

# Financing Your Medical School Education

## Responsible Borrowing and Responsible Repayment

# On the agenda

- Your budget and ways to reduce costs
- Educational debt and repayment basics
- Terms every responsible borrower should know
- Student loans and credit
- How residents manage their loans
- What you should be doing now

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# Financial aid budget\*

- Tuition and fees\*\* • \$ 40,000
- Books & supplies • \$ 1,000
- Room and board • \$ 17,500\*\*\*
- Transportation • \$ 2,000\*\*\*
- Personal • \$ 2,500\*\*\*
- Health insurance • \$ 2,000
- TOTAL • \$ 65,000

\* Sample MD-1 budget (also called the cost of attendance or COA) for 2021.2022

\*\* These as DIRECT expenses (things they are billed for by the school)

\*\*\* Monthly living allowance of \$2,200, based on a 10 month budget

# Two approaches

- Borrow LESS than full COA\*
  - Delays interest accrual
  - You can always borrow up to full COA, assuming eligibility with your lender
- Borrow up to full COA and send money back later if not needed
  - Work with your aid office and lender regarding the best way to return the funds
  - Speak with lender or servicer and request any early repayment be applied against principal borrowed

\* Cost of attendance (financial aid budget)

# Ways to reduce costs

- Ways to reduce **borrowing**
  - Don't miss FAO\* deadlines for grants and scholarships
  - Don't assume you need up to full COA\*\* and never borrow more than you need
  - Control what you can control in COA
- Ways to reduce **repayment costs**
  - Borrow responsibly and track your loans
  - Pay interest as it accrues whenever possible
  - Use ACH\*\*\* when available
  - Once in repayment, target additional payments on principal of most expensive loan

\* Financial aid office

\*\* Cost of attendance (financial aid budget)

\*\*\* Automatic debit payments (often .25% reduction off interest rate)

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# Educational debt\*

- \$200,000 Median all schools
- \$200,000 Median public schools
- \$220,000 Median private schools
  
- \$200,000 or more 54%\*\*
- \$300,000 or more 20%\*\*

\* Source: AAMC, Class of 2020 (indebted students only)

\*\* Public and private schools combined (all schools)



# Repayment basics

- Principal balance will not come down until all outstanding interest is paid
- In general, the shorter the repayment term, the less you will pay in interest
- Find a repayment plan with a manageable minimum required payment, then overpay if and when you can in whatever amount you can, always targeting additional payment against the principal of your highest rate loan
- There is no penalty for early payment

# Good news

- Medical school graduates have a great track record for repayment
- Debt not driving specialty choice
- Private loans more competitive than ever, resulting in better terms and conditions
- No penalty for aggressive payment

# Not so good news

- Private loans are unsubsidized, and interest will likely capitalize\* at repayment
- CARES Act\*\* does not apply to private loans
- Debt often grows in residency
- In general, fewer repayment options on private loans compared with federal, though repayment terms now more competitive with some private lenders, including income plan options
- Private loans not eligible for forgiveness with PSLF\*\*\*

\* Accrued and unpaid interest added to principal borrowed, usually at start of repayment

\*\* Coronavirus Aid, Relief, and Economic Security Act (2020)

\*\*\* Public Service Loan Forgiveness

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# Terms you should know

- Interest rates
  - Variable, fixed, and APR
  - Margins and spreads
  - Capitalization policies
- Lender and loan servicer
- Repayment terms
  - Disclosure statement
- Postponement provisions
- Cosigner release provisions

# Interest rate terms

- Interest rate
  - What lender charges to use their money expressed as a percentage
  - Fixed rate, variable rate, hybrid rate
- Questions to ask about variable rate loans
  - How often rate is the rate reset (changed)?
  - What about maximum and minimum rates?
  - Is rate same in school and during repayment?
- Annual Percentage Rate (APR)
  - Overall rate factoring in fees and discounts
  - Usually best one to use when comparing rates

# More interest rate terms

- Capitalization
  - Accrued interest added back to principal\*
  - Less frequent the better
  - Usually at repayment\*\*
- Index and margin (spread)
  - **Index** is what rate is based on and **spread** is how much is added to determine actual rate
  - Most common index for private loans is LIBOR\*\*\*

\* Original amount you borrowed

\*\* Confirm with your lender, should be referenced in your disclosure statement

\*\*\* London Interbank Offered Rate

# Example of variable rate

- Borrower applies for private loan and qualifies for **variable** rate of LIBOR plus 5.0
  - LIBOR is the **index**, lets assume .50%
  - 5.0 is the **spread**
  - Resulting variable rate is 5.50%
  - Remember rate is variable and can reset based on lender's disclosure



