2022 Student Loan & Repayment Strategies
Michigan State University
Office of Financial Aid

Spring 2022
Oh, That’s Why!
Know the Details of Your Loans
Master Promissory Note (MPN)

- Is a contract with the lender
- Has a multi-loan feature
- Details terms and conditions
- Includes rights & responsibilities
Rights

- **Rights include...**
  - Review your promissory note for all rights
  - Prepay any federal loan without penalty
  - Change repayment plans
  - Request a deferment or forbearance
  - Request a copy of your MPN
  - Receive documentation of loan obligations rights and responsibilities, and when the loan is fully repaid
Responsibilities

- Responsibilities include...
- Review your promissory note for all responsibilities

- Make on time loan payments
- Make payments despite non-receipt of bill
- Notify the servicer of changes in contact info
- Complete exit counseling
Loans

**Subsidized**
These loans receive an interest subsidy in which the government or your medical school pays accruing interest on your behalf while you’re enrolled in school and during periods of grace and authorized deferment.

- Direct Subsidized
- Perkins*
- Loans for Disadvantaged Students (LDS)*
- Primary Care Loans (PCL)
- Institutional Loans (some)
- Consolidation**

**Unsubsidized**
These loans accrue interest from the date of disbursement. If the interest is unpaid, it will be added back to the principal balance (original amount borrowed) at specific points via a process called capitalization. You are responsible for this interest.

- Direct Unsubsidized
- Direct PLUS
- Private/Alternative
- Institutional Loans (some)
- Consolidation**

To reduce the cost of interest and capitalization, consider making payments (when possible) toward the interest accruing on your UNSUBSIDIZED loans while you’re in school, in grace, in deferment, or in forbearance.
Health Professional Loans

- Two types of loans
  - I. Loan for Disadvantaged Students
  - II. Health Professions Loans
- 5% fixed interest
- 12 months grace period
- 10yrs repayment
- Consolidation possible

Robert Young Loan

- Institutional Loan
  - Federal Loans Office at MSU
  - TILA Agreements
- 3% fixed interest
- 3-year grace period
- 10yrs repayment
Contact your “Servicer”

• For questions about your loans
• To make voluntary payments
• For help determining affordable monthly payments
• If you change your name, address, or phone number
• Upon graduation from medical school
• To select or change repayment plans
Understand the Total Cost

• 3 primary factors
  – Interest
  – Capitalization
  – Length of Repayment

COVID interest pause saving $10,000 in interest
Consequences

**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

**Credit Score**
- 768
- 540

**The Impact of Student Loan Default**
Loans Discharge

Discharge may be available in cases of:

- **Death or Total/Permanent Disability**
  - In the case of death, a death certificate must be submitted; in the case of disability, the borrower must apply to have the loans discharged and submit disability certification from a medical doctor.

- **Bankruptcy (Rarely)**
  - In rare situations of bankruptcy where undue hardship can be proven in court.

- **School Closure or False Certification**
  - If the school closed before you completed your program, falsely certified your loan eligibility, or failed to return funds to the lender on your behalf.

- **Identity Theft**
  - If you are a victim of identity theft and the loans are not yours.

- **Unpaid Refund**
  - If you withdrew from school but the school didn’t pay a refund it owed the lender.
Postponement Options

Types of Deferments:
- In-School
- Military Post-Active Duty
- Military Service
- Economic Hardship
- Post-Enrollment
- Graduate Fellowship
- Rehabilitation Training
- Unemployment
**Loan Interest Rates**

<table>
<thead>
<tr>
<th>Graduate and Professional Loans</th>
<th>Interest Rates</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Direct Unsubsidized Loans</strong> (disbursed between 7/1/20 and 6/30/21)</td>
<td>4.30% Fixed</td>
</tr>
<tr>
<td><strong>Direct Unsubsidized Loans</strong> (disbursed between 7/1/19 and 6/30/20)</td>
<td>6.08% Fixed</td>
</tr>
<tr>
<td><strong>Direct Unsubsidized Loans</strong> (disbursed between 7/1/18 and 6/30/19)</td>
<td>6.60% Fixed</td>
</tr>
<tr>
<td><strong>Direct Unsubsidized Loans</strong> (disbursed between 7/1/17 and 6/30/18)</td>
<td>6.00% Fixed</td>
</tr>
<tr>
<td><strong>Direct Unsubsidized Loans</strong> (disbursed between 7/1/16 and 6/30/17)</td>
<td>5.31% Fixed</td>
</tr>
<tr>
<td><strong>Direct PLUS Loans</strong> (disbursed between 7/1/20 and 6/30/21)</td>
<td>5.30% Fixed</td>
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<tr>
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<td>6.31% Fixed</td>
</tr>
<tr>
<td><strong>PCL/LDS</strong></td>
<td>5.00% Fixed</td>
</tr>
<tr>
<td><strong>Private Loans</strong></td>
<td>Varies — Check the Promissory Note</td>
</tr>
<tr>
<td><strong>Institutional Loans</strong></td>
<td>Varies — Check the Promissory Note</td>
</tr>
<tr>
<td><strong>Consolidation Loans</strong></td>
<td><strong>Fixed rate</strong> based on weighted average interest rate of underlying loans</td>
</tr>
</tbody>
</table>
Loan Repayment Grace Period

