1,503		\$249,858	\$2,491 for 12.4 yrs.	\$1,227	\$3,670		\$247,032	\$2,631 to \$3,305 for 9.4 yrs.

4 Options During Residency

cure
help
“ I want to heal .”
care
lead

The most feasible options during residency :

Pay Later (using Forbearance)

Pay Now (using Income-Based Repayment)

cure
help
“ I want to heal .”
care
lead

Income-Based Repayment



IBR Repayment Plan

Based on household AGI* and family size

Partial interest subsidy during the first 3 years

Unpaid interest does not capitalize when:

- Annual paperwork is filed timely
- Borrower demonstrates a PFH

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

cure
help
“ I want to heal .”
care
lead

Income-Based Repayment



To obtain IBR, borrower must do the following

Contact each lender individually to request

Inform lenders, annually, of family size

Give lenders permission to access tax returns

Demonstrate a Partial Financial Hardship (PFH)

cure
help
“ I want to heal .”
care
lead

Income-Based Repayment

Formula for a Partial Financial Hardship (PFH):

\$2,000 / mo*

>

\$380 / mo

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

* As originally determined when calculating Partial Financial Hardship based on \$181,000 entering repayment (\$160,000 total education debt plus \$21,000 of capitalized interest from 4-years of school and 6-months of grace).

Income-Based Repayment (IBR)



Online IBR Calculators

www.finaid.org

www.IBRinfo.org

cure
help
“ I want to heal ”
care
lead

4 Forgiveness Options

A simple line-art icon of a stethoscope, positioned below the number '4' in the section header.

cure
help
“ I want to heal .”
care
lead

Public Service Forgiveness



Eligible Loans

+ Qualifying Payments

+ Qualifying Work

Public Service Loan Forgiveness

Public Service Forgiveness



Eligible Loans

Federal Direct Sub and Unsubsidized Stafford

Federal Direct Consolidation^{*}

Federal Direct Parent PLUS^{**} & Grad PLUS

Federal Perkins and LDS loans^{***}

FFEL student loans^{***}

* Excluding spousal consolidation loans

** Does not qualify for Income-Based Repayment (even if in a Federal Direct Consolidation)

*** When included in a Federal Direct Consolidation Loan

Public Service Forgiveness



Qualifying Payments

120 payments **to Direct Loans** made under:

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

While simultaneously working in public service

* or any plan where the monthly amount is equal or more than the Standard amount

Public Service Forgiveness



Qualifying Payments

Does not have to be continuous work

Payments made after October 1, 2007

Must be a required monthly payment

Public Service Forgiveness



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

Non-profit, tax exempt, 501(c)(3) organization*

Federal, state, local or tribal government

Military service

Private organization providing a public service

***includes most medical schools and teaching hospitals**

cure
help
“ I want to heal ”
care
lead

Other Forgiveness/Assistance



NIH Loan Repayment Programs:

www.lrp.nih.gov

NHSC Repayment Programs:

www.nhsc.hrsa.gov

More programs listed at AAMC website:

www.aamc.org/stloans

cure
help
“ I want to heal ”
care
lead

5 Other Considerations

cure
help
“ I want to heal .”
care
lead

Details of Private Loans

Typically unsubsidized for life of loan

A grace period/forbearance may be available

Cannot be included in IBR or PSLF

Be cautious when consolidating private loans

cure
help
“ I want to heal ”
care
lead

Federal Loan Consolidation



When to consider Consolidation:

Variable rates are low

Multiple lenders to repay

To obtain Public Service Loan Forgiveness (DL)

To make Perkins or LDS loans eligible for IBR

cure
help
“ I want to heal .”
care
lead

Federal Loan Consolidation



Effects of consolidating

A longer term will increase the interest costs*

Able to prepay or change repayment plan

A new loan with new benefits**

May negatively affect grace, deferment, or forgiveness options

* Also, the rate will be a weighted-average that may be rounded up to the nearest 1/8th

** Forfeiture of original borrower benefits is likely. Future borrower benefits vary by lender.

The Taxpayer Relief Act of 1997



	Full Deduction	Partial Deduction	NO Deduction
Single	\$60,000 or less	\$60,001 to \$74,999	\$75,000 or more
Married filing Jointly	\$120,000 or less	\$120,001 to \$149,999	\$150,000 or more

Student loan interest deduction max \$2,500 per year

Voluntary payments may be eligible

Capitalized interest may be included

www.irs.gov/publications/p970



www.annualcreditreport.com

Support Along the Way



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

www.aamc.org/FIRST

FIRST for Residents Mailbox

**FACEBOOK: FIRST for
Medical Education**

Your loan servicers' and their websites

Your residency program

Your medical school financial aid office



“I want to heal.”
cure
help
care
lead



Tomorrow's Doctors, Tomorrow's Cures

Questions?

FIRST@AAMC.org

Learn

Serve

Lead

Association of
American Medical Colleges