# Example of variable rate

- Borrower applies and qualifies for variable rate Prime plus 5.0 **interim rate**, Prime plus 7.0 **repayment rate**
  - Prime is the index, let's assume .50%
  - Spreads are 5.0 and 7.0
  - Rate during school and grace is 5.50%
  - Rate during repayment is 7.50%
  - Remember rate is variable and can reset based on lender's disclosure

# More terms

- Lender and loan servicer
  - Lender is who loans you the money
  - Servicer is third party who corresponds with you and helps you in repayment
- Repayment terms
  - Time plans and income plans
  - Disclosure statement

# Still more terms

- **Postponement provisions**
  - Can payments be postponed during training, and if so, for how long? Is there a fee? How do you apply?
  - Does interest capitalize during postponement?
- **Cosigner release provisions**
  - How long before a borrower can apply to have their cosigner dropped from the repayment obligation?
  - What criteria are used?

# On the agenda

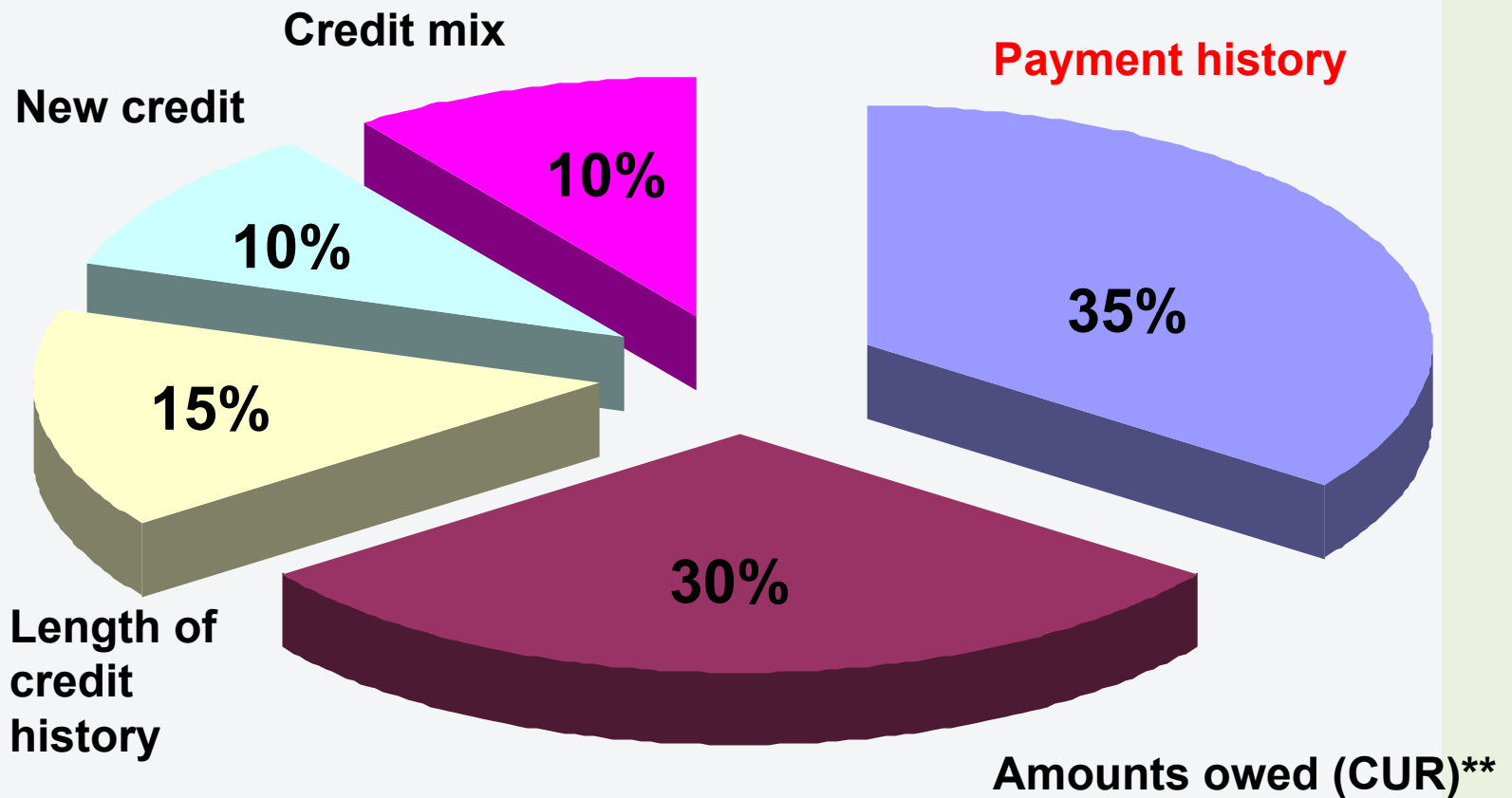
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# Student loans and credit