• Federal Direct Loans
  – 6 months
    • Subsidized
    • Unsubsidized
    • Grad plus

• Federal Perkins Loans
  – 9 months

• Primary Care Loan (PCL) and Loans for Disadvantages Students
  – 12 months

• Loan for Disadvantage (LDS)

• Robert Young Loans
  – 36 months
Why File 2021 IRS Tax Returns & keep paycheck stubs
The “FIRST” Step

AAMC Medloans® Organizer and Calculator

The AAMC Medloans® Organizer and Calculator (MLOC) is part of the Financial Information, Resources, Services, and Tools (FIRST) program. The Medloans® Organizer and Calculator is free to enrolled medical school students and medical school administrators of an AAMC-member medical school. You can enter, track, store, and calculate personalized repayment scenarios. To access MLOC, just sign in with your AAMC username and password.

Anyone can access MLOC; however, only enrolled MD students and graduates automatically have premium access, which allows borrowers to upload their federal student loan information from the National Student Loan Data System (NSLDS). Premium access also allows borrowers to save their loan information inside of the MLOC. Find out more about the benefits of premium access or upgrade today.

Private and institutional loans are not part of the NSLDS file, so you will need to consult your financial aid office or loan servicer for that information. Private loan details can be obtained from your credit report; obtain a free copy of your credit report at www.annualcreditreport.com.

Get Started Now

For MLOC account help, contact dhailes@aamc.org.

FIRST is designed to help medical school students navigate the complexities of student debt and make wise loan repayment decisions. For more information, visit www.aamc.org/FIRST.

Medloans® Organizer

Current Marital Status: Married to Non-MD

No Loans

Please add a loan to get started.

OK

Import loan information directly from your NSLDS file.
Repayment Plans

TRADITIONAL
- STANDARD
- EXTENDED
- GRADUATE

INCOME DRIVEN
- Income-Contingent Repayment (ICR)*
- Income-Based Repayment (IBR)
- Pay As You Earn (PAYE)*
- Revised Pay As You Earn (REPAYE)
Partial Financial Hardship (PFH)

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).

**IS YOUR STANDARD MONTHLY PAYMENT . . .**

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

greater than your monthly payment in IBR or PAYE

(whichever plan you are applying for)

If “yes,” you have a PFH.
Repayment Plans

- **Standard Repayment**: $2,460/mo
- **Extended Repayment**: $1,420/mo
- **Graduated Repayment**: $1,100/mo
Repayment Plans - continue

- Income-Contingent Repayment (ICR): $720/mo
- Income-Based Repayment (IBR): $470/mo
- Pay As You Earn (PAYE): $310/mo
- Revised Pay As You Earn (REPAYE): $310/mo
### Example of a PGY-1 Resident

<table>
<thead>
<tr>
<th></th>
<th>In IBR</th>
<th>In PAYE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monthly Adjusted Gross Income(^1)</td>
<td>$4,830</td>
<td>$4,830</td>
</tr>
<tr>
<td>(minus) 150% of Poverty Line(^2)</td>
<td>$1,590</td>
<td>$1,590</td>
</tr>
<tr>
<td>Discretionary Income</td>
<td>$3,240</td>
<td>$3,240</td>
</tr>
<tr>
<td>(multiplied by)(^3) (\times 15%)</td>
<td>$490</td>
<td>$320</td>
</tr>
</tbody>
</table>

\(^1\) Adjusted gross income.

\(^2\) 150% of the federal poverty line.

\(^3\) Multiply by the appropriate percentage.

