



| Financial Information, Resources,
Services, and Tools

2016

Education Debt Manager

For Matriculating Medical School Students



FIRST is a program of the
Association of American Medical Colleges

www.aamc.org/FIRST

2016

Education Debt Manager

For Matriculating Medical School Students

Association of American Medical Colleges
Washington, D.C.

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Information within the EDM is based on AAMC estimates and interpretation of federal regulations effective June 2016. Information is subject to change based on changes in federal regulations and/or at the discretion of the Secretary of the Department of Education. For exact loan balances and information on repayment, contact the servicer(s) of the loan(s).

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

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A Note from FIRST

First and foremost, we want to congratulate you on making the decision to become a doctor. You worked hard to get where you are today, and the next few years will be challenging—both academically and financially.

Facing student loan debt may seem daunting, confusing, and even downright frustrating. Despite this, it is vital to your financial future that you avoid the temptation to ignore your loans and instead choose to face your debt armed with the knowledge to make educated borrowing decisions.

This resource, the Education Debt Manager for Matriculating Medical School Students, is designed to help students, residents, financial aid staff, and others navigate the complexities of medical student debt. Not only will this information help you make wise repayment decisions, it will also help you develop important debt management skills for the future (including the lean years of residency).

Benjamin Franklin has been attributed with saying, “An investment in knowledge always pays the best interest.” Be encouraged; you are about to make a major investment in yourself, your future, and the future of health care. Rest assured, this investment will reap great rewards.



Gary LeRoy, MD
Associate Dean
Wright State University

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

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

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

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


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Education Debt

Paying for a medical education is challenging. In fact, the majority of medical school graduates complete their education with the assistance of student loan financing. In the graduating class of 2015, 81 percent of medical students reported leaving medical school with student loan debt. Across the country, the median level of debt for the class of 2015 was \$183,000 (based on public and private MD-granting medical schools, including undergraduate debt).

The Association of American Medical Colleges (AAMC) collects this type of survey data each year, and we share it with you as a point of reference. Before leaving medical school, you will be asked to share your feedback about your medical school experience via a survey called the Graduate Questionnaire.



October 2015

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

Indebted Graduates Class of 2015*	Public	Private	All
Pct. with Ed. Debt	83%	78%	81%
Mean	\$172,751 (↑3%)	\$193,483 (↑2%)	\$180,723 (↑2%)
Median	\$180,000 (↑6%)	\$200,000 (↑0%)	\$183,000 (↑2%)

Education Debt (including premed) of:	Public	Private	All
\$100,000 or more	79%	79%	79%
\$200,000 or more	41%	53%	45%
\$300,000 or more	8%	18%	12%
Planning to enter loan forgiveness/repayment program:			40%

Education Debt Breakdown	% Graduates	Median
Premedical Education Debt	33%	\$24,000
Medical Education Debt	78%	\$180,000

*Source: FIRST analysis of AAMC 2015 GQ data. Education debt figures include premedical education debt plus medical education debt.

Cost, M1 In-State, 2015-16	Public	Private
Median Tuition & Fees	\$35,287 (↑3%)	\$55,259 (↑3%)
Median Cost of Attendance (COA)	\$57,821 (↑2%)	\$78,512 (↑3%)
Median 4-Yr. COA for Class of 2016	\$232,838 (↑3%)	\$306,171 (↑3%)

Source: AAMC TSF Survey data from 84 public schools and 57 private schools.

Estimated Resident/Fellow Stipends 2015	Estimated Median	Approx. PAYE Monthly Payment
1st Post-MD Year	\$52,200	\$290
2nd Post-MD Year	\$53,900	\$300
3rd Post-MD Year	\$56,000	\$320
4th Post-MD Year	\$58,100	\$340

Source: 2015 estimate based on historical growth rates for data from the bi-annual AAMC Survey of Resident/Fellow Stipends and Benefits. PAYE is Pay As You Earn estimate based on analysis of current federal regulations.

aamc.org/FIRST



Loan Basics

Getting Organized

The first step in managing your education debt is getting organized. In the coming years, if you track and keep all your student loan documents in a single place, not only will you find that you are a more educated borrower (because you understand the current state of your debt portfolio), you will also be better prepared to manage this debt after medical school.

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 medical school and 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 of your borrowing (total repayment cost) before you accept a loan.

The sooner you begin using the Medloans® Organizer and Calculator, the more prepared you will be to make wise borrowing and repayment decisions.

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: dhales@aamc.org.

To quickly and easily use the 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 NSLDS screen and upload this file directly into the Organizer. Just a few simple clicks allows you to see estimates based solely on your debt situation and potential career path. (See the next page for more information.)



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

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

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

Tracking Your Loans

Where are your loans coming from—who is your lender? Where will your payments go—who is your servicer? The next step in managing your education debt is knowing who you are borrowing from and who you will be repaying. If you keep good records, you will know the answers to these questions. Don't despair, though, if you lose track of your loan information.

There are two resources you can rely on to help you find the details of your debt:

- **The financial aid office** (pre-med and medical) can help you identify the lender and servicer 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.nslds.ed.gov.

www.nslds.ed.gov

To log in, provide your username and password. Select "Financial Aid Review" to find your loans.

If you do not have an FSA ID, you will select the "Create an FSA ID" tab.

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

Federal loans that will not be displayed in NSLDS are Loans for Disadvantaged Students (LDS) and Primary Care Loans (PCL). Nonfederal loans (including private, alternative, and institutional loans) are also not listed on the NSLDS website. To find the details of loans not shown in NSLDS, consult the financial aid office or review your credit report (www.annualcreditreport.com).



Lenders

During medical school, you will borrow your federally guaranteed student loans from Direct Loans (DL), also known as the William D. Ford Federal Direct Loan Program (www.direct.ed.gov). The DL program lends money to borrowers directly from the U.S. Department of Education. The loans you may receive from DL include Direct Unsubsidized Loans, Direct PLUS Loans, and Direct Consolidation Loans.

Other common loans received during medical school include Primary Care Loans (PCL) and Loans for Disadvantaged Students (LDS). Although these are federal loan programs, the loans are issued to you by your school on behalf of the federal government.

Once you know who your lenders are, the next step is to find out who the servicers of the loans are. Loan servicers are very important because they are your point of contact for everything concerning the loans after medical school is over.

Servicers

After a lender disburses the loan, a servicer oversees the administration of the loan during repayment by managing the paperwork. For example, the servicer works with you to manage your loans, including making payments, updating your contact information, processing forms to postpone payments (such as deferment and forbearance), and providing tax forms on student loan interest deductions. The servicers of your loans can change. To stay informed about these types of changes, be sure to open and read all communications you receive about your student loans, and if you have questions, call the loan servicer immediately.

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

Reasons to Contact Your Loan Servicer

- For questions about your loans
- To make voluntary payments
- For help selecting an affordable repayment plan
- 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 select or 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. The FSA Ombudsman conducts impartial fact-finding research about your complaint to reach a resolution. The Ombudsman can recommend solutions but does not have the authority to reverse decisions or dictate specific actions. The Ombudsman can be reached at aamc.org/fsaombudsman or 1-877-557-2575.

Resources for Borrowers

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

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

Master Promissory Note

The Master Promissory Note (MPN) is a legally binding contract between you and your lender. One MPN can cover all Direct Unsubsidized Loans, while a separate MPN can cover all PLUS Loans. Simply stated, an MPN is your documented promise to repay the debt under the specified terms. It is important to carefully read and understand the MPN before signing it. (If you have already signed the MPN, a copy can be obtained from your lender or servicer.)