- Credit score
  - Commonly accepted indicator of credit behavior
  - Considered in many financing decisions\*
- Debt-to-income ratio
  - How much of your monthly income is eaten up with monthly debt obligations
- Credit utilization ratio
  - How much of your available credit you've used
  - The lower the percentage (ratio) the better

\* Automobile insurance, private loan rates, mortgages, etc.

# What's in your score\*



\* Source: MyFICO.com

\*\* Credit Utilization Ratio (how much of available credit you have used)

# Credit “double whammy”

1. Minimal opportunities to dramatically improve credit score until loans come due and you start active repayment
2. Students often have thin credit files, so late payments may adversely impact credit in an exaggerated way
  - Could impact rate on additional private loans when you reapply in subsequent years for funding

# Credit reports

- Free report each year from credit reporting agencies (credit bureaus)
- [www.annualcreditreport.com](http://www.annualcreditreport.com)
- Don't assume good credit one year guarantees the same in future years
  - Hugely important for private loan borrowers!



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# What residents are doing

- **Postpone or pay**, depending on repayment strategy and loan terms and conditions
  1. Postpone, make voluntary payments on highest rate loan or smaller balance loan, be aggressive after training as attending physician
  2. Secure required payment that is manageable and either overpay (if aggressive strategy) or make minimum payment (if cash flow challenges)
- Consider service commitment programs\*
- Ask about employee incentive programs\*
- Consider refinancing to lower your rate
- Split discretionary income into buckets\*\*

\* Be sure to ask if financial support is considered taxable income

\*\* Consider putting funds each month into cash for emergencies, Roth IRA, retirement plan

# Impact of postponement

| Postponement Period        | None      | 3 years   | 6 years   |
|----------------------------|-----------|-----------|-----------|
| Balance start of residency | \$254,250 | \$299,288 | \$346,133 |
| Monthly payment            | \$2,889   | \$3,323   | \$3,843   |
| Total amount repaid        | \$346,716 | \$398,725 | \$461,134 |

Assumptions: \$240,000 at 6% fixed rate, equal disbursements, capitalization at repayment and again at end of postponement; 10 year level repayment term with no aggressive payments (loans held to term)

# Impact of repayment term

| Repayment Term                | 10 years  | 15 years  | 20 years  |
|-------------------------------|-----------|-----------|-----------|
| Balance at start of repayment | \$254,250 | \$254,250 | \$254,250 |
| Monthly payment               | \$2,822   | \$2,144   | \$1,819   |
| Interest paid                 | \$84,473  | \$131,940 | \$182,915 |
| Total amount repaid           | \$338,723 | \$386,190 | \$437,165 |

Assumptions: \$240,000 at 6% fixed rate, capitalization at repayment;  
no additional or aggressive payments (loans held to term)

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# So, now what?

- Determine monthly living allowance and stay at or under that amount
- Confirm status of any prior loans\*
- Confirm when private loans from college will come due
- **Pay your bills on time to help ensure strong credit throughout medical school**
- Investigate outside scholarship and service commitment programs\*\*

\* You should qualify for deferment on federal loans during medical school

\*\* See comprehensive listing at [www.AAMC.org/FIRST](http://www.AAMC.org/FIRST)

# So, now what?

- Set up online account with loan servicer
  - Watch for alerts in email correspondence
- Set up online file for loan documents
  - Copy of promissory note
  - Disclosure statement
  - General correspondence from lender or loan servicer

# ... and finally ...

- Never borrow more than you need
- Run repayment estimates each time you borrow to avoid sticker shock at graduation and repayment
- Be cautious where you get your information on student loans and repayment
- Your situation is your own



# Takeaways

- You really can pull this off
- What you do now matters and will impact future repayment decisions
- Talk with residents about budgeting
- Keep your radar up for changes
- Use all available trusted resources

**Questions?**



# THANK YOU!

Jim Iannuzzi

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