



| Financial Information, Resources,
Services, and Tools

2015

Education Debt Manager

For Graduating Medical School Students

A common-sense approach to repaying wisely

FIRST is a program of the
Association of American Medical Colleges

www.aamc.org/FIRST

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A Note from FIRST *for Medical Education*

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

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

Within this resource, you will find a detailed listing of the options you have to manage your 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 to 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, M.D.
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. They 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 wisdom, and I would continue to provide students with similar advice; however, I would qualify my comment 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 that they will encounter prior to their graduation.

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 2014, 84 percent of medical students reported leaving medical school with student loan debt. Across the country, the median level of debt for the class of 2014 was \$180,000 (based on public and private M.D.-granting medical schools, including undergraduate debt).

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

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

October 2014			
			
Medical Student Education: Debt, Costs, and Loan Repayment Fact Card			
Indebted Graduates Class of 2014*	Public	Private	All
Pct. with Ed. Debt	86%	82%	84%
Mean	\$167,763 (↑3%)	\$190,053 (↑5%)	\$176,348 (↑4%)
Median	\$170,000 (↑1%)	\$200,000 (↑5%)	\$180,000 (↑3%)
Education Debt (including premed) of:	Public	Private	All
\$100,000 or more	80%	79%	79%
\$200,000 or more	37%	51%	43%
\$300,000 or more	6%	15%	10%
Planning to enter loan forgiveness/repayment program:	40%		
Other Debt	% Graduates	Median	
Premedical Education Debt	34%	\$20,000	
Non-education Debt	22%	\$8,000	
*Source: FIRST analysis of AAMC 2014 GQ data. Education debt figures include premedical education debt. Non-education debt includes car, credit card, residency relocation loans, etc.			
Cost, M1 In-State, 2014-15	Public	Private	
Median Tuition & Fees	\$34,540 (↑4%)	\$53,714 (↑3%)	
Median Cost of Attendance (COA)	\$56,779 (↑2%)	\$76,376 (↑4%)	
Median 4-Yr. COA for Class of 2015	\$226,447 (↑3%)	\$298,538 (↑4%)	
Source: AAMC TSF Survey preliminary data from 85 public schools and 55 private schools.			
Resident/Fellow Stipends 2014	Median	Approx. PAYE Monthly Payment	
1st Post-MD Year	\$51,250	\$283	
2nd Post-MD Year	\$52,941	\$298	
3rd Post-MD Year	\$55,029	\$315	
4th Post-MD Year	\$57,200	\$333	
Source: Analysis of current federal regulations and preliminary data from AAMC Survey of Resident/Fellow Stipends and Benefits. PAYE = Pay As You Earn.			
aamc.org/FIRST			

Sample Repayment – \$180,000 in Federal Direct Loans				
Description	Repayment Years	Monthly Payment	Interest Cost	Total Repayment
Forbearance during residency, then Standard	Residency: 3	\$0	\$148,000	\$328,000
	Post-Res.: 10	\$2,700		
PAYE during residency and after with \$170,000 starting salary	Residency: 3	\$290 to \$340	\$244,000	\$377,000 then \$48,000 forgiven
	Post-Res.: 17	\$1,400 to \$2,200		
Forbearance during residency, then PAYE with \$170K starting salary	Residency: 3	\$0	\$269,000	\$449,000
	Post-Res.: 20	\$1,400 to \$2,500		
Forbearance during residency, then Extended	Residency: 3	\$0	\$303,000	\$483,000
	Post-Res.: 25	\$1,600		
Forbearance during residency, then Standard	Residency: 7	\$0	\$219,000	\$399,000
	Post-Res.: 10	\$3,300		
Forbearance during residency, then Standard with 5yr VA EDRP of \$120K	Residency: 3	\$0	\$108,000	\$168,000
	Post-Res.: 5	\$2,700		
Notes: PAYE is Pay As You Earn. VA EDRP is the Dept. of Veterans Affairs Education Debt Reduction Program. All figures are approximate, rounded for clarity, and estimated for a 2015 graduate. Full assumptions for each scenario available on request. Salaries in 2013 dollars.				
See aamc.org/stloan for state and federal loan repayment/scholarship programs.				
Interest Rates for Grad./Prof. Loans Disbursed 7/1/14 to 6/30/15:				
Direct Unsubsidized: 6.21% Direct PLUS: 7.21%				
For interest rate history, see aamc.org/FIRST				
Contact Information				
Julie Fresne, jfresne@aamc.org				
Jay Youngclaus, jy@aamc.org				
Matthew Shick, mshick@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				



Loan Basics *for Exiting Medical Students*

Getting Organized

The first step to managing your education debt is organizing your student loan records. Once you have all of 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

www.aamc.org/FIRST

For help with your username and password, contact Denine Hales at: dhailes@aamc.org.

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



- Upload your NSLDS loan data (see page 4)
- Keep track of your student loan information
- Develop personalized repayment strategies

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

Frank Bauer, 2012 Graduate,
URochester SOM

Finding Your Loans

The next step to managing your education debt is knowing the details of your loan portfolio—this includes knowing who you borrowed from (your lender), the types of loans borrowed, the dates of disbursement, and who you will send payments to (your servicer). If you kept good records, you already know the answers to these questions. 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** (pre-med 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: www.nsls.ed.gov.

www.nsls.ed.gov

To log in, provide the following information:

- Social Security Number
- Date of birth
- First two letters of your last name
- FAFSA PIN or FSA ID

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 information displayed in NSLDS is not real-time data, and due to processing times and only periodic updates, your current loan balance may be different than what is reflected. For the most up-to-date information on your loans, contact the loan servicer(s).

The only federal loans that may not be displayed in NSLDS are Loans for Disadvantaged Students (LDS) and Primary Care Loans (PCL). Non-federal loans (including private, alternative, and institutional loans) are not listed on the NSLDS website. To find information on loans not reflected in NSLDS, consult the financial aid office or review your credit report (www.annualcreditreport.com).

Additional information on record keeping is available on the FIRST website at: www.aamc.org/first/factsheets.

Lenders

During medical school, you borrowed your federally guaranteed student loans from one of two programs: the Federal Family Education Loan (FFEL) program or the Direct Loan (DL) program, also known as the William D. Ford Federal Direct Loan Program (www.direct.ed.gov).

Prior to July 1, 2010, the FFEL program provided federal student loans through many different lenders such as banks, credit unions, savings and loan associations, or even companies. Since July 2010, the DL program is the only lender disbursing federal student loans. The DL program issues federal student loans directly from the U.S. Department of Education.

Both programs provide, or provided, federal student loans that included 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 piece to know is 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. Be aware that your lender may act as the servicer of their own loan or they may contract with a third party to do the servicing on their behalf. In any case, the servicer will be your point of contact for most activities that occur during repayment, like making payments, updating contact information, processing forms for deferment and forbearance, and providing tax forms with information for deducting student loan interest. The servicer of the loan may change. If this occurs, the repayment terms will not change, but the address that you send your monthly payment to will change. For this reason, be sure to open and read all communications that you receive regarding your student loans.

For successful loan repayment, it's crucial that you know the servicer(s) 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

- For questions about your loans
- To make voluntary payments
- For help determining affordable monthly payments
- If you change your name, address, or phone number
- If you drop below half-time enrollment or take a Leave of Absence (LOA)
- Upon graduation from medical school
- To change repayment plans

Federal Student Aid (FSA) Ombudsman

If you experience a loan dispute that cannot be resolved after repeated attempts, the Federal Student Aid (FSA) Ombudsman may be able to help you. The FSA Ombudsman conducts impartial fact-finding research about your complaint to reach a resolution. Note that the Ombudsman can recommend solutions, but does not have the authority to reverse decisions or dictate specific actions. They can be reached at studentaid.ed.gov/repay-loans/disputes/prepare/contact-ombudsman or 877-557-2575.

Resources for Borrowers

Borrowers who experience problems or disputes with their federal student loans have several resources available to assist them, including:

- ***The U.S. Department of Education's Federal Student Aid Ombudsman***
(1-877-557-2575)
studentaid.ed.gov/repay-loans/disputes/prepare/contact-ombudsman
- ***The Student Loan Borrower Assistance Project***
www.studentloanborrowerassistance.org
- ***The Consumer Financial Protection Bureau***
(1-855-411-2372)
www.consumerfinance.gov

Master Promissory Note (MPN)

The Master Promissory Note (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

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

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

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 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, 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 to stay organized and know 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 then be considered in **default** when it is more than 270 days late.