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 find a job
- You are dissatisfied with your education experience

The benefits of an MPN include a reduction of paperwork and a simplification of the borrowing process because 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). Therefore, you may only be required to sign one or two MPNs while attending medical school.

Many of a borrower's rights and responsibilities are listed on the next page. 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, the servicer, or your medical school's financial aid office.

Rights

- Prepay any federal loan without penalty
- Request a copy of your MPN
- Change repayment plans
- Receive grace 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

Responsibilities

- 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 servicers of changes to your contact or personal information
- Notify the servicers of changes in your enrollment status

Delinquency and Default

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

When it comes time to repay your student loans, if something does “slip through the cracks,” you should know that the loan will be considered **delinquent** on the first day the payment is late. After being late for 270 days, the loan is considered to be in **default**.

There are negative consequences for both situations (see list). Each will hurt your credit well into the future, causing problems if you need credit for a house, a car, a practice, or other consumer loans.

The record of a late or defaulted student loan remains on a credit report for at least seven years. If you are experiencing financial difficulties, do not wait until it's too late—call your servicer 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 may apply

TIP: Maintaining good credit requires that you stay current on all required payments (credit cards, utilities, etc.). During medical school, consider using automatic-payment services, such as online banking, to send payments from your checking or savings account on a specified date. Using this strategy will ensure that required payments are made on time.

Less Than Full Time, LOA, and Withdrawing

If your course load or enrollment status drops below half time, you take a leave of absence (LOA), or you withdraw altogether, it is critical that you remember to contact the financial aid office immediately. They will:

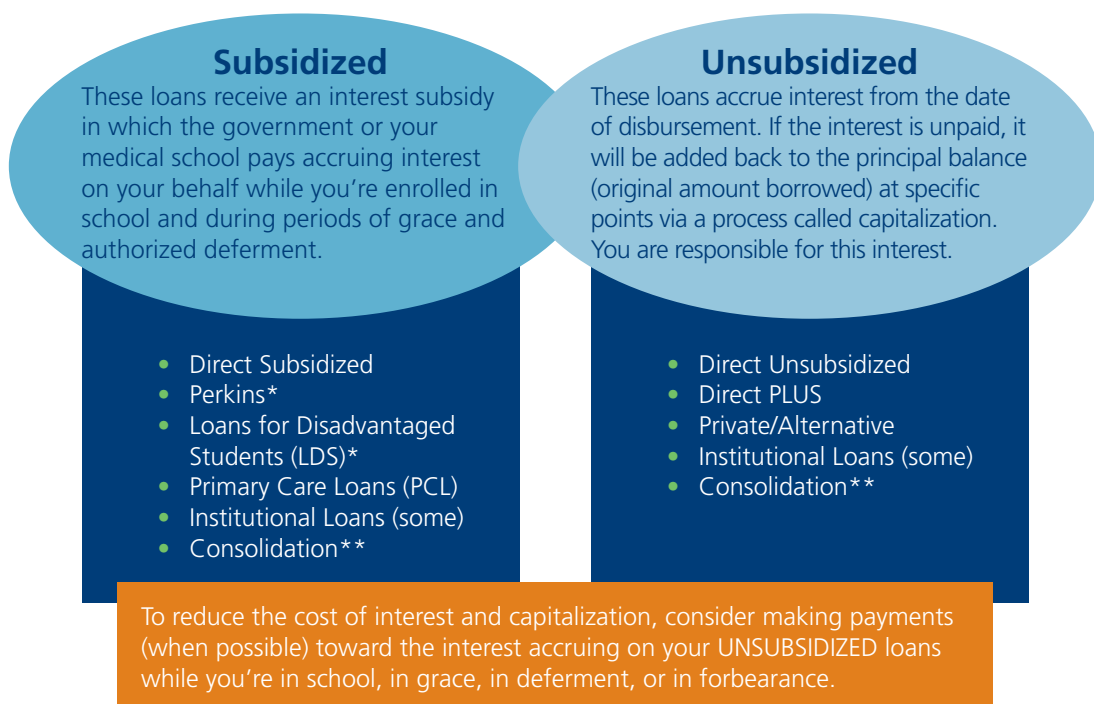
- 1) Guide you through the required exit counseling for your loans
- 2) Update you on which loans require immediate repayment and which have a grace period

If you drop below half-time status, loan repayment begins. So, stay in touch with the financial aid office to best understand your situation.

Know the Type of Loans Borrowed

Important Loan Details

The terms “subsidized” and “unsubsidized” probably sound familiar, but do you know what a subsidy actually is? It is financial assistance that covers the interest that accrues on a loan. The result of a subsidy is that interest does not accrue on the loan while the subsidy is active, or, in other words, the loan is essentially interest free for the borrower at certain points in time. Once you are in active repayment, interest will accrue on both your subsidized and unsubsidized loans.



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

** In a Direct Consolidation Loan, the subsidies on Direct Subsidized Loans may be lost, and the borrower would be responsible for interest during time in school, in grace, during authorized deferments, and during certain periods in IBR, PAYE, or REPAYE repayment plans.

A subsidized loan is only “active and working” while you are in school, during grace, in a qualifying deferment, and during certain periods under several of the income-driven repayment plans. Alternatively, unsubsidized loans always accrue interest, and payment of that interest is solely your responsibility.

Direct Subsidized Loans are not available to graduate and professional students (including medical students). Therefore, the majority of your medical debt will likely be unsubsidized.

Understand the Total Cost

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

Three primary factors will 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 how interest accrues is necessary for borrowing wisely. 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 until the loan is repaid in full. For this reason, borrow all available subsidized loans before accepting unsubsidized monies. Keep in mind that though the bulk of your borrowed monies in medical school may be unsubsidized, you always have the right to pay the accruing interest on your unsubsidized debt—even if no payments are required.

How Interest Accrues on Student Loans

Interest accrues daily on a student loan—from the day it’s disbursed until the day the loan balance reaches zero.

There is a simple formula to calculate your daily interest accrual:

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

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

Different loans carry different interest rates. The following chart will help you understand what the interest rates are for your loans. Before July 1, 2013, rates were set by statute (regulation). Currently, rates are determined based on the 10-year Treasury note, and this means that the rates are recalculated for each academic year. The annually updated rates are in effect for the entire academic year (July 1–June 30) and are fixed for the life of the loan. The maximum rate possible for a Direct Unsubsidized Loan is 9.50 percent, and the maximum rate possible for a Direct PLUS Loan is 10.50 percent. To determine the rate of any loan not included in the following chart, contact your servicer or financial aid office, or visit www.studentaid.ed.gov.

Graduate and Professional Loans	Interest Rates
Direct Unsubsidized Loans (disbursed between 7/1/16 and 6/30/17)	5.31% Fixed
Direct Unsubsidized Loans (disbursed between 7/1/15 and 6/30/16)	5.84% Fixed
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)	6.80% Fixed
Direct PLUS Loans (disbursed between 7/1/16 and 6/30/17)	6.31% Fixed
Direct PLUS Loans (disbursed between 7/1/15 and 6/30/16)	6.84% 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)	7.90% Fixed
PCL / LDS	5.00% 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

Debt Management Strategies for 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 to apply the money now and identify which loan it should be applied to—highest-rate loans are the priority.
- 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 capitalized interest begins to accrue interest as well. The servicer of the loan can tell you when the loan is scheduled to capitalize. This can be a costly process, so it's best if it occurs as infrequently as possible. Some tips to reduce the cost of capitalization are detailed below.

