Student Loan Repayment Strategies for Medical Students

Presented by
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Managing Your Student Loan Debt

- Know your loan portfolio – loan types and relative cost
- Know your grace, deferment and forbearance options
- Understand the consequences of delinquency and default
- Know your decision points and keep a calendar
- Know the cost before choosing your repayment plan
- Set and follow a realistic budget
- Safeguard your credit by carefully managing all of your loans and loan payments
- Keep good records
- Know your resources
Know Your Loan Portfolio

• Know what types of loans you have
• Know your lenders
• Know who services your loans
Buying and Selling of Student Loans

• Your original lender may have sold your loan
• This means you have a new loan —holder—
• You must be notified if the service provider of your loan changes.
• The terms of your loan(s), as specified in the promissory note(s), will not change if sold or transferred to another servicer.
Master Promissory Note (MPN): Borrower Responsibilities

- Agreement to pay back the loan(s)
- Multi-year feature vs. new promissory note per year
- Used for subsidized and unsubsidized Stafford
  - Subsidized: need-based loan; government pays interest while enrolled
  - Unsubsidized: non-need based loan; student responsible for all interest
- Also used for Grad PLUS
- Borrower rights & responsibilities detailed on MPN
Subsidized vs. Unsubsidized Loans

Subsidized Loans

Have no interest cost to you while in school, in grace, or during periods of authorized deferment

Examples:

- Subsidized Stafford Loan
- Perkins Loan
- Consolidation Loan portion of underlying eligible Subsidized loans
- Primary Care Loan (PCL) program
- Loans for Disadvantaged Students (LDS)
- Some institutional loans (see promissory note or aid office)
Subsidized vs. Unsubsidized Loans

**Unsubsidized Loans**

Accrue interest from the time of disbursement

**Examples:**

- Unsubsidized Stafford Loan
- Graduate PLUS Loan
- Consolidation Loan-interest accrues on entire consolidation loan balance starting from disbursement
- Private Loans
When Repayment Begins

- **Stafford loans** have a grace period: first payment due six months after student graduates, withdraws, or drops below half-time.

- **Grad PLUS** loans have a deferment period: first payment due six months after student graduates, withdraws, or drops below half-time enrollment.

- Lender will advise you of your first payment due date during your grace/deferment period. If you don't receive this information, contact your lender.
Finding Your Federal Student Loans

• National Student Loan Data System (NSLDS)
  – U.S. Department of Education's (ED's) central database for student aid
  – NSLDS receives data from schools, guaranty agencies, the Direct Loan program, and other Department of ED programs
  – To access loan records visit www.nslds.ed.gov
  – Students will need their PIN for access
Relative Cost of Student Loans

- **Interest Rate** - what the lender charges you to use their money
- **Capitalization** - the addition of accrued and unpaid interest to the principal balance of your loan
- **Borrower Benefits and Repayment Incentives** - special offerings that can help you reduce the cost of repaying your loan(s), these may include:
  - Interest rate reductions
  - Credits to loan balance
- Some benefits and repayment incentives impose eligibility requirements such as signing up for autodebit or making a certain number of on-time payments
# Federal Loan Interest Rates

<table>
<thead>
<tr>
<th>Loan Type</th>
<th>Interest Rates</th>
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<tbody>
<tr>
<td>Stafford Loans</td>
<td>6.8%</td>
</tr>
<tr>
<td>Graduate PLUS Loans</td>
<td>7.9%</td>
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Capitalization of Interest

What is capitalization?

- Interest on most loans accrues from the date funds are disbursed until the loan is paid in full. (Subsidized loans have no interest accrue during in-school, grace, and deferment periods.) Capitalization is the addition of unpaid accrued interest to the principal balance of a loan.
  - Less frequent the better
  - Consider asking family to help with interest
  - Capitalization often occurs more frequently during forbearance
Borrower Benefits and Repayment Incentives

- Money-saving borrower benefits and repayment incentives were typically offered to borrowers by lenders during your time as a student.
- They took the form of interest rate reductions, credits to your loan balance and/or cash rebates and imposed eligibility rules such as making a specific number of on-time payments.