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

Defaulted loans remain 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 servicer(s) to see what arrangements can be made.

Consequences of ...

Delinquency

- Reported to credit bureaus
- Negatively affects credit

Default

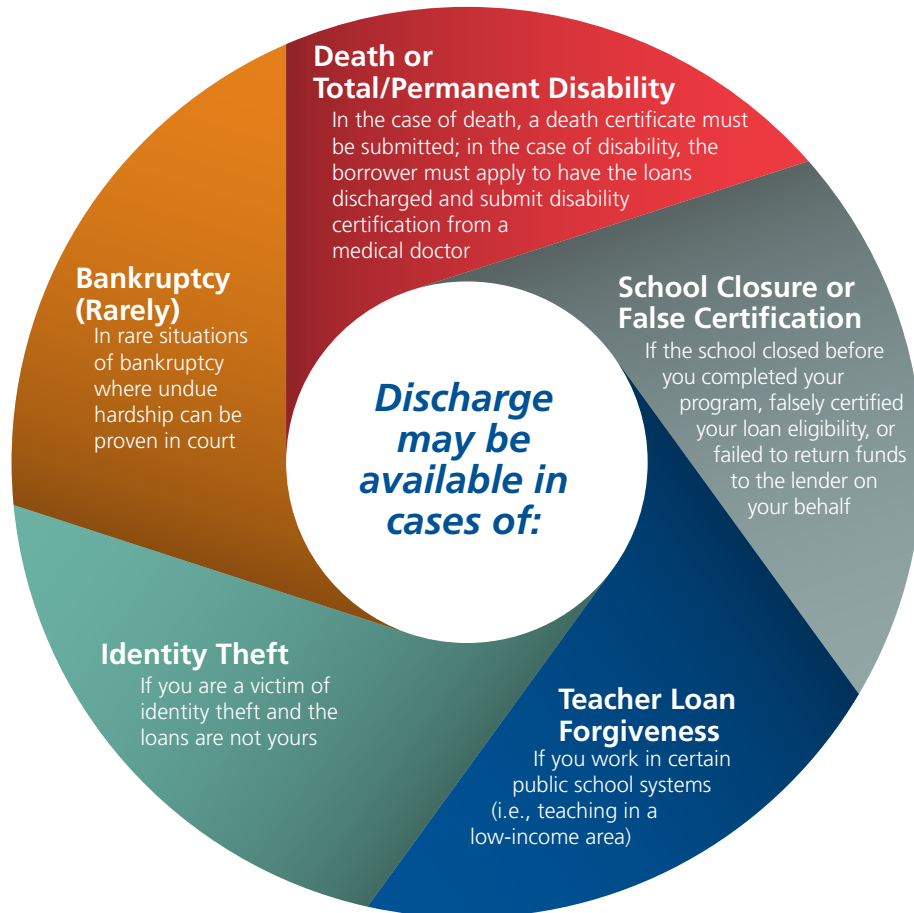
- Entire balance due immediately
- Additional charges, fees, and collection costs
- Negatively affects credit
- Garnished wages and tax returns
- Withheld Social Security and disability benefits
- Responsible for legal fees and court costs
- Ineligible for additional student aid
- Other federal debt collection methods

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.



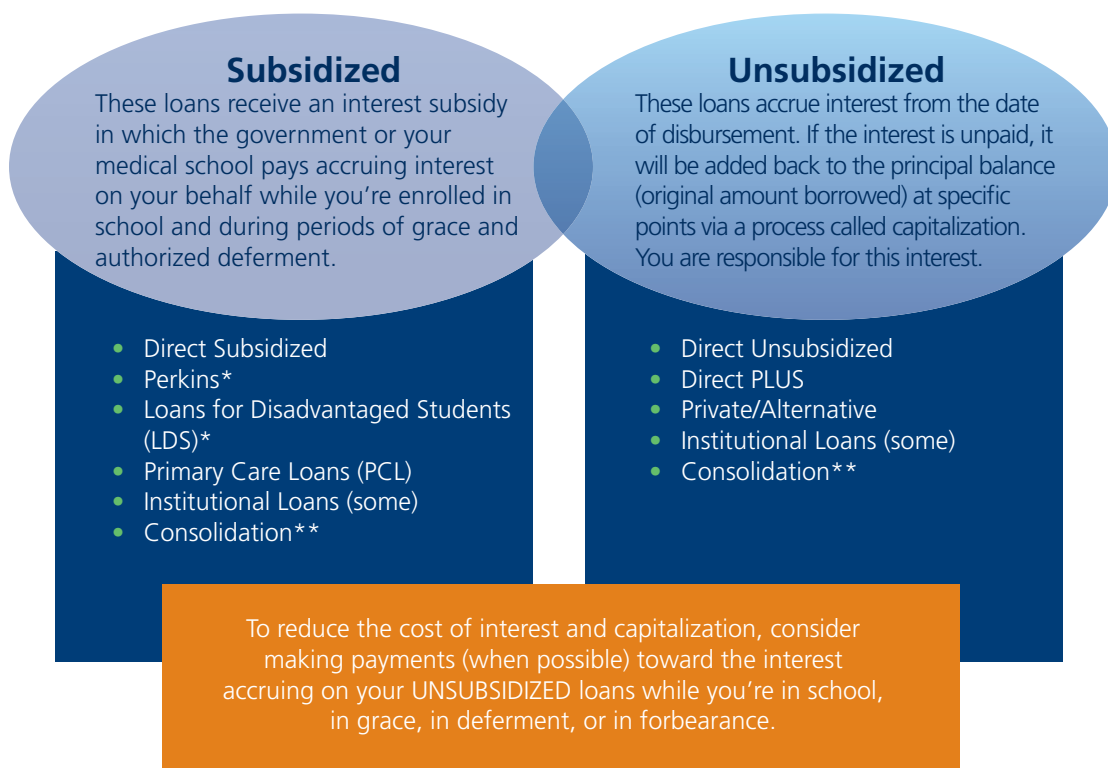
While you would never want most of these things to happen, if they do, the servicer(s) must be notified so that the appropriate discharge process can begin. For more information, visit studentaid.ed.gov/repay-loans/forgiveness-cancellation.

Know the Type of Loans Borrowed

Important Loan Details

The terms “subsidized” and “unsubsidized” are probably 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-level students. Direct Unsubsidized Loans remain available, but continually accrue interest and payment of that interest is ultimately 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 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. However, 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.... meaning 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
Direct Unsubsidized Loans (disbursed between 7/1/14 and 6/30/15)	6.21% Fixed
Direct Unsubsidized Loans (disbursed between 7/1/13 and 6/30/14)	5.41% Fixed
Stafford Loans (disbursed between 7/1/06 and 6/30/13)	6.8% Fixed
Direct PLUS Loans (disbursed between 7/1/14 and 6/30/15)	7.21% Fixed
Direct PLUS Loans (disbursed between 7/1/13 and 6/30/14)	6.41% Fixed
Direct PLUS Loans (disbursed between 7/1/06 and 6/30/13)	7.9% Fixed
Perkins Loans / PCL / LDS	5.0% Fixed
Private Loans	Varies by loan – 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 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. This will result in the loan servicer automatically deducting 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 debt in your strategy—they sometimes can be the most expensive debt.

How to Make a Voluntary Payment

- 1) Send it separately from any required payment.
- 2) Send directions telling the servicer how to apply the voluntary payment (i.e., to which loan the payment should be applied).
- 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.

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 the effect is that the capitalized interest begins to accrue interest as well. This can be a costly process, so it is 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 servicer(s) to determine their capitalization policy.** This will allow you to know when your loans are scheduled to capitalize.
- **Pay accruing interest prior to 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.** Filing your forms late for deferment, forbearance, or repayment may result in capitalization 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 years to possibly 30 years. The longer it takes to pay off the loan, the more interest you will pay, and therefore, the more costly the loan will 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.



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Thursday

Wednesday

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 a number of options that, if needed, will allow you to complete your residency making little or no student loan payments. These options include postponing payments using a grace, deferment, or forbearance, or by making reduced payments through one of the repayment plans.