Debt Management Strategies for Capitalization Costs

- **Contact your servicers if you want to verify or discuss when your loans will capitalize.** Typically, capitalization occurs six months after graduation, or at the end of your grace period.
- **Pay accruing interest prior to capitalization.** This may mean making partial or full interest-only payments while you are in school or during residency. Remember, it's always an option to make voluntary payments even when no payment is required.
- **Submit timely requests.** After medical school, if you are late filing your forbearance, deferment, or repayment forms with the servicer, capitalization may occur earlier than expected.

Length of Repayment

The length of repayment has an impact on the total cost of the debt. Each repayment plan provides a maximum repayment term, ranging from 10 years to 30 years (for a consolidation loan). The longer it takes to pay off the loans, the more interest you will pay and, therefore, the more costly the debt will be. You could choose to make interest-only payments while in school to help pay down the accruing interest. By doing this, you would reduce the impact of capitalization, thus minimizing interest costs and potentially paying the debt off faster. (See the directions above this paragraph for guidance on how to make voluntary payments.)



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Thursday

Loan Timeline

During Residency

Let's face it—your years after medical school (residency) will not be your most extravagant or lavish times. Not only will it be a good idea to continue living within a realistic budget, but it will also be when you begin to actively manage your student loan debt.

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

Grace

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

Before Repayment Begins

For many loans, the initial capitalization of accrued interest occurs when you separate from school OR at the end of the grace period (whichever happens last). The Loan Repayment Timeline on page 14 visually depicts when this generally occurs for each loan.

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

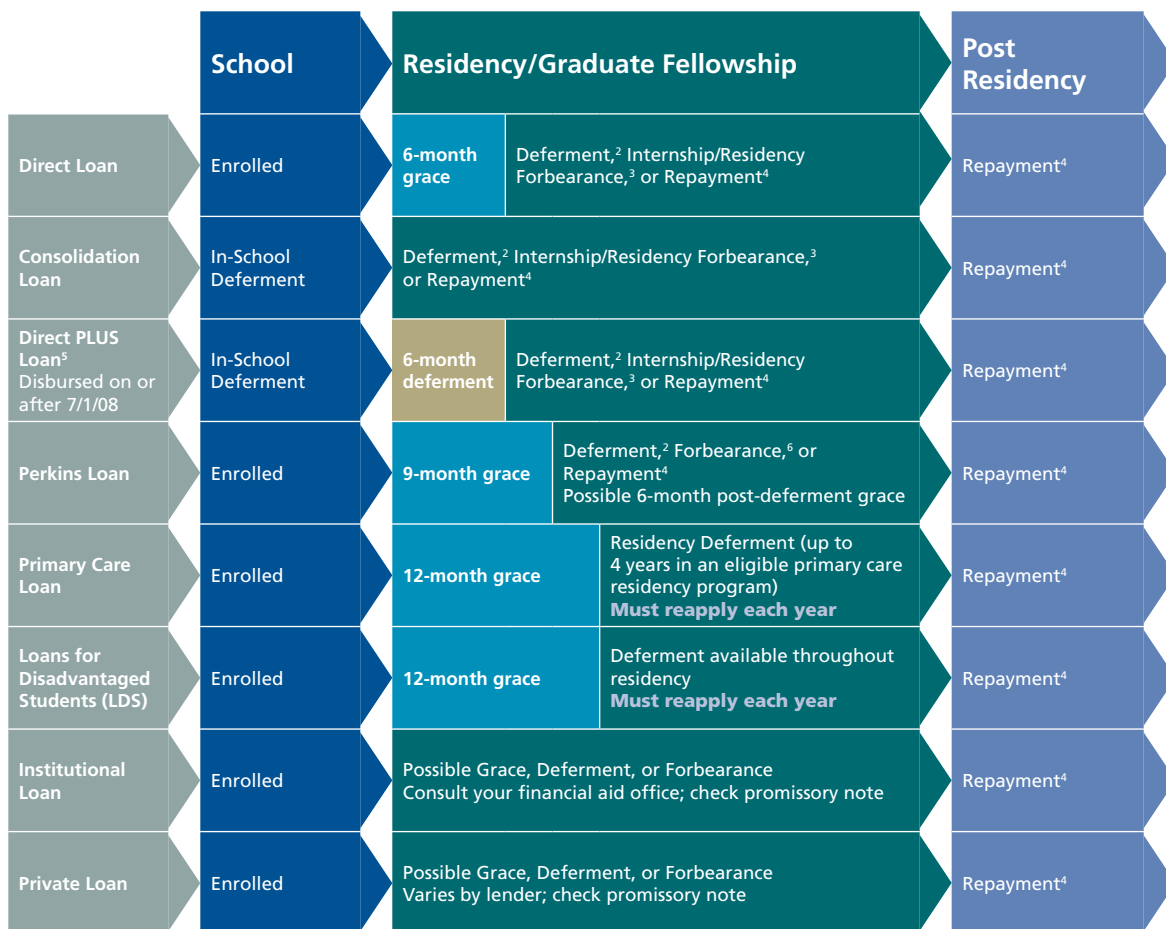
- Loan type
- Grace period
- Loan disbursement date
- Loan servicer

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

Using Up Your Grace

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

Loan Repayment Timeline¹



¹ 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.

² The Federal Student Aid website provides a chart of possible deferments and forbearances. View the chart at studentaid.ed.gov/sa/repay-loans/deferment-forbearance.

³ 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.

⁴ Repayment: Consult with your servicer regarding repayment plans and postponement options that may be available.

⁵ Direct PLUS Loans disbursed prior to 7/1/08 are not eligible for post-enrollment deferment. Direct PLUS Loans disbursed on or after 7/1/08 receive an automatic six-month deferment. Contact loan's servicer for payment or postponement options.

⁶ 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.

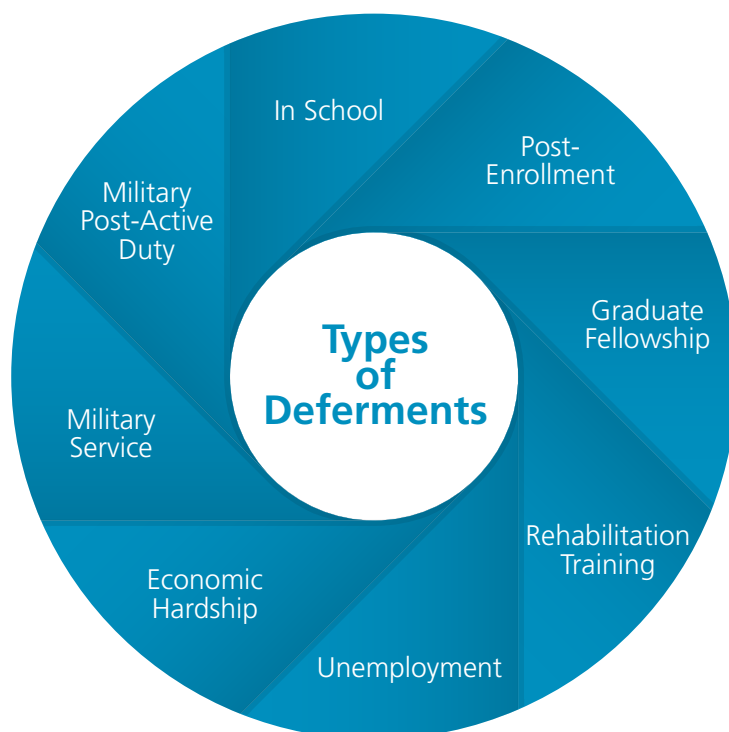
Postponing Payments

While you are enrolled at least half time, payments will not be required on any of your federal student loans. Payments are postponed automatically while you are a student because either an in-school status or an in-school deferment is applied to your loans. After graduating or separating from medical school, there are several other ways to continue to postpone payments. Keep in mind that if at any time you cannot make a required payment, you should contact your servicers immediately and ask them to help you identify postponement options.

