

10 Questions from the Resident and Fellow Affairs Committee



Carole Ann Simpson, Resource Advisor for UCSF Financial Aid Services, and Aris Oates, MD, Pediatric Nephrology Fellow, answer residents and clinical fellows' questions about managing student loans during residencies and fellowships.

1. What is the most important thing a resident or clinical fellow should know about managing student loans?

Spending just a little time now making a financial plan for student loan repayment may save tens of thousands of dollars in the long run. Sometimes with everything going on in a resident or fellow's life, it is convenient and frankly easier to be tempted to just tell the loan servicers "I'm in a residency and I want a forbearance." This allows residents and fellows to avoid paying anything toward their loans for years. But that is a very COSTLY proposition. I've met many physicians who are quite shocked at the amount of interest that has been added to their loans during residency. You can find a repayment plan that will work within a resident budget and mitigate this effect. Planning now will involve a little time, but maybe a better long-term decision.

2. So, what should a resident or fellow do to get on the right track?

First, it's important to get organized and make a list of who you owe and how much you owe. You could have a variety of loan sources from federal to private loans depending on what your loan profile was during medical school. Looking at www.nslds.ed.gov will give you a listing of all your Federal student loans. Health and Human Services loans such as Health Professions Loans and Loans for Disadvantaged students aren't on this site, but are managed by the campus that disbursed the loan or a servicer that they choose. Your medical school financial aid office can help you find this information. Private loans can be found by looking at your credit report at www.annualcreditreport.com. The critical information to know about each loan is: servicer (who do you have to pay?), interest rate, amount owed, and type of loan as well as repayment options.

3. Should I start making small payments on loans during residency – especially on higher interest federal loans?

Generally for residents the Income-Based repayment or Pay-As-You-Earn repayment plans can offer highly affordable payments on your Federal loans that will be manageable on your current resident/fellow salary. This does a couple of things for you; paying even some of the accruing interest each month is better than being in a forbearance, and it can have the added effect of qualifying that month as one of the 120 months involved in the Public Service Loan Forgiveness Program.

4. Why not just use forbearances during residency and not pay at all during this time?

While medical residents qualify for a forbearance (no payments required) during residency, the interest



on those loans will continue to add up. Typically these forbearances are for 12 months at a time. At the end of each forbearance, the interest that has accrued is added to the principal of the loan, and during the next forbearance, the accruing monthly interest is calculated on this new, larger, principal balance. This can really make loan balances add up quickly. The AAMC (American Association of Medical Colleges) provides some comparisons based on a resident who owes \$175,000 – after a four year residency that borrower will pay nearly \$40,000 more over the life of their loans even when choosing standard repayment after residency. Another way to look at it is that a borrower who owes \$175,000 is generally racking up interest somewhere around \$1,100 a month during residency depending on the underlying interest rates.

5. Do clinical fellowships qualify me for a deferment?

Yes, many clinical fellowships may qualify you for an “education related deferment.” This allows you to defer the loans during your fellowship. However, if most of your debt is unsubsidized graduate debt, there is little difference in the way that interest will accrue during this deferment than the forbearance, above.

6. What are the “income driven” repayment plans?

Two income driven repayment plans, “Income Based Repayment” and “Pay As You Earn,” allow you to make payments on Federal Direct loans solely based on your current earnings rather than based on the amount you have borrowed. The advantages of these plans are that they are affordable on a resident salary, you are paying at least part of the accruing interest keeping your loans from growing too much, and you are avoiding the ratcheting effect of capitalization of accrued interest that happens at the end of a deferment or

forbearance. You can very quickly find out how much your payments under these plans are likely to be by signing on to www.studentloans.gov using your FAFSA pin and clicking on the “Repayment Estimator.”

Be aware, since both Income Based Repayment and Pay as You Earn are based on your reported income, a servicer will generally use your previous year’s tax return or, if you didn’t file, a current paystub can be used to establish your payment for the next twelve months. Even if your income was \$0 on last year’s taxes, it is often to your advantage to make small IBR or PAYE payments that will apply toward the interest that is accruing based on your current earnings. Treatment of married borrowers’ income when setting these payments depends on your filing status, the state you live in, and whether your spouse has student loans. If you are married, you will need to report your filing status, your spouse’s income, and the balance of his or her student loans as part of the application.

7. What is Public Service Loan Forgiveness?

If you expect to continue to work in the public service (at a state agency, or any 501(c)3 non-profit tax-exempt organization) for 10 years (including your residency and/or fellowship), you will want to know about this program! If after 10 years of income-driven payments on Direct Loans while working for qualifying organizations there is a remaining balance on your loans, it can be eligible for forgiveness. To learn more about this program visit www.myfedloan.org/pslf.

To be sure you’ve positioned your loans so that they qualify, you’ll want to think about them NOW, not later. It may take a federal consolidation to get your loans to qualify, all your payments must be on time, and you’ll want to be sure you make payments that will count. Direct debit, available from all of the loan servicers, makes being on time every month easy, and will save you money over the long run –



you will qualify for a .25% interest reduction when making these payments.

An additional loan forgiveness program, the National Health Service Corps can offer up to \$60,000 loan forgiveness to primary care physicians when they practice in health professional shortage areas <http://nhsc.hrsa.gov/loanrepayment/index.html>

8. Should I consolidate my loans?

There are good reasons to consolidate, and there are good reasons NOT to consolidate as well. The answer to that question for you is based on your unique situation and loan portfolio. To help you make a decision, I recommend this quick fact sheet written by the AAMC specifically for the medical profession: <https://www.aamc.org/download/94404/data/consolidate.pdf>.

One important thing to be aware of is that there are two types of consolidation: federal and private. Federal consolidation maintains the federal benefits and programs associated with student loans, while a private consolidation of your federal debt turns that debt into something more equivalent to a consumer loan – and it will have different terms and benefits. You'll want to compare carefully before pursuing a private consolidation of your federal debt. If you want to consolidate to make older federal FFELP loans or Health Professions or Perkins loans eligible for Public Service Loan Forgiveness, it must be a federal loan consolidation

9. Will I survive student loan repayment?

Yes, you can! Medical professionals are among some of the best repayers of federal student loans. If you make student loan repayment a part of your overall financial plan now and in the future, you'll survive without paying more than necessary in interest. That success depends on starting that financial plan now. It's ironic, but financial planning

is MORE important when you don't have a great deal of money than when you make a larger salary.

10. Where can UCSF residents and fellows get more help?

One of the best resources I know is available online at the following link: https://www.aamc.org/services/first/first_for_students/250460/survivalkit-studentsandresidents.html.

This site can answer many of your questions and contains very specific topics such as “choosing a repayment plan,” and many other financial management topics in small, bite-sized chunks such as “getting married during residency.”

While there are companies out there who will help you manage your loans for a fee, I encourage everyone in the UCSF community who has loans to visit with me before taking the step of hiring someone to do it for you – it's not as complicated as it sounds, and usually it takes just a few minutes to accomplish the steps to effectively manage your loans each year during your residency or fellowship.

As the Resource Advisor for UCSF, I am always happy to meet one-on-one with our residents and fellows to assist. Often in a one hour appointment we can form a plan and I can help you file any necessary forms. If a resident or fellow wants to meet with me to review their loans and their options, they can call 415-476-4181 to talk to the front desk of the Financial Aid Office here at UCSF. The folks who answer that number have access to my calendar and can book a phone, skype, or in-person appointment for any UCSF community member who wants to review their loan history and their options. I want our residents and fellows to worry about their patients and research, not their student loans!