Grace

After you leave school, your loans either will 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 depends on the loan type. The chart on the next page shows some common grace periods, but notice that PLUS and Consolidation Loans do not offer a grace period—though there are other options available to postpone payments on those loans. Contact your servicer(s) 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 (whichever happens last). The Loan Repayment Timeline on page 16 visually depicts when this generally occurs for each loan.

The actual repayment start date for loans differs depending on:

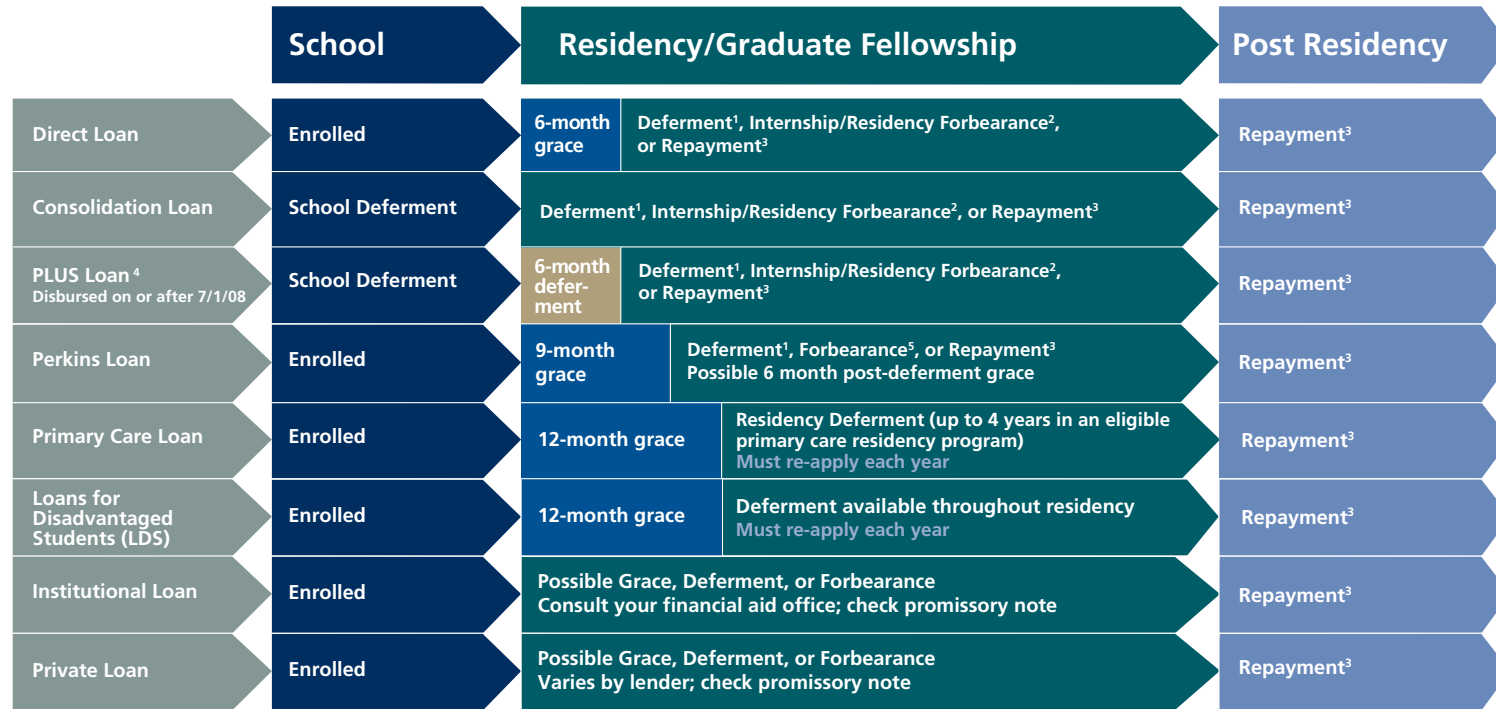
- Loan type
- Grace period
- Loan disbursement date
- Loan servicer

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

Loan Repayment Timeline



¹ For a list of common deferments, see <https://www.aamc.org/download/253176/data/defermentchart.pdf>

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 PLUS Loans disbursed prior to 7/1/08 are not eligible for post-enrollment deferment. PLUS Loans disbursed on or after 7/1/08 receive an automatic 6-month deferment. Contact loan's servicer for payment or postponement options.

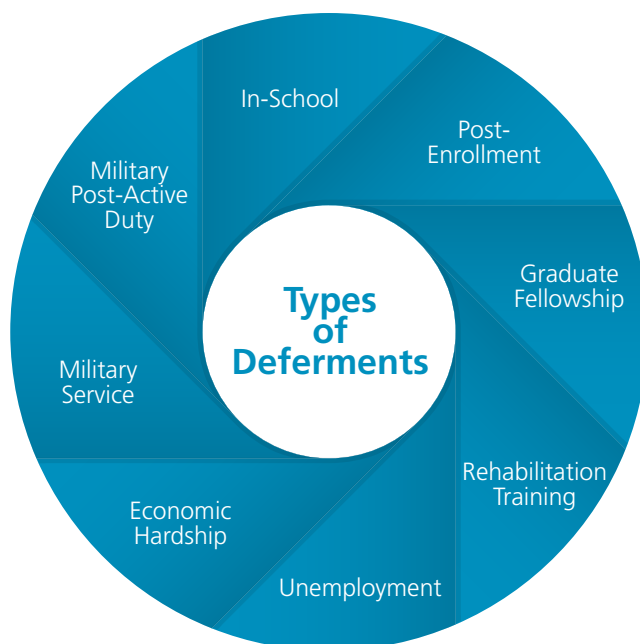
⁵ Perkins Loans only: Upon receipt of written request and documentation, institution must grant a temporary postponement of payments for up to one year at a time, not to exceed a total of three years.

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 the 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 in order to receive a deferment. Although it may be more difficult to qualify for a deferment, there are some circumstances, in which a deferment may be possible. 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 for PLUS Loans

Officially, PLUS Loans enter repayment immediately after they are fully disbursed. However, servicers will automatically apply an in-school deferment on your 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 if it was disbursed after July 1, 2008. This deferment postpones payments for six months, but since 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 servicer(s) to decline this deferment.

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 more costly 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 servicer(s) 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, there are a number of available forbearance types, but the type most often used is a mandatory forbearance (described below).

To learn about your forbearance options, contact your servicer(s).

Mandatory Forbearance for Medical Interns & 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 servicer(s) what the provisions are on your loans. During forbearance, interest is accruing on your entire loan balance, but you can always make voluntary payments without losing the forbearance.

The Cost to Postpone

For a 2015 graduate with \$180,000 in Direct Unsubsidized Loans, the capitalization of interest accrued during school and grace will turn the principal balance into \$208,300. During residency, an estimated \$1,100 in interest will accrue on this outstanding balance each month.

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 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 repaying them when you graduate, withdraw, or drop below half-time status. See the Repayment Timeline on page 16 for more details.

Approximately one to two months before your first payment is due, you'll receive a notice regarding 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 right to request any of the following:

- Deferment or forbearance to postpone payments
- Change the selected repayment plan (which can change the required monthly payment amount)
- Shorten the repayment schedule
- Prepay loans without penalty

Contact your servicer(s) 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 (i.e., highest interest rate) debt.

Making interest payments while in residency can be a very smart thing to do. Every dollar you pay now helps to 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 student loans at any time, without penalty. Your grace, deferment, or forbearance status will remain uninterrupted even after a voluntary payment is made.

The Repayment Plans

There are various repayment plans to choose from to repay federal student loans. The purpose of the different repayment plans is to provide flexibility in your finances. **In most cases, you are able to change the selected plan when your financial situation changes.**

Whether your debt is large or small, the repayment plan you select will impact the total cost of the loans. A hasty decision could turn out to be a costly choice, so when the time comes, select wisely.

Standard	\$2,350/mo
Extended	\$1,380/mo
Graduated	\$1,100/mo
Income-Contingent Repayment (ICR)	\$670/mo
Income-Based Repayment (IBR)	\$430/mo
Pay As You Earn (PAYE)	\$290/mo

Based on an original principal balance of \$180,000, entering repayment after four years of medical school and six months of grace. ICR, IBR, and PAYE are based on a salary of \$52,300. Rounded to the nearest tenth.

***Note for New Borrowers on or after July 1, 2014:**

If you choose IBR as your repayment plan, your monthly payment amount will be the same as the PAYE monthly payment amount. However, the interest capitalization policy mirrors IBR.