Deferment

Deferment is a period of time when a borrower who meets certain criteria can delay making payments. During a deferment, the government will pay the interest that accrues on the subsidized loans; however, you are still 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. If you have more than one servicer, you will need to apply to each servicer individually. Although deferments are appealing, it's important to know that most medical residents will not initially qualify for a deferment during the traditional residency period.

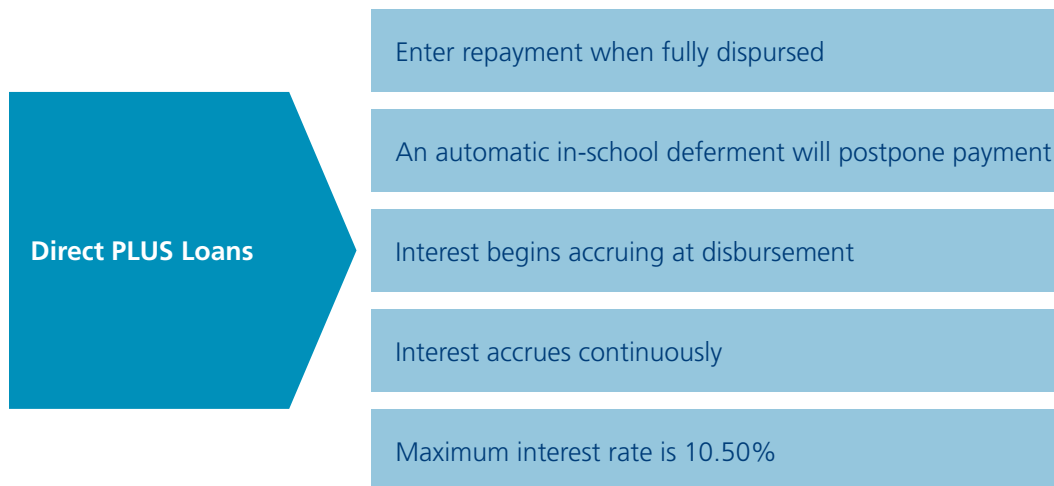
To discuss eligibility for these and other deferment types, contact your loan servicers.



Post-Enrollment Deferment—Direct PLUS Loans

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

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



Forbearance

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

- Make a reduced payment
- Postpone payments

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

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

To learn about forbearance options, contact your servicers.

The Cost to Postpone

For a 2016 graduate with \$183,000 in Direct Loans, the capitalization of interest accrued on this unsubsidized loan, during school and grace, will increase the principal balance to \$212,800. During residency, nearly \$1,100 in interest will accrue on this outstanding balance—each month.

Mandatory Forbearance for Medical Interns and Residents

Medical interns and residents are eligible for a mandatory forbearance on federal student loans. Although you are required to 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 will need to reapply each year to keep the forbearance active for the entire duration of your residency.

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



Loan Repayment

When to Start Paying and How Much

As a student enrolled in medical school at least half time, payments are not required on your federal student loans. Additionally, if you borrow and manage your money wisely during medical school, you could find repayment easier and more affordable.

Debt Management Fact

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

Your Direct Unsubsidized Loans 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 after you graduate, withdraw, or drop below half-time status. See the Loan Repayment Timeline on page 14 for more details.

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

Rights During Repayment

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

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

Contact your servicers as your circumstance requires.

Get a Jump on Your Loan Payments

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

Making interest payments each month while in school or residency, even if it's only a small amount, can be a smart thing to do. Every dollar you pay now helps reduce the overall cost of your debt. The fact is, the quicker you pay off your debt, the less it may cost you.

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

Repayment Plans: Overview

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

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

Traditional Plans	Standard Repayment	\$2,370/mo
	Extended Repayment	\$1,380/mo
	Graduated Repayment	\$1,080/mo
Income-Driven Plans	Income-Contingent Repayment (ICR)	\$690/mo
	Income-Based Repayment (IBR)	\$440/mo
	Pay As You Earn (PAYE)	\$300/mo
	Revised Pay As You Earn (REPAYE)	\$300/mo

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

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

Review the information about IBR and PAYE on pages 24–26.

Based on an original principal balance of \$183,000, entering repayment after four years of medical school and six months of grace. ICR, both IBR plans, PAYE, and REPAYE are based on a salary of \$53,300. Rounded to the nearest tenth.

Traditional Repayment Plans

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

Standard Repayment

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

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

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

Extended Repayment

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

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

Best option for borrowers seeking to lower their required monthly payment (without consolidating or exhibiting a Partial Financial Hardship—see page 22).

Graduated Repayment

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

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-Driven Repayment Plans

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

Income-Contingent Repayment (ICR)*

The Income-Contingent Repayment (ICR) plan is an income-driven plan and is similar to the Income-Based Repayment (IBR) plans, Pay As You Earn (PAYE), and Revised Pay As You Earn (REPAYE). The ICR plan does not require that you have a Partial Financial Hardship to qualify. This makes 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 to qualify for the lower IBR or PAYE payments. ICR and REPAYE offer the ability to seek public service loan forgiveness regardless of your income level.

As with the other income-driven plans, annual income documentation is needed to determine the monthly payment. This payment will be adjusted annually based on changes to your household income. Generally, this plan has a higher required payment than the other income-driven plans, so if this plan doesn't meet your needs, one of the IBR plans, PAYE, or REPAYE may offer additional flexibility with lower payments.

The maximum repayment term for ICR is 25 years. After that, any unpaid balance is forgiven (but will be 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 servicers for more details.

What Is a Partial Financial Hardship (PFH)?

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

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

Is your Standard monthly payment

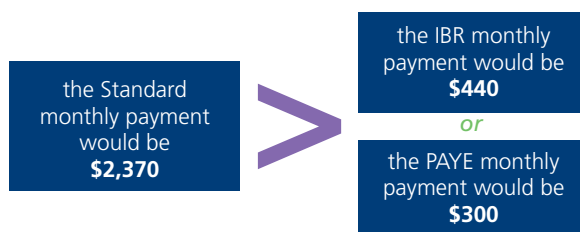
(the 10-year monthly payment amount determined when entering the plan)

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 \$183,000 of federal student loans and a PGY-1 salary of \$53,300* ...



... 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 the AAMC estimate for the 2016 first post-MD-year median stipend.

Income-Based Repayment (IBR)

The Income-Based Repayment (IBR) plan is available for all federal loan borrowers that exhibit a Partial Financial Hardship (PFH) (see page 22). The loan servicers will determine if a PFH exists, but most medical residents exhibit this hardship.

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 federal government will pay the amount of interest that accrues on the subsidized loans that exceeds the IBR payment amount. Capitalization of the remaining interest will not occur until after the PFH ceases to exist, or you elect to leave IBR. Since many residents will show a PFH throughout residency, capitalization could be postponed until residency is over. There is no limit to how much interest can capitalize under IBR.

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

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

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

Comparison of Income-Based Repayment and Pay As You Earn for a PGY-1 Resident

In IBR		In PAYE	
Monthly Adjusted Gross Income ¹	\$4,440	Monthly Adjusted Gross Income ¹	\$4,440
(minus) 150% of Poverty Line ²	– \$1,490	(minus) 150% of Poverty Line ²	– \$1,490
Discretionary Income	= \$2,950	Discretionary Income	= \$2,950
(multiplied by) ³	× 15%	(multiplied by) ³	× 10%
Monthly IBR Payment	\$440⁴	Monthly PAYE Payment	\$300⁵

¹ Based on AAMC estimate for the 2016 first post-MD-year median stipend.