\(^4\) Monthly Payment.
Sample Repayment: $200,000 Federal Direct Loans

<table>
<thead>
<tr>
<th>Description</th>
<th>Number of Repayment Years</th>
<th>Monthly Payment</th>
<th>Interest Cost</th>
<th>Total Repayment</th>
</tr>
</thead>
<tbody>
<tr>
<td>PAYE during residency and after with $200,000 starting salary</td>
<td>Residency: 3</td>
<td>$330-$380</td>
<td>$217,000</td>
<td>$406,000, then $35,000 forgiven</td>
</tr>
<tr>
<td></td>
<td>Post-Residency: 17</td>
<td>$1,600-$2,300</td>
<td></td>
<td></td>
</tr>
<tr>
<td>REPAYE during residency and after with $200,000 starting salary</td>
<td>Residency: 3</td>
<td>$330-$380</td>
<td>$209,000</td>
<td>$409,000</td>
</tr>
<tr>
<td></td>
<td>Post-Residency: 18</td>
<td>$1,600-$2,400</td>
<td></td>
<td></td>
</tr>
<tr>
<td>REPAYE during residency and after with $275,000 starting salary</td>
<td>Residency: 4</td>
<td>$330-$400</td>
<td>$153,000</td>
<td>$353,000</td>
</tr>
<tr>
<td></td>
<td>Post-Residency: 11</td>
<td>$2,300-$2,900</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Forbearance during residency, then Standard</td>
<td>Residency: 3</td>
<td>$0</td>
<td>$155,000</td>
<td>$355,000</td>
</tr>
<tr>
<td></td>
<td>Post-Residency: 10</td>
<td>$3,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Residency: 7</td>
<td>$0</td>
<td>$228,000</td>
<td>$428,000</td>
</tr>
<tr>
<td></td>
<td>Post-Residency: 10</td>
<td>$3,600</td>
<td></td>
<td></td>
</tr>
<tr>
<td>REPAYE during residency and after with $170,000 starting salary and PSLF</td>
<td>Residency: 3</td>
<td>$330-$380</td>
<td>$132,000</td>
<td>$132,000, then $214,000 forgiven</td>
</tr>
<tr>
<td></td>
<td>Post-Residency: 7</td>
<td>$1,300-$1,500</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Postponement Options

Medical Residency Forbearance

- Postpones payments in annual increments
- Capitalization may occur at end of residency
  *(if increments occur back-to-back throughout residency)*
- An option for medical residents/interns
### Forbearance During a Four-Year Residency

<table>
<thead>
<tr>
<th>Monthly Payment During Residency</th>
<th>Repayment Plan</th>
<th>Repayment Years After Residency</th>
<th>Estimated Monthly Payment After Residency</th>
<th>Interest Cost</th>
<th>Total Repayment</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0</td>
<td>Standard</td>
<td>10</td>
<td>$3,200</td>
<td>$186,000</td>
<td>$386,000</td>
</tr>
<tr>
<td>$0</td>
<td>Extended</td>
<td>25</td>
<td>$1,900</td>
<td>$363,000</td>
<td>$563,000</td>
</tr>
<tr>
<td>$0</td>
<td>Graduated</td>
<td>10</td>
<td>$1,500 for 2 years then $3,800 for 8 years</td>
<td>$200,000</td>
<td>$400,000</td>
</tr>
<tr>
<td>$0</td>
<td>ICR</td>
<td>7</td>
<td>$4,200 over 7 years</td>
<td>$148,000</td>
<td>$348,000</td>
</tr>
<tr>
<td>$0</td>
<td>IBR</td>
<td>10</td>
<td>$3,200 for 10 years</td>
<td>$186,000</td>
<td>$386,000</td>
</tr>
<tr>
<td>$0</td>
<td>PAYE/REPAYE</td>
<td>15</td>
<td>$2,100 to $3,000 over 15 years</td>
<td>$255,000</td>
<td>$455,000</td>
</tr>
</tbody>
</table>
Qualifications

• Direct Federal Loans
  – Subsidized
  – Unsubsidized
  – Grad Plus

• Employment – 501(c)(3) organization

• Servicer-MOHELA

120 Payments
+’s & –’s of PSLF

Positives

• Forgiveness vs repayment
• Broad interpretation of public service – doesn’t have to be shortage area

Negative

• Details, details, details
• Lots of hoops to jump through – need to document for 10 years, track on time payments
Why Is “No One” Qualifying for PSLF?