Review the information about IBR and PAYE on pages 23–24.

Standard Repayment

When you choose this plan, your monthly payment amount generally will be an equal amount throughout the term of the loan, which is typically 10 years. In comparison to 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 servicer(s) of a repayment plan choice, the Standard repayment plan is the default 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. Loans must have been issued on or after October 7, 1998.

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).

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 percent of the poverty guideline* (based on your family size and state of residence).

Graduated Repayment

The Graduated repayment plan allows you to begin making smaller monthly payments during the first two years of repayment, then significantly higher monthly payments for the remaining eight 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.

Despite the fact that 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 this reason, 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-Contingent Repayment (ICR)*

The Income-Contingent Repayment (ICR) plan is an income-driven plan and is similar to Income-Based Repayment (IBR) and Pay As You Earn (PAYE), which will be discussed in the upcoming pages. Unlike IBR and PAYE, the ICR plan does not require the borrower to show a Partial Financial Hardship to qualify—making it a fairly easy plan to enter and possibly beneficial for those seeking Public Service Loan Forgiveness but whose income level won't

allow them the lower IBR or PAYE payments. 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 the borrower's household income. Generally, this plan has a higher required payment when compared to the other income-driven plans, so if this plan doesn't meet your needs, IBR or PAYE may offer additional flexibility with lower payments.

The maximum repayment term for ICR is 25 years. After that period of time, any unpaid balance is forgiven (taxable).

Best option for borrowers who want a lower initial payment that will increase as their income increases; also good for those seeking loan forgiveness.

* *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 servicer(s) for more details.*

To qualify for the next two plans, Income-Based Repayment (IBR) and Pay As You Earn (PAYE), you must show a Partial Financial Hardship.

The PFH test for entering IBR or PAYE

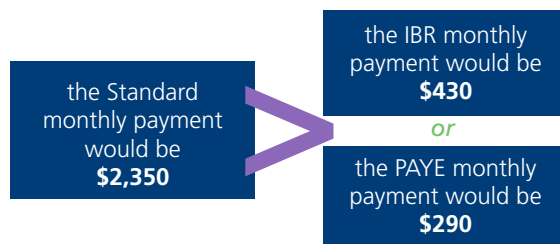
Is your Standard monthly payment
(the 10-year monthly payment amount determined when entering the plan)

greater than $>$ the 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 \$180,000 of federal student loans, and a PGY-1 salary of \$52,300*...



...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 AAMC estimate for the 2015 first post-M.D. 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 servicer(s) will determine if a PFH exists, but most medical residents exhibit this hardship and are able to enter IBR without a problem.

In the IBR plan the monthly payment is capped at 15 percent of discretionary income, and 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 amount of interest that accrues on the subsidized loans, but exceeds the IBR payment amount, will be paid for by the federal government. 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 on the amount of interest that capitalizes while in IBR.

The IBR payment amount will adjust annually based on household income and family size—so be sure to provide your servicer(s) with updated information each year. This is a requirement; however, no matter how much your income changes, you cannot be removed from 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 (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.

NOTE: If you're a new borrower on or after 7/1/14, the IBR payment amount will be the same as the PAYE amount, but the capitalization policy will mirror IBR.

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 ¹	\$4,360	Monthly Adjusted Gross Income ¹	\$4,360
(minus) 150% of Poverty Line ²	– \$1,490	(minus) 150% of Poverty Line ²	– \$1,490
Discretionary Income	= \$2,870	Discretionary Income	= \$2,870
(multiplied by) ³	× .15%	(multiplied by) ³	× .10%
Monthly IBR Payment	\$430	Monthly PAYE Payment	\$290*

1) Based on AAMC estimate for the 2015 first post-M.D. year median stipend.
 2) Based on AAMC estimate of 2015 federal poverty guideline for a family size of one in the 48 contiguous states.
 3) Based on 2014 federal regulations.
 4) New borrowers on or after 07/01/14 qualify for IBR, but the PAYE plan leads to lower total repayment cost.
 * Rounded to the nearest tenth

Pay As You Earn (PAYE)*

Pay As You Earn (PAYE) is similar to IBR in that it is only available for those experiencing 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 IBR plan, the PAYE plan restricts the monthly payment to 10 percent of discretionary income—making the PAYE payment lower than the IBR payment. Furthermore, the amount of unpaid interest that will ultimately capitalize under the PAYE plan is limited to 10 percent of the principal amount borrowed when entering into this plan. Once the maximum amount has capitalized, interest will continue to accrue but it will not be capitalized.

For a qualified medical resident, there are several reasons to choose PAYE over other plans, including:

- 1) Partial interest subsidy (free money)
- 2) Limit to the amount capitalized and a potential postponement of capitalization
- 3) 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 initially entering 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 period of time, any unpaid balance is forgiven (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 that are experiencing a financial hardship, and/or for those seeking some type of loan forgiveness.

* Only Direct Loans are eligible.

Quick PAYE Tips:

To qualify for PAYE, you must be
1) a new borrower on 10/1/2007
(meaning owed no federal loans as of
this date)

AND

2) received a Direct Loan
disbursement on or after 10/1/2011.

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

Review your NSLDS account.

Repayment Plans Compared

Which Repayment Plan Works for You?	Which Loan Program(s) Qualify?	What are the Advantages to This Plan?	How is the Monthly Payment Determined?	What is the Repayment Term?	What are the Eligibility Requirements?	Does it Qualify for PSLF?	What Else Should be Known about This Plan?
Standard	Direct & FFEL	Lowest possible interest costs	Payments are calculated equally over the repayment term; payment based upon total amount borrowed	10 years (up to 30 years if consolidated)	Available upon request	Yes	This is the default plan if no other repayment plan is selected. A consolidation loan must be repaid on a 10 year Standard plan (or an income-driven plan) in order to qualify for PSLF.
Extended	Direct & FFEL	Reduced monthly payment, without consolidating	Equal monthly payments stretched over a longer term and payment based upon total amount borrowed	Up to 25 years	Must owe more than \$30,000 in Direct Loans or FFEL	No	This plan will generally cost more due to longer repayment term and the total interest paid over the extended term
Graduated	Direct & FFEL	Can offer temporary relief to borrowers expecting an income increase in the near future	Payments begin lower, but increase after 2 years	10 years (up to 30 years if consolidated)	Available upon request	No	The minimum payment is interest-only, which can result in higher interest costs compared to the Standard plan
Income-Contingent Repayment (ICR)	Direct only	Provides a lower monthly payment. Capitalized interest cannot exceed 10% of original loan balance. After this, interest accrues but does not capitalize.	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	25 years (after which, any remaining balance will be forgiven)	Based on income and family size	Yes	Will need to reapply each year for this plan
Income-Based Repayment (IBR) (for new borrowers as of 7/1/14)	Direct & FFEL	Payments mirror the PAYE payments, but there is no limit to interest capitalization	Payments are capped at 10% of your monthly discretionary income, and based on your AGI and family size	Up to 20 years (after making the equivalent of 20 years of qualifying payments, any outstanding balance will be forgiven, but it will be taxable)	Must be a new borrower on or after 7/1/2014, and also have a Partial Financial Hardship to qualify	Yes	Verification of income and family size must be provided annually; payments can be as low as \$0/month
Income-Based Repayment (IBR) (for those who borrowed prior to 7/1/14)	Direct & FFEL	Provides a lower payment based on family size and AGI for the household, but there is no limit to interest capitalization	Payments are capped at 15% of your monthly discretionary income, and based on your AGI and family size	Up to 25 years (after making the equivalent of 25 years of qualifying payments, any outstanding balance will be forgiven, but it will be taxable)	Must have a Partial Financial Hardship to qualify	Yes	Verification of income and family size must be provided annually; payments can be as low as \$0/month
Pay As You Earn (PAYE)	Direct only	Possibly offers the lowest required monthly payment during residency. Capitalized interest cannot exceed 10% of original loan balance. After this, interest accrues but does not capitalize.	Payments are capped at 10% of your monthly discretionary income, and based on your family size and AGI for the household	Up to 20 years (after making the equivalent of 20 years of qualifying payments, any outstanding balance will be forgiven, but it will be taxable)	You must be a new borrower on or after 10/1/2007, and you must have received a Direct Loan disbursement on or after 10/1/2011. You must have a Partial Financial Hardship.	Yes	Verification of income and family size must be provided annually; payments can be as low as \$0/month



Repayment Options

Monthly Payment Amounts

Estimates of monthly payment amounts are provided in the following charts on pages 28–29. The first chart depicts payment amounts for Direct Loans, and the second chart shows payment amounts for Direct PLUS Loans. These breakouts show:

- **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 Subsidized/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 and PAYE repayment plans are income-driven, so the amounts shown in the two charts do not need to be added together because they do not change based on the loan amounts.