² Based on AAMC estimate of 2016 federal poverty guideline for a family size of one in the 48 contiguous states.

³ Based on 2015 federal regulations.

⁴ New borrowers on or after July 1, 2014, qualify for IBR, but the PAYE plan leads to lower total repayment cost.

⁵ Rounded to the nearest tenth.

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

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

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

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

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

Pay As You Earn (PAYE)*

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

Unlike the original IBR plan, the PAYE plan restricts the monthly payment to 10 percent of discretionary income—making the PAYE payments lower than the original IBR plan payments. 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.

**Only Direct Loans are eligible.*

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

- 1) Partial interest subsidy (free money)
- 2) Limit to the amount capitalized and a potential postponement of capitalization
- 3) Capped maximum payment amount
- 4) Several possible forgiveness programs
- 5) Possibly the lowest required payment during residency

The PAYE payment amount will adjust annually based on household income and family size; however, no matter how much income increases, the PAYE payment is capped at a predetermined amount. This maximum amount cannot exceed what the 10-year Standard Repayment amount would have been (based on the debt amount when 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, any unpaid balance is forgiven (and is taxable). This plan also qualifies as an eligible payment plan for Public Service Loan Forgiveness (PSLF).

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

Quick PAYE Tips:

To qualify for PAYE, you must

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

AND

- 2) have received a Direct Loan disbursement on or after October 1, 2011.

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

Review your NSLDS account.

Revised Pay As You Earn (REPAYE)

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

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

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

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

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

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

Repayment Plans Compared

Which Repayment Plan Works for You?	Traditional Plans			Income-Driven Plans				
	Standard	Extended	Graduated	Income-Contingent Repayment (ICR)	Income-Based Repayment (IBR) (for those who borrowed prior to 7/1/14)	Income-Based Repayment (IBR) (for new borrowers as of 7/1/14)	Pay As You Earn (PAYE)	Revised Pay As You Earn (REPAYE)
Which Loan Program(s) Qualify?	Direct and FFEL	Direct and FFEL	Direct and FFEL	Direct only	Direct and FFEL	Direct only	Direct only	Direct only
What Are the Advantages to This Plan?	May provide the lowest total repayment cost (due to less interest accruing)	Reduced monthly payment, without consolidating	Can offer temporary relief to borrowers expecting an income increase in the near future	Provides a lower monthly payment. Capitalized interest cannot exceed 10% of original loan balance. After this, interest accrues but does not capitalize.	Provides a lower payment based on family size and AGI for the household, but there is no limit to interest capitalization	Payments mirror the PAYE payments, but there is no limit to interest capitalization	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.	Possibly offers the lowest required monthly payment during residency. (When monthly payment doesn't cover the interest, you are responsible for only 50% of it.)
How Is the Monthly Payment Determined?	Payments are calculated equally over the repayment term; payment based on total amount owed	Equal monthly payments stretched over a longer term; payment based on total amount owed	Payments begin lower (interest only in the first 2 years of a 10-year term) and then increase	Payments are based on the lesser of 20% of your monthly discretionary income, or your monthly payment on a 12-year plan times a percentage factor based on your income	Payments are capped at 15% of your monthly discretionary income, and based on your AGI and family size	Payments are capped at 10% of your monthly discretionary income, and based on your AGI and family size	Payments are calculated at 10% of your monthly discretionary income, and based on your family size and AGI for the household. The amount is capped at the 10-year Standard payment amount (determined when entering PAYE).	Payments are calculated at 10% of your monthly discretionary income and based on your family size and AGI for the household. There is no cap on the maximum payment amount.
What is the Repayment Term?	10 years (up to 30 years if consolidated)	25 years	10 years (up to 30 years if consolidated)	25 years (after which any remaining balance receives a taxable forgiveness)	Up to 25 years (after which any remaining balance receives a taxable forgiveness)	Up to 20 years (after which any remaining balance receives a taxable forgiveness)	Up to 20 years (after which any remaining balance receives a taxable forgiveness)	Up to 25 years for a graduate-level student borrower (after which any remaining balance receives a taxable forgiveness)
What Are the Eligibility Requirements?	This plan is available upon request	Must owe more than \$30,000 in Direct Loans or FFEL	This plan is available upon request	No initial income eligibility. Payments are based on income and family size.	Must have a Partial Financial Hardship to qualify	Must be a new borrower on or after 7/1/2014, and also have a Partial Financial Hardship to qualify	Must have a Partial Financial Hardship, be a new borrower on or after 10/1/2007, and have a Direct Loan disbursement on or after 10/1/2011. Available only for Direct Loans.	Available only for Direct Loans, and there are no additional eligibility requirements.
Does It Qualify for PSLF?	Yes	No	No	Yes	Yes	Yes	Yes	Yes
What Else Should Be Known about This Plan?	This is the default plan if no other plan is selected. A consolidation loan must be repaid on a 10-year Standard plan (or an income-driven plan) in order to qualify for PSLF.	This plan will generally cost more due to longer repayment term and the total interest paid over the extended term.	The minimum payment is interest only, which can result in higher interest costs compared with the Standard plan.	Verification of income and family size must be provided annually; no cap on the maximum payment amount.	Verification of income and family size must be provided annually; payments can be as low as \$0/month.	Verification of income and family size must be provided annually; payments can be as low as \$0/month.	Verification of income and family size must be provided annually; payments can be as low as \$0/month.	No cap on the maximum payment amount nor a cap on the amount of interest that can capitalize. 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 32–33. The first chart depicts payment amounts for Direct Loans, and the second chart shows payment amounts for Direct PLUS Loans. These breakouts show the:

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

To see your estimated monthly payment amount, find the row with the debt level that most closely correlates to your loan balance. If you have both Direct Unsubsidized Loans and Direct PLUS Loans, you will need to use both charts and add the two correlating payment amounts together when viewing the Standard and the Extended plans. The IBR, PAYE, and REPAYE 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 servicers.

AAMC Monthly Payment Estimator for Medical Students—Direct Unsubsidized Loans

Direct Unsubsidized Loans with a \$203,000 Starting Salary after Four-Year Residency						
Loan Amount	Balance at Repayment	Standard	Extended	IBR	PAYE	REPAYE
		10-Year Term	25-Year Term	Post-Residency Payment and Years (\$440–\$550 during res.)	Post-Residency Payment and Years (\$300–\$360 during res.)	Post-Residency Payment and Years (\$300–\$360 during res.)
\$100,000	\$116,306	\$1,296	\$756	\$1,296 for 10.6 yrs.	\$1,296 for 11.6 yrs.	\$1,744–\$1,964 for 6.9 yrs.
\$110,000	\$127,937	\$1,426	\$831	\$1,426 for 10.8 yrs.	\$1,426 for 11.8 yrs.	\$1,744–\$2,014 for 7.8 yrs.
\$120,000	\$139,567	\$1,556	\$907	\$1,556 for 11.1 yrs.	\$1,556 for 11.9 yrs.	\$1,744–\$2,065 for 8.6 yrs.
\$130,000	\$151,198	\$1,685	\$982	\$1,685 for 12.1 yrs.	\$1,685 for 11.3 yrs.	\$1,744–\$2,118 for 9.5 yrs.
\$140,000	\$162,829	\$1,815	\$1,058	\$1,815 for 11.4 yrs.	\$1,744–\$1,815 for 12.2 yrs.	\$1,744–\$2,172 for 10.4 yrs.
\$150,000	\$174,459	\$1,944	\$1,133	\$1,944 for 11.6 yrs.	\$1,744–\$1,944 for 12.8 yrs.	\$1,744–\$2,227 for 11.3 yrs.
\$160,000	\$186,090	\$2,074	\$1,209	\$2,074 for 11.8 yrs.	\$1,744–\$2,074 for 13.6 yrs.	\$1,744–\$2,284 for 12.3 yrs.
\$170,000	\$197,720	\$2,204	\$1,284	\$2,204 for 11.8 yrs.	\$1,744–\$2,204 for 14.6 yrs.	\$1,744–\$2,342 for 13.3 yrs.
\$180,000	\$209,351	\$2,333	\$1,360	\$2,333 for 11.9 yrs.	\$1,744–\$2,333 for 15.7 yrs.	\$1,744–\$2,402 for 14.4 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 (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. *(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 Unsubsidized Loans with an interest rate of 6.8% for the first year, then 5.41%, then 6.21%, then 5.84% for the final year of medical school.
- Four years of medical school, then a six-month grace period with the capitalization of all accrued interest occurring at the end of the grace period. Per federal regulations, income-driven repayment amounts are based on federal poverty guidelines, family size, and stipend/salary.