Make sure you:

- Find out if any of your loans are eligible for borrower benefits or repayment incentives by contacting your loan service provider or consulting your lender's web site.
- Research the terms to know and understand the eligibility rules.
Delaying Repayment

• If your loans have a grace period, you won’t be asked to start making payments until the grace period is over.
  – Stafford, Federal Perkins and some private loans offer grace periods.
  – Federal Consolidation Loans and Grad PLUS loans do not have grace periods.
    • Grad PLUS loans issued on or after July 1, 2008, offer a new six-month post-school deferment option that essentially aligns with the Stafford grace period.

• You can postpone repayment on your federal loans via a deferment or forbearance.
  – You have to meet the qualifying conditions for a deferment or a forbearance.
Grace

- Period of time after you graduate, leave school or drop to less than half-time during which you are not required to make payments
- No application required
- Loan specific, varies according to loan – once you use it completely, it’s gone
  - Stafford loans have a six-month grace period
  - Perkins have nine-month grace
- Subsidized loans are interest free to the borrower during grace
- Unsubsidized loans continue to accrue interest
- Does not adversely impact credit
Deferment

- Period when a borrower who meets certain criteria may suspend loan payments.
- Application may be required depending on deferment type. Recertification for subsequent deferment periods may also be required.
- Stafford deferments are borrower specific, meaning eligibility is attached to the borrower.
- Subsidized loans are interest free to borrower during authorized deferment periods.
  - Unsubsidized loans continue to accrue interest.
  - Putting loans into deferment does not adversely impact credit.
Common Types of Deferment

• In-School
• Economic Hardship
• Unemployment
• Military
Forbearance Option

• Forbearance typically is sought for temporary repayment relief—that is, temporary adjustment to repayment schedule (no payments or reduced payments).

• There are several types of forbearance, and medical residents can take advantage of a special Internship Residency Forbearance.

• The Internship Residency Forbearance option:
  – Is available to those borrowers pursuing a medical residency that is required as part of their certification.
  – Is available for all Stafford, Grad PLUS & Federal Consolidation loans.
  – Is mandatory—that is, if borrower meets eligibility requirements and submits necessary paperwork, lender has to grant the forbearance.
  – Can be arranged in increments of up to 12 months at a time.
  – Has no time limit, so it can cover residencies of 3, 4, 5, 6, 7 or more years.

• Other forbearance types include financial hardship forbearance.
  – In general, these other forbearances—
    • Are subject to agreement between the borrower and lender.
    • Can be arranged in increments of up to 12 months at a time.
    • Have cumulative time limits.
Forbearance

- In general, apply at end of grace, if deferment isn’t an option.
- In forbearance, interest accrues on all loans, subsidized and unsubsidized; unpaid interest will be capitalized at end of forbearance.
- Interest that accrues during the forbearance remains the borrower’s responsibility.
- Unpaid interest may be capitalized no more frequently than quarterly and at the end of the forbearance.
- Capitalization of interest increases the amount to pay back, and may result in a higher payment amount after the forbearance.
- Electing forbearance does not adversely impact credit, but may adversely impact eligibility for borrower benefits or repayment incentives, check with lender.

Be careful of use because it adds expense! 

Do use to stay out of delinquency and default!
Paying Loans Off Early

• You can **prepay** your federal student loans with no penalties.

• Be aware of the relative costs and make payments towards your **unsubsidized loans** that have the **highest rates and/or most frequent capitalization.** This should save you more money over time.

• Unless otherwise noted, loan payments typically are applied first toward late fees, then interest, and finally principal.
Delinquency & Default

CONSEQUENCES
• Your federal student loans are only canceled if you die or become totally and permanently disabled. They are generally not dischargeable in bankruptcy.

Remember: No one wants you to default!

• If you are experiencing any difficulties in repayment, contact your servicer immediately to make appropriate arrangements and avoid the consequences of default!
Consequences of Default

- Default: Failure to make payments for 270 days
  - Loss of federal financial aid eligibility
  - Withholding of federal income tax refunds
  - Inability to renew professional license
  - Negative credit history
  - Wage withholding
  - May be sued
  - Collection fees and attorney’s fees assessed
  - Enforcement of delinquent debt collection procedures
Repayment Options

• Standard plan
• Graduated plan
• Extended plan
• Income-sensitive plan
• Income-based repayment plan (IBR)

• For all repayment plans, student can:
  – prepay loans without penalty
  – pay on a shorter schedule, and
  – change repayment plans
Federal Loan Repayment Plans