For repayment estimates based on your debt amount, use the AAMC Medloans® Organizer and Calculator at www.aamc.org/FIRST. For exact repayment amounts, contact your servicer(s).



AAMC Monthly Payment Estimator for Medical School Borrowers—Direct Loans

Direct Loans with a \$200,000 Starting Salary after 4-Year Residency							
Loan Amount	Balance at Repayment	Standard		Income-Based Repayment (IBR)		Pay As You Earn (PAYE)	
		10-Year Repayment Term	25-Year Repayment Term	Years 1–4	Payment and Years Based on Balance at Start of IBR	Years 1–4	Payment and Years Based on Balance at Start of PAYE
\$100,000	\$114,682	\$1,292	\$762	\$430 to \$560 per month	\$1,292 for 10.7 yrs.	\$290 to \$370 per month	\$1,292 for 11.6 yrs.
\$110,000	\$126,389	\$1,424	\$840		\$1,424 for 10.9 yrs.		\$1,424 for 11.8 yrs.
\$120,000	\$138,096	\$1,556	\$917		\$1,556 for 11.2 yrs.		\$1,556 for 12 yrs.
\$130,000	\$149,802	\$1,688	\$995		\$1,688 for 11.3 yrs.		\$1,688 for 12.1 yrs.
\$140,000	\$161,509	\$1,820	\$1,073		\$1,820 for 11.5 yrs.		\$1,754-\$1,820 for 12.2 yrs.
\$150,000	\$173,216	\$1,952	\$1,151		\$1,952 for 11.7 yrs.		\$1,754-\$1,952 for 12.8 yrs.
\$160,000	\$184,922	\$2,084	\$1,229		\$2,084 for 11.8 yrs.		\$1,754-\$2,084 for 13.4 yrs.
\$170,000	\$196,629	\$2,215	\$1,307		\$2,215 for 11.9 yrs.		\$1,754-\$2,215 for 14.3 yrs.
\$180,000	\$208,336	\$2,347	\$1,384		\$2,347 for 12 yrs.		\$1,754-\$2,347 for 15.3 yrs.

This chart shows the most common repayment plans chosen by medical school borrowers. For a full list of all possible repayment plans consult your servicer or the Federal Student Aid website (<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.*) Please 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 Loans with an interest rate of 6.8% for the first 2 years, then 5.41% and 6.21% for the final 2 years of medical school. For all loan amounts, \$8,500 (one year's worth) is subsidized with the remainder unsubsidized.
- Four years of medical school then a 6-month grace period with the capitalization of all accrued interest occurring at the end of the grace period. Per IBR and PAYE guidelines, repayment amounts are based on federal poverty guidelines, family size, and stipend/salary.

The IBR and PAYE 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 \$290/PAYE or \$430/IBR in year one, up to an estimated \$370/PAYE or \$560/IBR in year four (based on median stipend amounts from the AAMC Survey of Resident/Fellow Stipends and Benefits). Actual monthly PAYE/IBR payment amounts will vary depending on borrower salary/stipend.
- After a 4-year residency, the borrower earns a starting salary of \$200,000 (in 2013\$).

AAMC Monthly Payment Estimator for Medical School Borrowers—Direct PLUS Loans

Direct PLUS Loans with a \$200,000 Starting Salary after 4-Year Residency

Loan Amount	Balance at Repayment	Standard		Income-Based Repayment (IBR)		Pay As You Earn (PAYE)	
		10-Year Repayment Term	25-Year Repayment Term	Years 1–4	Payment and Years Based on Direct PLUS Portion of Total Balance Owed at Start of IBR	Years 1–4	Payment and Years Based on Direct PLUS Portion of Total Balance Owed at Start of PAYE
\$5,000	\$5,995	\$71	\$44	\$430 to \$560 per month*	\$71-\$80 for 11.9 yrs.	\$290 to \$370 per month*	\$54-\$93 for 14.1 yrs.
\$10,000	\$11,989	\$142	\$88		\$142-\$160 for 12 yrs.		\$106-\$168 for 14.6 yrs.
\$15,000	\$17,984	\$212	\$132		\$212-\$268 for 12.1 yrs.		\$154-\$262 for 15.2 yrs.
\$20,000	\$23,979	\$283	\$175		\$283-\$333 for 12.2 yrs.		\$199-\$334 for 15.8 yrs.
\$25,000	\$29,973	\$354	\$219		\$354-\$408 for 12.3 yrs.		\$242-\$413 for 16 yrs.**

This chart shows the most common repayment plans chosen by medical school borrowers. For a full list of all possible repayment plans consult your servicer or the Federal Student Aid website (<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.*)

NOTE: Because Direct PLUS Loans are unsubsidized, the rows above may be used as “building blocks.” 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.

**** PAYE estimates indicating 16 years of payment after residency reflect 20 total years of repayment which may result in some level of loan forgiveness per PAYE guidelines.**

All values above are based on the following assumptions:

- Direct PLUS Loans with an interest rate of 7.9% for the first 2 years then 6.41% and 7.21% for the final 2 years of medical school.
- Four years of medical school then a 6-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 and PAYE, 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 percent of the total owed, 10 percent of the payment (or \$50) would be applied to the Direct PLUS balance.**

Per IBR and PAYE guidelines, repayment amounts are based on federal poverty guidelines, family size, and stipend/salary.

The IBR and PAYE 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 \$290/PAYE or \$430/IBR in year one, up to an estimated \$370/PAYE or \$560/IBR in year four (based on median stipend amounts from the AAMC Survey of Resident/Fellow Stipends and Benefits). Actual monthly PAYE/IBR payment amounts will vary depending on borrower salary/stipend.
- After a 4-year residency, the borrower earns a starting salary of \$200,000 (in 2013\$).

Residency and Payments

After medical school, there are two common options that residents choose between 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

For residents who choose to pay, the most feasible repayment plans are PAYE and IBR. Both plans offer similar benefits and more affordable payments. Below is an example of what repayment would look like if IBR or PAYE payments are made during residency.

PAYE Payments During Residency					
Monthly Payment During Residency	Repayment Plan	Repayment Years after Residency	Estimated Monthly Payment after Residency	Interest Cost	Total Repayment
\$290 to \$370	PAYE during and after residency	15.3	\$1,800 to \$2,300	\$220,000	\$400,000
\$290 to \$370	PAYE during residency then Standard	6	\$4,100	\$130,000	\$310,000
\$290 to \$370	PAYE during residency then Extended	21	\$1,800	\$277,000	\$457,000

IBR Payments During Residency					
Monthly Payment During Residency	Repayment Plan	Repayment Years after Residency	Estimated Monthly Payment after Residency	Interest Cost	Total Repayment
\$430 to \$560	IBR during and after residency	12	\$2,300	\$182,000	\$362,000
\$430 to \$560	IBR during residency then Standard	6	\$4,000	\$128,000	\$308,000
\$430 to \$560	IBR during residency then Extended	21	\$1,700	\$271,000	\$451,000

Assumptions: Medical student borrows \$180,000 in principal during medical school with Direct Subsidized Loans during the first year only. After graduating, s/he immediately begins 6-month grace period, then chooses IBR or PAYE during a 4-year residency. Post-residency starting salary is \$200K (in 2013 dollars). Unpaid interest from residency will capitalize when the borrower no longer shows a PFH. Total repayment includes payments made during four-year residency.

Postponing Payments During Residency

Residents who choose to reduce or postpone payments most often do so by utilizing a Mandatory Medical Residency Forbearance. Below is an example of what repayment may look like post-residency if no payments are made during residency.