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

- Family size of one in the 48 contiguous states.
- Monthly payment amounts increase gradually each year starting at an estimated \$300/PAYE and REPAYE and \$440/IBR in year one, up to an estimated \$360/PAYE and REPAYE or \$550/IBR in year four (based on estimated median stipend amounts from the AAMC Survey of Resident/Fellow Stipends and Benefits). Actual monthly payment amounts will vary depending on borrower salary/stipend.
- After a four-year residency, the borrower earns a starting salary of \$203,000 (in 2014 dollars).

AAMC Monthly Payment Estimator for Medical Students—Direct PLUS Loans

Direct PLUS Loans with a \$203,000 Starting Salary after Four-Year Residency						
Loan Amount	Balance at Repayment	Standard	Extended	IBR	PAYE	REPAYE
		10-Year Term	25-Year Term	Post-Residency Payment and Years (\$440–\$550 during res.)	Post-Residency Payment and Years (\$300–\$360 during res.)	Post-Residency Payment and Years (\$300–\$360 during res.)
\$5,000	\$5,953	\$69	\$43	\$69–\$78 for 11.8 yrs.	\$53–\$83 for 14.3 yrs.	\$53–\$82 for 13 yrs.
\$10,000	\$11,906	\$139	\$85	\$138–\$156 for 11.9 yrs.	\$104–\$162 for 14.9 yrs.	\$104–\$165 for 13.6 yrs.
\$15,000	\$17,858	\$208	\$128	\$207–\$233 for 12 yrs.	\$151–\$245 for 15.5 yrs.	\$151–\$254 for 14.2 yrs.
\$20,000	\$23,811	\$278	\$170	\$275–\$408 for 12.1 yrs.	\$196–\$323 for 16 yrs.*	\$196–\$318 for 14.8 yrs.
\$25,000	\$29,764	\$347	\$213	\$344–\$410 for 12.2 yrs.	\$238–\$400 for 16 yrs.*	\$238–\$401 for 15.4 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 (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 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 2; 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 year, then 6.41%, then 7.21%, then 6.84% for the final year of medical school.
- Four years of medical school, then a six-month post-enrollment deferment with the capitalization of accrued interest occurring at the end of the in-school deferment and, if taken, at the end of the post-enrollment deferment.

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

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

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

- Family size of one in the 48 contiguous states.
- Monthly payment amounts increase gradually each year starting at an estimated \$300/PAYE and REPAYE or \$440/IBR in year one, up to an estimated \$360/PAYE and REPAYE or \$550/IBR in year four (based on estimated median stipend amounts from the AAMC Survey of Resident/Fellow Stipends and Benefits). Actual monthly payment amounts will vary depending on borrower salary/stipend.
- After a four-year residency, the borrower earns a starting salary of \$203,000 (in 2014 dollars).

Residency and Payments

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

Making Payments During Residency

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

PAYE Payments During Residency					
Monthly Payment During Residency	Repayment Plan	Repayment Years After Residency	Estimated Monthly Payment After Residency	Interest Cost	Total Repayment
\$300 to \$360	PAYE during and after residency	16	\$1,700 to \$2,400	\$226,000	\$409,000
\$300 to \$360	PAYE during residency then Standard	6	\$4,300	\$143,000	\$326,000
\$300 to \$360	PAYE during residency then Extended	21	\$1,800	\$293,000	\$476,000

REPAYE Payments During Residency					
Monthly Payment During Residency	Repayment Plan	Repayment Years After Residency	Estimated Monthly Payment After Residency	Interest Cost	Total Repayment
\$300 to \$360	REPAYE during and after residency	15	\$1,700 to \$2,400	\$189,000	\$372,000
\$300 to \$360	REPAYE during residency then Standard	6	\$3,800	\$109,000	\$292,000
\$300 to \$360	REPAYE during residency then Extended	21	\$1,600	\$242,000	\$425,000

IBR Payments During Residency					
Monthly Payment During Residency	Repayment Plan	Repayment Years After Residency	Estimated Monthly Payment After Residency	Interest Cost	Total Repayment
\$440 to \$550	IBR during and after residency	12	\$2,400	\$180,000	\$363,000
\$440 to \$550	IBR during residency then Standard	6	\$4,000	\$129,000	\$312,000
\$440 to \$550	IBR during residency then Extended	21	\$1,700	\$268,000	\$451,000

Assumptions: Medical student borrows \$183,000 in principal during medical school, all via Direct Unsubsidized Loans with interest rates based on interest rate at loan disbursement. After graduating, s/he immediately begins six-month grace period, then chooses Pay As You Earn (PAYE), Revised Pay As You Earn (REPAYE), or Income-Based Repayment (IBR) during a four-year residency. Post-residency starting salary is \$203K (in 2014 dollars). Unpaid interest from residency will capitalize per payment plan regulations. Total repayment includes payments made during four-year residency. (Values are rounded.)

Postponing Payments During Residency

Residents who choose to reduce or postpone payments most often do so by using a Mandatory Medical Residency Forbearance. Below is an example of what repayment 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	\$164,000	\$347,000
\$0	Extended	25	\$1,700	\$322,000	\$505,000
\$0	Graduated	10	\$1,300 for 2 years then \$3,400 for 8 years	\$177,000	\$360,000
\$0	ICR	7.2	\$3,600 to \$3,800 over 7.2 years	\$138,000	\$321,000
\$0	IBR	10.5	\$2,600 to \$2,900 over 10.5 years	\$170,000	\$353,000
\$0	PAYE	17	\$1,700 to \$2,600 over 17 years	\$245,000	\$428,000
\$0	REPAYE	17	\$1,700 to \$2,600 over 17 years	\$245,000	\$428,000

Assumptions: Medical student borrows \$183,000 in principal during medical school all via Direct Unsubsidized loans with interest rates that changed annually. After graduating, s/he immediately begins six-month grace period, and then chooses forbearance during a four-year residency. Post-residency starting salary is \$203K (in 2014 dollars) and repayment balance is approximately \$259,000, which includes \$46,000 in unpaid interest that capitalized at the end of residency. (Values are rounded.)

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 servicers.



Strategic Borrowing

Options to Consider

For the majority of medical school students, borrowing student loans is a necessary component of completing a medical education. Despite this, it is important to know that there is a right way, and a wrong way, to get into debt. Understanding how to strategically borrow will enable you to borrow less, reduce your interest costs, and repay your student loans earlier.

Consideration #1: Alternatives to Borrowing

Borrowing wisely may mean not borrowing at all. There are other sources of monies that can reduce or eliminate the need to borrow. These alternatives include scholarships from outside sources such as faith affiliations, civic organizations, and state of residency. There are service-based scholarships such as military and public health service programs (e.g., National Health Service Corps). There may also be scholarships from your institution—check with the financial aid office for more details about those.