• **Standard**
  – Level monthly payments that cover accruing interest and a portion of principal over 10-year period
  – Higher monthly payments
  – **Lowest overall cost**

• **Graduated:**
  – Payments start low, increase over time
  – Finish in 10 years
  – Lower payments that may be as low as interest only for up to four years followed by standard payments of principal and interest for the remaining repayment term.
  – Higher overall cost -good for early cash flow, but remember cost!
Federal Loan Repayment Plans

• **Income Sensitive**
  – Payments are based on a percentage of your monthly income
  – Finish in 10 years (may be extended to 15 years).
  – Higher overall cost -good for early cash flow, but remember cost!

• **Extended Repayment**
  – Available to FFELP borrowers who have accumulated more than $30,000 in Federal Stafford, PLUS and Consolidation Loans first disbursed on or after October 7, 1998.
  – Repayment term can be "extended" up to 25 years.
  – Permits you to manage your monthly cash flow needs; but will increase the interest
Income-Based Repayment

Effective July 1, 2009

• For FFELP and FDLP borrowers experiencing “partial financial hardship.”

• Enables borrowers experiencing financial difficulty to cap monthly bill at 15% of their discretionary income

• If you are eligible for IBR, your monthly payment will be determined by a formula that takes into account household size, adjusted gross income, & indebtedness

• Must reapply annually

• Determine eligibility at www.ibrinfo.org
Income-Based Repayment

Effective July 1, 2009

• IBR provides for up to a 36-month interest subsidy period when a scheduled monthly payment amount on a subsidized loan is less than accrued interest.

• Designed to assist those who have relatively high federal student loan payments as compared to their incomes.

• Unpaid balance left at end of 25 years is forgiven.

• Must reapply annually

• Determine eligibility at www.ibrinfo.org or www.sallieame.com/ibr
Consolidation Loans

- Allows borrowers to combine one or more federal education loans
- Original loans are paid-in-full
  - New loan for the combined balances is issued with new terms, including a new interest rate that is fixed for the life of the loan
Request your free annual credit report. It's QUICK, EASY and SECURE.

START HERE to view and print your credit report now.

Select Your State  
Request Report

Credit Reports

This central site allows you to request a free credit file disclosure, commonly called a credit report, once every 12 months from each of the nationwide consumer credit reporting companies: Equifax, Experian and TransUnion.

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Credit Reports

- Barometer or “grade” of a person’s credit and their repayment behavior.

- Automated credit evaluation instrument used by lenders to determine what kind of risk they may assume should they offer someone credit.

- FICO score more likely to go down than up during school.

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Keep Good Records - To Do List

• Get all your loan papers together: keep them on file!
  promissory notes
disclosure statements
award letters
exit interview information

• Open and READ your student loan mail.

• Bookmark your loan servicers’ websites.

• Notify your loan servicer of name & address changes.

• Document calls to servicer: date/time of call, obtain the name of the person with whom you speak.

• Keep important numbers available.
Forgiveness Program

- Loan Forgiveness for Public Service Employees
- Eligibility limited to Federal Direct Student Loans (FDLP), Stafford, PLUS and Consolidation.
- FFELP Borrowers may consolidate in the FDLP program on or after July 1, 2008.
- Additionally, borrowers must have:
  - Made 120 ON-TIME monthly payments during eligible public service employment.
  - Payments must be made under one of the payment plans: Standard, Income-Based Repayment or Income Contingent Repayment.
  - Worked full time in eligible public service employment for ten years after October 1, 2007.
  - Must be employed in an eligible public service job at time remaining loan balance is forgiven.
Resources

- Federal Student Aid Ombudsman of the Department of Education
  - helps resolve disputes
  - when you have done all you can do yourself and haven’t been able to reach a solution, the ombudsman provides a process and resources to assist borrowers
  - Remember: good records are essential when you contact the ombudsman

U.S. Department of Education – FSA Ombudsman
830 First Street, NE
Fourth Floor
Washington, DC 20202-5144
http://www.ombudsman.ed.gov  Tel: (877) 557-2575
Resources

• Your school’s financial aid office
• Your lender/servicer
• U.S. Department of Education
• Your family
• Association of American Medical Colleges – www.aamc.org
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