Forbearance During Residency					
Monthly Payment During Residency	Repayment Plan	Repayment Years after Residency	Estimated Monthly Payment after Residency	Interest Cost	Total Repayment
\$0	Standard	10	\$2,900	\$166,000	\$346,000
\$0	Extended	25	\$1,700	\$329,000	\$509,000
\$0	Graduated	10	\$1,300 for 2 years then \$3,400 for 8 years	\$179,000	\$359,000
\$0	ICR	7.1	\$3,600 to \$3,800 over 7.1 years	\$138,000	\$318,000
\$0	IBR	10.5	\$2,600 to \$2,900 over 10.5 years	\$171,000	\$351,000
\$0	PAYE	16	\$1,800 to \$2,700 over 16 years	\$243,000	\$423,000

Assumptions: Medical student borrows \$180,000 in principal during medical school with Direct Subsidized Loans during the first year only. After graduating, s/he immediately begins six-month grace period, and then chooses forbearance during a 4-year residency. Post-residency starting salary is \$200K (in 2013 dollars) and repayment balance is approximately \$256,000, which includes \$47,000 in unpaid interest that capitalized at the end of residency.

These charts depict a valuable debt management principle that is important to be aware of throughout the repayment of your 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 www.aamc.org/FIRST (login details available on page 3). For exact repayment amounts, contact your servicer(s).



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 of a person to repay their debt. This score is an important number because it will directly impact 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.

There are three items to focus on during residency that will improve your credit score:

- 1) Pay your bills on time
- 2) Pay down your debt
- 3) Don't close accounts/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.

How Your Credit Score is Determined

A credit score is the result of a numerical calculation that takes into account the entries on your credit report. The best known and most commonly used credit score is a FICO® Score, with scores ranging from a low of 300 to a high of 850. Knowing your exact FICO Score is not as important as understanding what determines this number.

Nothing in Life is Free, Right?

If you're curious 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 your score. Time is better spent reviewing your credit report.

www.annualcreditreport.com

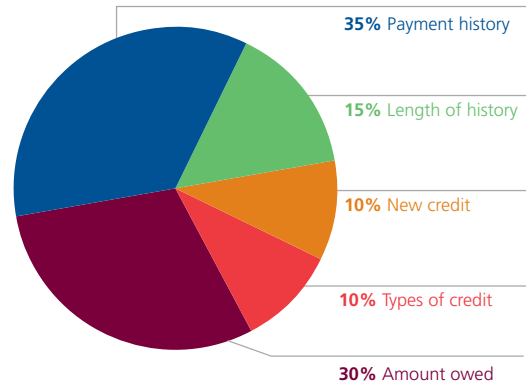
(Where it really is free!)

A credit score, or FICO Score, is based on five factors that give no consideration to employment status, income, or profession. Be aware of these factors because even once you are an M.D. earning a higher salary, a good credit score is not guaranteed.

Payment History (35%)

This is the largest portion of your score. Delinquent payments can have a major 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 (like a credit card) is never late.



Amount Owed (30%)

The total amount of your credit line that you are currently utilizing will impact your credit score. The goal is to use less than 30 percent of your line of credit (add up the maximum credit line on all of your credit cards and compare the total amount owed toward these cards to determine your utilization rate).

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

Length of History (15%)

The longer the history, the higher the score, and for this reason, be careful when closing accounts (like credit cards) as you may lose some of your credit history in the process.

TIP: To avoid having your oldest accounts closed, some companies may require periodic use of the card.

New Credit (10%)

A high number of inquiries (more than three within 12 months) can be negative. Limit the number of times you allow a company to “pull your credit” for new lines of credit and loans.

TIP: When checking out and paying at your favorite store, if they ask you if you would like to apply for one of their cards, just say “no.”

Types of Credit (10%)

Possessing a variety of credit is optimal. There is a difference between secured versus unsecured debt and how it impacts your final credit score.

TIP: Too much unsecured debt is never a good thing, so be conscious of the number of credit cards in your wallet. For more information, visit www.myfico.com.

The Benefits of Good Credit

Good credit means you are more likely to get a loan approval. Beyond that, there are additional benefits to be enjoyed:

- 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, and renter's 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.

Did You Know?

You likely 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 best protect yourself from mistakes and identity theft, it's important to 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. In fact, there is a website and toll-free number through which you can request a copy of your free report from each of the three major credit bureaus.

To order your free annual credit report, visit www.annualcreditreport.com or call 877-322-8228.

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

Additional information is available on the FIRST website at: www.aamc.org/first/factsheets.



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, your efforts will be met with a more immediate realization of your financial goals.

Benefits of Budgeting

Let's face it. Money probably will 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

Creating a Budget

The most difficult part of developing a spending plan is taking the time to sit down to actually 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. Visit www.aamc.org/FIRST.

Spending Plan Steps



1) Put it in writing



2) Review it periodically



3) Make necessary adjustments

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

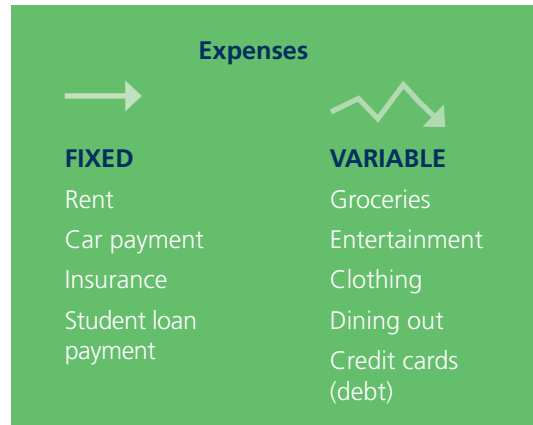
The Basics of Budgeting

Income. The first step in creating a budget is to document all of 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 should be included in your income calculations.

Expenses. Identify all of your monthly expenses or monies that are outgoing. There are two types of expenses, the most obvious being routine, fixed amounts like rent, car payments, insurance, loans, etc. Then, dig a little deeper for those more sporadic, variable expenses that fluctuate—like eating out, gas, cell phone, groceries, and utilities. Total your monthly expenses, then subtract that amount from your income. What you're left with is your discretionary income.

Discretionary Income. Once all income 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 accordingly until you break even.

On the other hand, if you have a positive bottom line (meaning extra money left over) consider two things: Have you accurately documented all of your expenses? Could you possibly be paying more aggressively toward student loans or saving more money for retirement? Typically, during residency, there won't be a lot of discretionary income, so when there is, handle it wisely.



TIP: Choose to live like a resident when you are a resident, so you don't have to live like a student later.

Finding Alternatives

Having a budget doesn't mean eliminating all of 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 it may only require small adjustments to 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 instead of name brand
- Opting for free TV instead of Netflix, or Netflix instead of the movies, or the occasional matinees instead of cable TV
- Getting a roommate... or two

The Minimum Payment Trap

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

23 Years
Paying the minimum monthly payment
will take 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

INCOME:

List all sources of income

Salary (after deductions)	_____
Spouse salary (after deductions)	_____
Investment income	_____
Financial aid (in excess of tuition & fees)	_____
Gifts	_____
Income tax refunds	_____
Other (child support/alimony)	_____
Veteran's benefits	_____

Total Income _____

FIXED EXPENSES:

These are monthly or yearly expenses that are usually unavoidable and typically unchanging in their amounts. There is no clear-cut distinction between fixed and variable expenses; it is up to the individual. You may or may not have all of these expenses.

	Yearly/Monthly
Tuition & fees	_____/_____
Books & supplies	_____/_____
Regular savings	_____/_____
Rent/mortgage	_____/_____
Utilities*	_____/_____
Telephone (base rate)	_____/_____
Taxes (federal, state)	_____/_____
Vehicle payments	_____/_____
Other transportation	_____/_____
Credit card payments	_____/_____
Personal loans	_____/_____
Educational loans	_____/_____
Life insurance	_____/_____
Health insurance	_____/_____
Home/renter insurance	_____/_____
Auto insurance	_____/_____
Auto registration/taxes	_____/_____
Professional fees/dues	_____/_____
Child care	_____/_____
Other (i.e., alimony)	_____/_____

Total Fixed Expenses _____

VARIABLE OR FLEXIBLE:

After determining your fixed expenses, list variable expenses. When trying to figure out variable expenses, you will be most successful, if you write down all of your expenditures for two weeks. Be as realistic as possible. You will be surprised to see where your money goes and how it adds up.