Don't forget family support—both financial and emotional. Whether it's your parents, grandparents, or a working spouse, your family may be able to provide an alternative to borrowing. If they are unable to contribute large up-front gifts toward your education costs, family members sometimes are able to help you pay the accruing interest on your student loans while you are in school. This type of assistance can help decrease the cost of your student debt and reduce your repayment costs.

If you do not find alternatives to borrowing during medical school, familiarize yourself with **loan forgiveness and repayment options** available after graduation and during residency. The AAMC's website (www.aamc.org/stloan) lists many options for debt forgiveness and assistance. Remember, your **medical school's financial aid office** is your primary point of contact for all financial aid matters; visit it to discuss alternative sources of funding.

The Impact of the NHSC Loan Repayment*

Primary care providers may receive substantial financial benefits by participating in either of the following programs.

National Health Service Corps Loan Repayment (NHSC LR) program. For example, the minimum two-year commitment can result in a \$50,000** award. If the borrower applies the entire award immediately to their outstanding balance, they would experience dramatic savings of time and money.

Medical school debt: **\$183,000**

NHSC LR applied post-residency: **\$50,000**

Total repayment cost: **\$275,000 over nearly 16 years**

Total savings of NHSC LR: **\$109,000 over more than 4 years**

The impact of the NHSC LR program would be greater for higher debt levels.

NHSC Student to Service (S2S) Loan Repayment program. For example, if a borrower applies their S2S award to their unpaid interest and their principal, this larger award would lead to an even greater savings of time and money.

Medical school debt: **\$183,000**

NHSC S2S applied during residency: **\$120,000**

Total repayment cost: **\$141,000 over 11 years**

Total savings of NHSC S2S LR: **\$243,000 over 9 years**

The impact of the NHSC S2S LR program would be greater for higher debt levels.

*Assumes a three-year residency program, with use of Revised Pay As You Earn (REPAYE) during residency and a primary care position with a \$150,000 (in 2014 dollars) salary after residency. Both NHSC scenarios are compared with a baseline scenario of a three-year residency program with Pay As You Earn (PAYE) during residency and a primary care position with a \$183,000 (in 2014 dollars) salary after residency. This baseline results in a total repayment of \$384,000 over 20 years.

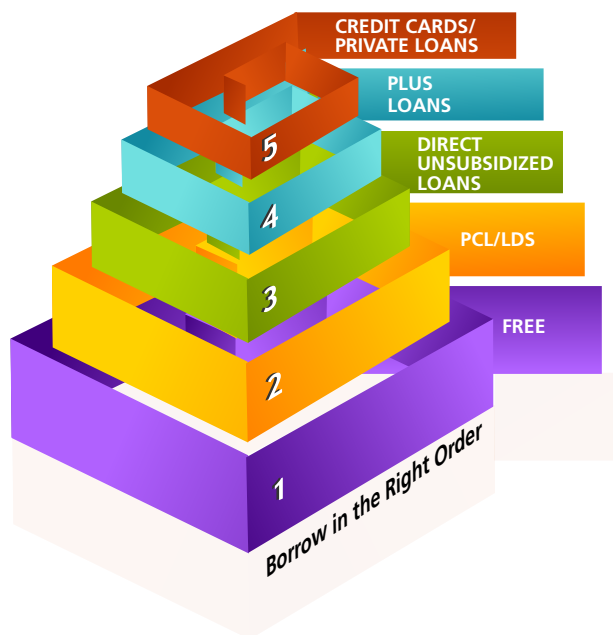
**The award amount is based on the HPSA score of the site where the recipient works.

For more information, see nhsc.hrsa.gov/loanrepayment.

Consideration #2: Borrow in the Right Order

Borrowing wisely means borrowing the least expensive debt first and only considering more expensive student loans after your less costly options have been exhausted.

In the image to the right, the bottom tier translates into accepting all free money (grants and scholarships) before borrowing PCL and LDS loans (if eligible). After those options are exhausted, consider borrowing Direct Unsubsidized Loans, then PLUS Loans, and, lastly, private loans or credit cards. If you choose a private loan, understand your options for repayment, deferment, and death or disability forgiveness because they may vary dramatically from those of federal student loans.



Your financial aid office and institution have worked carefully to create a cost-of-attendance budget that, in most cases, limits excessive borrowing. Your award package is intended to enable you to avoid drastic financing options, such as private loans or credit cards. Contact your financial aid office to discuss your situation if you find yourself in the “red zone.” Additionally, if an unexpected emergency occurs, your financial aid office may be able to assist in obtaining additional funds from sources other than private loans or credit cards. So, stay in touch with the office if a need arises.

When you borrow certain loans, your eligibility for future aid may be affected. You are limited in the total amount of financial aid you receive each year, including all loans and scholarships. You are prohibited from receiving more aid than your cost of attendance. This fact could mean forfeiting free or lower-rate monies if you have already accepted a higher-rate loan—so borrow in the right order.

Borrow smart; maximize your least expensive debt first. A PLUS Loan at 6.31 percent can cost an additional \$4,200 compared with a Direct Unsubsidized Loan. A \$40,000 private loan at 12 percent can cost an additional \$31,800 compared with a Direct Unsubsidized Loan at 5.31 percent. **Carefully consider all your loan options, and save money by borrowing wisely.**

Note: The interest rate on private loans can vary due to market rates and a borrower's creditworthiness. Rates could be lower or higher than the rate used in this example. This example is based on a six-month grace period and a 10-year repayment term for each loan type.

Consideration #3: Borrow Only What You Need

A common misconception that new medical school students have is that they are required to accept and borrow all the loans that are made available to them; however, this is not the case. The full amount that you are eligible to borrow does not have to be accepted up front. Rather, you can elect to accept only the amount you plan on needing, DECLINE the rest, and, if an unexpected emergency or cost arises, you can work with the financial aid office to gain access to those previously declined monies. In this manner, you protect yourself from over-borrowing and, thus, reduce the chance of increasing your costs unnecessarily.

When you avoid borrowing more than what you need, you protect yourself from:

- 1) Origination costs for the unneeded money
- 2) Interest costs that would accrue on the balance of funds that weren't really needed
- 3) Effects of capitalization on that extra money
- 4) The possibility that this excess money may actually go toward things that you **want** rather than things you need

COMMON MISTAKE: Hoping to be financially prepared for the coming semester/quarter, new medical school students tend to think they should borrow everything that is made available to them.

CORRECT ACTION: Borrow only what you need and decline what you do not need. If additional money is required in the future, the financial aid office can help you obtain those previously declined monies.

CHALLENGE: Make a decision to borrow \$5,000 less each year* than what is offered to you in your award package. If you choose to do this, you will avoid borrowing a total of \$20,000 during medical school, which will result in reducing your:

Monthly Payment by \$250(+) per month

Total Loan Cost by \$26,000(+)

Make a plan—budget—and stick to it. Borrow only what you need to borrow because it will save you time and money during repayment.

*Example is based on Direct Unsubsidized Loans at 5.31% with a three-year residency and three years of forbearance prior to beginning a Standard Repayment plan (10 years).

Consideration #4: Create a Budget

Have a plan. To successfully manage your financial life during medical school, it's best to show up with a plan for how you will live on your borrowed money. Having a plan, or a budget, will help you not only to know the amount you will need to live on and thus, how much to borrow—it will also help you focus on spending your borrowed monies on things that you NEED (rather than things that you WANT). Remember, every dollar you spend while you are in medical school is a dollar that is likely accruing interest, and that interest may capitalize and then earn its own interest—making the cost of your medical school purchases ultimately far higher than you may anticipate. So, start your medical education journey with a plan to determine what you need, how much you will borrow, and how you will spend what you have borrowed! Paying attention to the details of your financial life along the way will allow you to reach your financial goals sooner.

