Medical student-loan repayment: Consolidation vs. refinancing

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The transition from medical school to residency can fill a new physician’s mind with pending decisions—where to live, what to budget, how to study for the USMLE Step 3 exam. Servicing your student loan debt likely will have both immediate and lasting effects on your financial situation, so it’s important to include your repayment strategy in this early decision making. A loan expert outlines two fundamental options—consolidation and refinancing—and suggests where to begin in evaluating your situation.

“Tackling student-loan debt is probably the most important financial initiative for young physicians,” said Alex Macielak, who works in business development for Laurel Road, an FDIC-insured bank that offers student loan refinancing. “It’s a big component of your financial picture at the beginning of your career, and it’s going to stick around for—in a lot of cases—10-plus years post-graduation.”

In fact, monthly debt payments might even a young physician’s biggest single monthly expense.

“For a lot of folks, student-loan payments could be close to or exceed a mortgage payment, so it’s important to acknowledge that strategically,” Macielak said. “There are plenty of options for medical professionals, through federal repayment options or through refinancing, to reduce the cost of the debt so you can move on to other financial initiatives more quickly in your life and career.”

Laurel Road has developed a brief side-by-side comparison of loan consolidation and refinancing. AMA members who refinance their student loans with Laurel Road receive a 0.25 percent rate discount through AMA Member Benefits PLUS.

The AMA’s Career Planning Resource features a primer on medical student loans that explains the basics of loan interest, grace periods, deferment and forbearance, and delinquency and default. It also features links to loan-repayment assistance and scholarship programs.
Flexibility versus savings

Loan consolidation involves bundling your loans into a single payment to a single loan servicer. This new loan could have a lower monthly payment and a longer repayment period, but the interest rate will stay the same, which could mean paying more over the life of the loan.

“If you keep your loans with the federal government and consolidate them, that simplifies your payment—you’ll have one monthly payment, rather than many,” Macielak said. “But you’ll also maintain the ability to use federal programs like income-driven repayment and public service loan forgiveness. There’s a bit more financial flexibility associated with those federal programs.”

Refinancing, on the other hand, means essentially paying off your existing federal and private loans and taking out new loans at lower interest rates, provided those rates are available. This could reduce both your monthly payment and your total repayment amount.

“In most cases, this also simplifies the picture, in that you’re lumping a number of loans into one loan,” Macielak said. “The tradeoff is you lose the ability to pursue loan forgiveness or utilize income-driven repayment. You get a lower interest rate but less flexibility.”

Where to start: your federal loans

“The first step for most people is to look at the federal options,” Macielak said. “Some or maybe even all of your loans are federal. Ask yourself, ‘What is available to me right now with my current loans?’ If you like that, stick with it. If not, then look into refinancing.”

Beyond that, Macielak said, it’s important to appreciate that the approach that works for your colleagues may not best fit your situation.

“There is no one-size-fits-all approach, especially for physicians. Someone in your same residency program with the same amount of debt might pursue a very different repayment strategy because of other factors,” Macielak said. “Your personal financial goals will affect how you approach your student loans, so it’s something worth researching on your own.”