	Monthly
Food/household supplies	_____
Dining out	_____
Clothes	_____
Laundry/dry cleaning	_____
Gas, oil, auto maintenance	_____
Parking	_____
Medical/dental/eye care	_____
Hobbies/recreation	_____
Entertainment	_____
Travel/vacation	_____
Pets, supplies, food	_____
Sports	_____
CD's & books	_____
Heath & beauty aids	_____
Haircuts	_____
Postage	_____
Subscriptions	_____
Cable TV	_____
Cell phone	_____
Gifts	_____
Charity/contributions	_____
Other	_____

Total Variable Expenses _____

Total Fixed Expenses + _____

Total Monthly Expenses = _____

Total Income _____

Total Expenses - _____

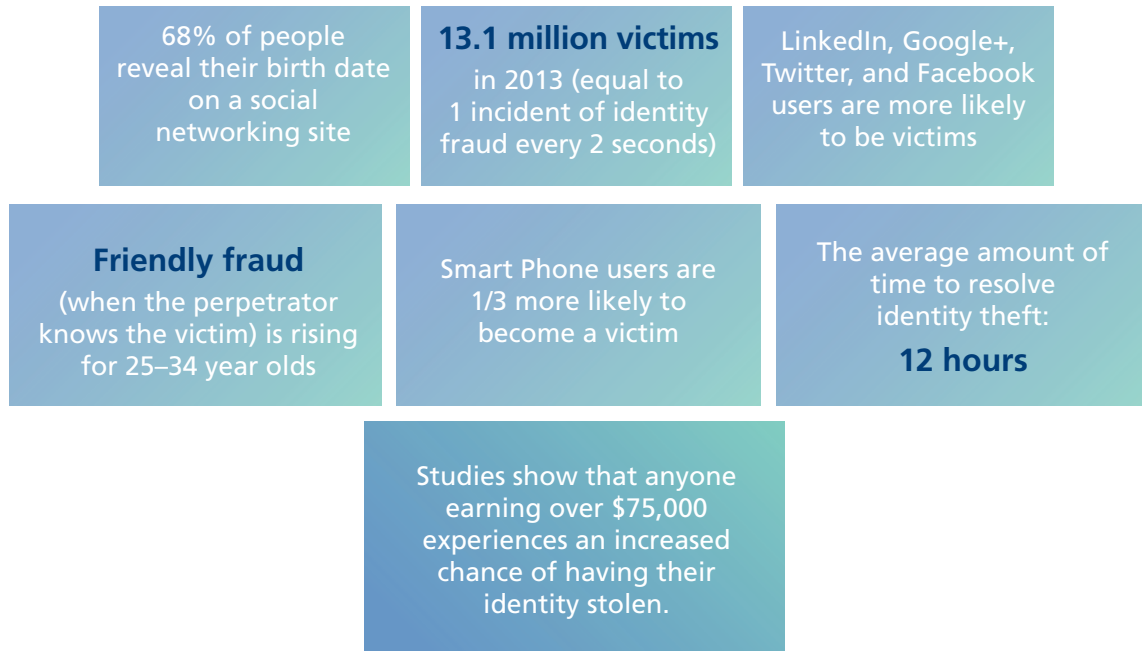
Total Discretionary Income = _____

* gas, electric, water, sewer, garbage

Financial Literacy

Identity Theft

Identity theft is an \$18 billion crime. Don't become a statistic!



Sources: Javelin Strategy and Research, 2011–2014; Bureau of Justice Statistics, 2012

Stay Safe Online

- Check your credit report (www.annualcreditreport.com)
- Install and update firewalls, antivirus, 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
 - at least eight characters long

Stay Safe Offline

- Check your credit report at least annually
- Keep personal documents, at home and work, safe and out of sight
- Avoid sharing your SSN
- Ask for alternative identifier unrelated to your SSN
- Carry only necessary documents and cards with you
- Shred all documents with sensitive information
- Request electronic statements
- Use online bill pay
- Opt out of pre-approved credit card offers (www.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. If a hacker is able to answer a security question with your personal information, he/she 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 not secure.

Be selective of the people you choose 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.

Credit Cards

Credit cards aren't bad; there are many positive financial aspects of a credit card. These include, among other things, the ability to use someone else's money for free for thirty days (depending on the terms of the card). Credit cards also can 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 also may be helpful in emergencies. Despite the advantages of credit cards, 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.

\$8,000 is the median amount among the 22% of 2014 medical graduates that report having non-education debt.

On average, the current college student leaves their undergraduate program with an estimated \$4,138 in credit card debt (as last reported by Sallie Mae in 2009). This amount grows for each additional year of education the student obtains. Eight thousand dollars is the median amount among the 22 percent of 2014 medical graduates that report having non-education debt. Non-education debt includes car loans, credit cards, and residency and relocation loans. Whether or not this statistic is a reflection of your current situation, you'll want to be a savvy user of credit cards in the future.

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 like 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
- No financial cushioning for a small or unplanned expenditure
- Making only minimum monthly payments
- Ignoring credit card statements
- Maxing out all of 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 and to let it run away from you, but there are ways to take back control. Depending on your situation, there are 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 company(ies) to work out a repayment plan.
- Negotiate! Often times you can negotiate a better rate, especially if you've been a good customer.

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

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

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 46.

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 (re-submit 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 www.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)
- 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 non-work

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 will 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
- Military service
- Public service organization – a private organization providing a public service

Submit questions about eligible employers to FedLoan Servicing (www.myfedloan.org). They are the servicer that oversees PSLF.

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

This checklist is a general guideline only.

For more information regarding eligibility, visit www.studentaid.ed.gov/publicservice.

Action Plan: Entering Public Service Loan Forgiveness (PSLF)

For Every PSLF Applicant:

ACTION #1: The first step in obtaining PSLF is to **request, from your servicer(s), an income-driven repayment plan (IBR/PAYE/ICR)** that offers you the lowest monthly payment. (www.studentloans.gov)

If You Have FFEL or Perkins Loans*:

ACTION #2: After separating from school, you will **apply to consolidate your FFEL/Perkins Loans** (www.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: Payments made prior to a consolidation will not count towards PSLF. 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 prior to the consolidation being disbursed). Processing of a consolidation takes 30-60 days.

ACTION #3: Upon beginning full-time work in your residency program, you should **submit an Employment Certification Form (ECF) to FedLoan Servicing**. At this point, all of your existing Direct Loans will be transferred to FedLoan Servicing (if the loans aren't already there). (http://www.myfedloan.org/forms/pdf/discharge/pslf_instructions_ECF.pdf)

NOTE: Processing of the ECF, including the transfer of loan(s), may take 30–45 days.

ACTION #4:** **Work towards 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: Upon beginning full-time work in your residency program, you should **submit an Employment Certification Form (ECF) to FedLoan Servicing**. At this point, all of your existing Direct Loans will be transferred to FedLoan Servicing (if they are not already the servicer). (http://www.myfedloan.org/forms/pdf/discharge/pslf_instructions_ECF.pdf)

NOTE: Processing of the ECF, including the transfer of loan(s), may take 30–45 days.

ACTION #3:** **Work towards PSLF by making your required IBR/PAYE/ICR 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 lender section on page 5.*

*** Reminder— each year, you will need to update your income/family size information with FedLoan Servicing so they can accurately calculate future IBR/PAYE/ICR payments. It is also recommended that you annually submit an updated Employment Certification Form (ECF) to FedLoan Servicing.*

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 www.studentloans.gov.

Advantages

- A single payment to a single servicer
- Lower monthly payment
- Extended repayment period
- Fixed interest rate
- No prepayment penalty
- Repayment plans can be changed
- May make loans eligible for PSLF
- May make loans eligible for IBR or PAYE repayment plans

Disadvantages

- Longer repayment period resulting in possibly higher interest costs
- May lose current borrower benefits
- Can disqualify past eligible PSLF payments
- Interest rate is the weighted average of the loans **rounded up** to the nearest one-eighth of a percent
- May negatively impact grace, deferment, or forgiveness options

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 50–51 to help determine if consolidation is right for you. **Borrowers currently enrolled in school are not eligible to consolidate.**

Reality Check: Consolidation May Mean Paying a Slightly Higher Rate

It is 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.

When you get right down to it, the longer you take to repay a loan, the more it will cost. 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.