Live like a medical student while you are a medical student, and you will reap the rewards during repayment.



Budgeting

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

Benefits of Budgeting

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

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

Spending Plan Steps



1) Put it in writing



2) Review it periodically



3) Make necessary adjustments

Creating a Budget

The most difficult part of developing a spending plan is taking the time to sit down 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 budget-creating tools.

These resources can be found online at www.aamc.org/FIRST. Each resource allows you to document your spending plan (in writing), save your planned expenditures, and revisit the data at a later date to compare your actual spending behavior with your initial plans. Once you compare your written budget with your actual spending, make the necessary adjustments to either your behavior or your budget, and repeat this process continually throughout medical school.

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

Basics of Budgeting

1. **Income.** The first step in creating a budget is to document all your incoming funds. If you are married, calculate your spouse's income as well. If you consistently receive gifts from family members, add this to your income. Any incoming funds, such as a refund check from financial aid, should be included in your income calculations.
2. **Expenses.** Next, identify all your monthly expenses or monies that are outgoing. There are two types of expenses, with the most obvious being the routine, fixed amounts like rent, car payments, insurance, loans, etc. Then, there are the more sporadic, variable expenses that fluctuate and that you have to dig a little deeper for—like eating out, gas, cell phone, groceries, and utilities. Total your monthly expenses, then subtract that amount from your income. What's left is your discretionary income.
3. **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 are being completely honest in your planning, you may find that your discretionary income is a negative number (meaning you have planned to spend more money than you have coming in). If so, go back and adjust accordingly until you break even.

Expenses	
→	↗↘
FIXED	VARIABLE
Rent	Groceries
Car payment	Entertainment
Insurance	Clothing
Student loan payment	Dining out
	Credit cards (debt)

On the other hand, if you happen to have a positive bottom line (meaning extra money left over) consider two things: Have you accurately documented all your expenses, and could you possibly borrow less next semester or cut down on other expenses? Typically, during medical school, there won't be a lot of discretionary income (extra money), so when there is, handle it wisely.

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

Finding Alternatives

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

Common alternatives for medical students living on a budget include:

- Buying groceries instead of eating out
- Brewing your own coffee instead of stopping at 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 matinee 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 and 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 and fees

Books and supplies

Regular savings

Rent/mortgage

Utilities*

Telephone (base rate)

Taxes (federal, state)

Vehicle payments

Other transportation

Credit card payments

Personal loans

Education 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

CDs and books

Health and 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
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Financial Literacy

Identity Theft

Last year, identity theft was a \$15 billion crime that created a significant risk for consumers, especially students. Don't become a statistic!



Sources: Javelin Strategy and Research, 2011–2015; 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
 - make 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 an 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 preapproved 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 or 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 it's not secure.

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

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

Credit Cards

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

In recent years, between 22 and 26 percent of medical graduates report having non-education debt, with a median amount ranging from \$8,000 to \$11,000.

SALT™

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



Signs You Could Be Heading for Trouble

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

- Relying on credit cards to pay for the basics, such as food and utilities
- Continually responding to offers to transfer balances from one card to another
- Increasing your credit line or applying for new credit cards
- No financial cushioning for a small or unplanned expenditure
- Making only minimum monthly payments
- Ignoring credit card statements
- Maxing out all your credit cards

Fixing the Problem

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

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

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

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

Your Credit Score: What It Is and Why It Matters

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

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

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

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

How Your Credit Score Is Determined

A credit score is calculated using the entries on your credit report. The best known and most commonly used credit score is a FICO® Score, with values 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 it. Time is better spent reviewing your credit report, which you can do here:

www.annualcreditreport.com

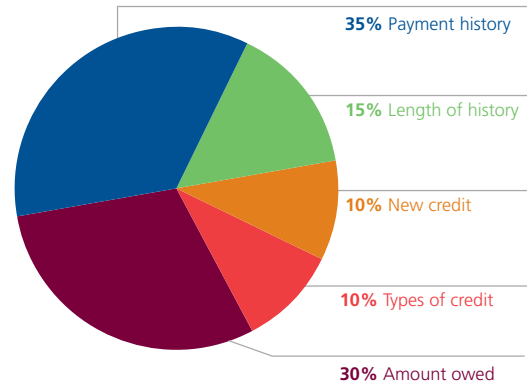
(Where it really is free!)

A credit score, or FICO Score, is based on five factors, none of which considers employment status, income, or profession. Be aware of these factors because even though you will be an MD 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, and consistent on-time payments will raise a credit score.

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



Amount Owed (30%)

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

TIP: During residency, make a focused effort to pay down your credit card debt or, at a minimum, avoid creating and 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. The effect on your final credit score is different for secured versus unsecured debt.

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.

Benefits of Good Credit

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

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



Other Considerations

Private Loans

The cost of your medical education, including all living expenses, should be completely covered by your financial aid package (consisting of federal and institutional loans). If your expenses are not covered, you may need to look at private loans to supplement your financial situation.

Private education loans may be less favorable than federal debt due to possibly higher or more volatile interest rates, lack of forgiveness programs, limited postponement options, and reduced control over the actual amount of the required monthly payment.

The discrepancy between federal and private student loans exists because private education debt is not regulated by the legislation that governs federal loans; 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.

Borrowing private loans should be done only after careful consideration. If you find yourself in need of additional funds during medical school, visit your financial aid office to discuss other possible options.

Private Consolidation (Refinancing)

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

In general, because of the loss of the guaranteed flexibility offered by federal loans during all periods of your education and beyond, refinancing federal student loans (while enrolled as a student) is discouraged. It may be an option that is best considered after your education and training time is complete.

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

Federal Loan Consolidation

Federal loan consolidation allows you to combine one or more existing federal student loans into a single loan. A consolidation loan for federal loans is called a Direct Consolidation Loan, and it “pays off” the old loans and gives you a single new federal student loan with new terms, conditions, and possibly a new interest rate (a weighted average of the rates of the loans being included).

The advantages and disadvantages of consolidating depend on what loans you include in the consolidation and when you consolidate (see below). More details about federal loan consolidation, and an application, can be found at www.studentloans.gov.

Be advised that while you are enrolled in school, you are not eligible to consolidate your loans. You can initiate a federal consolidation loan only after you graduate. The most common reasons for a medical graduate to consolidate is either to make loans eligible for a federal program or plan (like PSLF, IBR, PAYE or REPAYE), or to simplify the repayment process during residency so that there is only one loan with one servicer. For the time being, though, as a student, you don’t need to be concerned about this.

Advantages	Disadvantages
<ul style="list-style-type: none">• A single payment to a single servicer• Possible lower monthly payment• Extended repayment period• No prepayment penalty• Repayment plans can be changed• May make loans eligible for PSLF• May make loans eligible for an income-driven repayment plan	<ul style="list-style-type: none">• 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 affect grace, deferment, or forgiveness options

Reality Check: Consolidation May Mean Paying a Slightly Higher Rate

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

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.

Student Loan Interest—A Tax Deduction

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

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

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

Source: IRS Publication 970 (updated June 2016).

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.

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.

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

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

Final Note

Don't forget about 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.

Notes

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Notes

[illegible]

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

Visit the FIRST website at www.aamc.org/FIRST.

AAMC's FIRST team wishes you great dividends on your investment in knowledge and encourages you to use this resource in accomplishing your financial goals.

Congratulations on your entrance into medical school and good luck.



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