The majority of application denials could have been avoided. Between October 2017 and August 2020, the most prevalent reasons borrowers did not qualify for PSLF were:

- Not enough qualifying payments: 56%
- Incomplete application: 25%
- No eligible loans: 14%

Loan Repayment

- **Debt Management Fact**
- The faster you reduce the principal of your loans, the less your debt will cost you.
COVID Emergency Relief

• Flexibilities Extended to August 31, 2022
• 0% interest
• Suspended payments
• PSLF payments counts toward 120
Loan Consolidation

• Advantages
  • A single payment
  • Lower monthly payment
  • Extended repayment period
  • No prepayment penalty
  • Ability to change repayment plans
  • Possible eligibility for PSLF
  • Possible eligibility for an income-driven repayment plan
  • Possible acceleration of repayment start date by forfeiture of grace time
Loan Consolidation – (cont.)

• Disadvantages
  • Possibly longer repayment period resulting in higher interest costs
  • Possible loss of current borrower benefits
  • Possible disqualification of previously eligible PSLF payments
  • Higher interest rate (interest rate is the weighted average of the loans rounded up to nearest one-eighth of a percent)
  • Possible negative effect on grace, deferment, or forgiveness options
Credit Score

- annualcreditreport.com
- “Really Free”
Check your credit report, free each year, for each bureau
Investing during Residency

• **Savings Account**
  – 3-6 months of living expenses
• **403(b)/401(k)**
• **Employer match (max)**
• **Disability Insurance (cheaper during residency)**
• **Umbrella Insurance, post residency**
• **Roth IRA and back door Roth after residency**
Housing

**Purchasing**

- Single family home has 4 bedrooms and 3.0 bathrooms.

**Renting**

- A spacious two story colonial with 4 bedrooms and 2.5 bathrooms.
Buying -Vs- Renting during residency

Buying

• $198,000 mortgage debt
• APR (%) 3.70
• 30-Year Fixed
• $1073 per month
• Add Taxes and Insurance

Renting

• $0.00 mortgage debt
• 1 to 2-year lease
• $1975 per month
• Add Renters Insurance
Affordable Transportation?

- Shouldn’t exceed 15% of gross income
- Residency Income average
  - $52,000
  - $36,000 after taxes
  - $36,000 * 15%/12 months = 450

* $30,000: 72 months/$460 per month

Aim for 36 months to be paid in full on all auto financing
Example of Discretionary Income

- Annual Income = $240,000
- Monthly Income = $20,000
- Taxes = $6,000
- Student Loan Debt = $5,000
- Disposable Income = $108,000
<table>
<thead>
<tr>
<th>Age</th>
<th>Loan Indebtedness</th>
<th>Investments</th>
<th>Outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age 18-28</td>
<td>$250,000 + $25,000 Interest</td>
<td>-$275,000</td>
<td></td>
</tr>
<tr>
<td>Age 28-31</td>
<td>$400/month payments</td>
<td>-$305,000</td>
<td></td>
</tr>
<tr>
<td>Age 31-36</td>
<td>$5000/month payments</td>
<td>$0.00</td>
<td>Debt Free age 36</td>
</tr>
<tr>
<td>Age 37-66</td>
<td>$5000/month invested @6%</td>
<td>5.2 million</td>
<td>$20,000/mo/20 years</td>
</tr>
<tr>
<td></td>
<td>or increase at 50 to</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Age 50-66</td>
<td>$10,000/month total</td>
<td>1.8 million + 5.2 = 7 mil</td>
<td>$30,000/mo/20 years</td>
</tr>
</tbody>
</table>
Online Resource for AAMC

Education Debt Manager for Graduating Medical School Students (2022)

More Resources

- MSU Office of Financial Aid
  - https://finaid.msu.edu/

- White Coat Investor
  - https://www.whitecoatinvestor.com

- Medloans Organizer/Calculator

- Financial Information, Resources, Services, and Tools (FIRST) - Education Debt Manager booklet
More Resources (cont.)

• Federal Student Aid (FSA) Feedback System
  – Phone: 1-844-651-0077
  – Email: feedback.studentaid.ed.gov

• U.S. Department of Education’s Federal Student Aid (FSA) Ombudsman Group
  – Phone: 1-877-557-2575
  – https://studentaid.gov/feedback-ombudsman/disputes/prepare

• Student Loan Borrower Assistance Project
  – https://www.studentloanborrowerassistance.org/

• Consumer Financial Protection Bureau
  – Phone: 1-855-411-2372
  – https://www.consumerfinance.gov/