The Effects of Loan Consolidation

Loan Type	Simplify Repayment ¹	Lower Monthly Payment ²	Make Eligible for PSLF or PAYE ³	Forfeit Grace Period ⁴	Fix a Variable Rate ⁵	Make Eligible for IBR ⁶	Loss of Interest Subsidy ⁷	Grace and Deferment Options Lost ⁸
Direct Subsidized Loans	x	x		x	x			
Direct Unsubsidized Loans	x	x		x	x			
Federal Subsidized Stafford Loans	x	x	x	x	x			
Federal Unsubsidized Stafford Loans	x	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. Alternatively, an extended term can also mean higher interest costs. The good news is that there is no pre-payment 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 or PAYE.** 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) repayment plan. However, if these loans are included in a Direct Consolidation Loan, they become eligible for both PSLF and the PAYE repayment plan. Other eligibility requirements also need to be met.

- 4) **Forfeit Grace Period.** Consolidation loans do not have a grace period and repayment will be required within 60 days of the consolidation loan being disbursed. For this reason, if a borrower wants to utilize their entire grace period, they will need to delay the beginning of 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 simply wait to complete a consolidation application until after all grace periods have been fully exhausted.

** Technically speaking, PLUS Loans do not have a grace period, however, they do have what is referred to as a post-enrollment deferment that behaves much like a grace period (postponing payments) and lasts for six months. This deferment occurs automatically and would be lost if the PLUS Loans were consolidated before the entire post-enrollment deferment was experienced.*

- 5) **Fix a Variable Interest 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 percent, and then fixed for the life of the loan. A fixed rate is protected from rate changes, and may be of great worth for variable rate loans. However, very few medical graduates have these older variable rate student loans; therefore, the effect of consolidation on already fixed interest rate loans is more likely to result in a slightly increased rate because of the rounding process.
- 6) **Make Eligible for IBR.** Perkins Loans and LDS Loans are not eligible for 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 repaid under IBR after the new consolidation loan is disbursed. All other federal student loans are eligible for repayment under IBR in their original form and with their current servicer. (Note: Parent PLUS Loans would not be 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) **Affects Grace/Deferment Options.** Certain loans are eligible for additional time in grace or deferment, but when these loans are consolidated, the remaining balance on these loans lose these options.

Be Advised: Consolidation will erase prior payments made on the loans being consolidated.

Should I Consolidate?

Are you wondering if consolidation is right for you?
Answer these questions to reveal if consolidation would benefit your loan situation.

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



Yes, a consolidation loan 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 student loans during residency.



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

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



Yes, a Direct Loan consolidation may be necessary to make some of your debt eligible for this forgiveness program. You would NOT need to include all of 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 of your federal student loans, visit www.nslds.ed.gov.

(Note: Please be advised that consolidation will erase all prior payments that qualified for PSLF.)



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



Possibly... see the advice for those that answered 'Yes' (to the left), and then strongly consider following it. This will leave your options open. In the future, you will have the ability to continue on the path toward forgiveness under PSLF or leave 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 to avoid the additional interest costs.

Alternatively, a lower monthly payment can be obtained without consolidating. By changing your selected repayment plan to either Income-Based Repayment (IBR), Pay As You Earn (PAYE), or Income-Contingent Repayment (ICR), you could qualify for an even lower monthly payment during residency – possibly making consolidation unnecessary. Discuss this option with your loan servicer(s).



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, thus the balance of your debt is likely to be repaid sooner and this will cost you less in interest.



Possibly... see the advice for those that answered 'Yes' (to the left), and then strongly consider following it as it will allow you the flexibility to pay less when you need to, but still gives you the opportunity to pay more when you are able to do so.

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



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 request a postponement of payment while in residency. This is easily accomplished with a Mandatory Medical Residency Forbearance. Then, while payments on your federal loans are postponed, you can aggressively repay on the private debt and attempt to repay it in full, as soon as possible.



No, loan consolidation would not provide an obvious benefit to your loan situation.

5. Are you considering the Income-Based Repayment or Pay As You Earn (PAYE) repayment plans?



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 the Income-Based Repayment plan—so these loans would need to be consolidated to be made eligible for IBR. Similarly, PAYE is only available for specific loans. Your federal student loans that currently do not have the word 'Direct' in their name would need to be consolidated to gain eligibility for the PAYE repayment plan. For questions about eligibility, call your servicer(s).



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

Private Consolidation Loans

There are companies anxious to consolidate your federal student loans into a private consolidation. However, 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 lender.

Borrower Benefits

Good news: Your 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 money back. In order 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 signed up for automatic payment withdrawals.** To find out what your benefits may be, contact your servicer(s). Also be advised that existing borrower benefits could be permanently lost when obtaining a consolidation loan—so carefully consider your borrower benefits PRIOR to 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 to 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. Furthermore, changes to the tax law in 2013 made this deduction available for only the first 60 months of repayment—another reason to make interest payments during residency.

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

Source: IRS Publication 970 (updated Sept. 2014)

For more detailed information, visit: 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, called the Lifetime Learning Credit, is available for eligible students that have qualifying education expenses. As a credit, this tax benefit only can 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 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 a borrower runs into difficulty during their residency years, it's because they don't keep in touch with their loan servicer(s) 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 servicer(s) 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 servicer(s) immediately!

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

Your servicer(s) knows all of 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 your federal debt and may or may not include higher and more volatile interest rates, lack of forgiveness programs, limited postponement options, and/or reduced control over the actual amount of the required monthly payment.

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

Debt Management Strategies for Private Loans

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

Forbearance: A possible repayment strategy used by medical graduates that have both federal and private loans 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 then allows aggressive payments to be made on the 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 high-interest rate loans fast and furious is often a wise strategy. However, interest rates aside, even if the rate of the private debt is not higher than the federal loans, this strategy of using forbearance to postpone federal payments may simply be the way to afford making the required private loan payments during residency.

Consolidation: Another strategy is to find a private consolidation loan to combine some or all of your existing private student debt. The first step requires shopping around for the loan with the best terms. You can start your search at www.FinAid.org or your school's financial aid office. Your chance of obtaining a better rate on the new loan increases if your credit score has increased since you originally borrowed the private loans. Though, the opposite is also true about a lower credit score. Furthermore, the new consolidation loan may offer a longer period of time for repayment, which will reduce the monthly payment. Keep in mind that the longer it takes to fully repay the balance, the more the loan will cost you in interest. Ideally, find a loan that offers no pre-payment penalty.

When 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. Private consolidation loans may cost you additional origination fees, raise your interest rate, and result in the loss of existing postponement options. So, proceed with caution.

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

Final Note

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

The Next Steps

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

STEP #1: Immediately

ORGANIZE YOUR LOANS (See pages 3–5)

- What types of loans do you have?
- Who services the loans?
- When is the first payment due?

STEP #2: 30 Days Prior to Graduation

HANDLE LOANS WITHOUT A GRACE PERIOD (See pages 13–22)

- Contact the servicer(s) to request either a repayment plan to pay under or forbearance to postpone payments

CONSIDER PAYING SOME OF THE ACCRUED INTEREST (See pages 11–12)

- Check with the servicer(s) to determine their policy on interest capitalization to know when your loans will capitalize

STEP #3: Upon Graduation

CONSOLIDATION IS AN OPTION (See pages 47–51)

- Applications can be submitted and processed immediately, or a request can be made and the application will be processed at (or near the end of) the grace period. Consolidation processing takes 30–60 days.

STEP #4: When Residency Begins

YOU NOW QUALIFY FOR A MANDATORY MEDICAL RESIDENCY FORBEARANCE (See page 18)

- As a resident, you are able to postpone payments through this forbearance (granted in annual increments)
- If you desire PSLF, Employment Certification Forms or Consolidation applications may be submitted to the appropriate servicer now or anytime in the future (See page 46)

STEP #5: 30 Days Prior to the End of the Grace Period

DECIDE IF YOU WILL POSTPONE OR BEGIN REPAYMENT (See pages 30–31)

- To postpone payments, contact the servicer(s) to discuss postponement options
- To start making payments, contact the servicer(s) to select a repayment plan—if you have not already done so.

STEP #6: 1 Year After Repayment/ Postponement Begins

SUBMIT ALL NECESSARY PAPERWORK TO YOUR SERVICER TO MAINTAIN THE REPAYMENT PLAN OR THE POSTPONEMENT OPTION YOU SELECTED.

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

The AAMC's *FIRST for Medical Education* encourages you to use this resource to help accomplish your financial goals, and visit the FIRST website at 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, N.W., Suite 100, Washington, D.C. 20001-2399
T 202 828 0400 F 202 828 1125
www.aamc.org

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