# Overview of student debt and how to improve your credit score

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When it comes to student debt, you’re far from alone. There’s no need to stress out or feel embarrassed about your situation. Instead, gain an understanding of the options available and make things manageable.

In an episode of the AMA’s “Making the Rounds” podcast, Laurel Road’s Alex Macielak, and anesthesia fellow and AMA member Chirag Shah, MD, discussed the state of student debt in the U.S., as well as considerations for improving your credit score. Macielak works in business development for Laurel Road, an FDIC-insured bank that offers student-loan refinancing.

Below is a lightly edited full transcript of their conversation. You can also listen to the whole episode on Apple Podcasts, Google Play or Spotify.

**Dr. Shah:** To get an overview, what's the state of debt in the U.S. currently?

**Macielak:** I think it's one which is definitely growing over the last 10 to 20 years. A high propensity of Americans seem to be comfortable taking out debt, be that a credit card, a student loan, an auto loan. And there's certainly good and bad types of debt. I think where we start to see problems is people going delinquent on the debt. And about one in three Americans currently with debt are behind, or are delinquent, which is a mounting issue.

**Dr. Shah:** Is that student debt alone or is that encompassing all types including credit card and mortgages?

**Macielak:** Encompassing all types. In terms of student-loan debt, the default rate is actually a good deal lower. The federal portfolio is looking at a 10% to 15% default rate, but it's the credit cards which tend to be a big issue. People look at them less as a tool to buy things and more as a way to live beyond their means, and that's where the problems start to arise. The total amount of consumer debt has risen to $4 trillion. Student-loan debt makes up about a third of that, so $1.5 trillion in student loans outstanding. That's a number that's grown exponentially since 2005. I think the total outstanding back then was under $400 billion. We've seen a near quadrupling in student-loan debt.

**Dr. Shah:** Why has that been?

**Macielak:** I think it's primarily the rising cost of tuition. Student loans are unique in that, when you're going to take them out, there's no cap. So if a school decided they wanted to charge $80,000 next year, presumably all the students who wanted to go there just take the extra $20,000 to $30,000 in loans, whatever the tuition hike was. There's really no incentive on the part of the schools to reduce the tuition given the current format.

**Dr. Shah:** And then with student debt, specifically, it looks like recent college grads owe maybe about $34,000. How does that play with the medical segment? Is it more? Is it less?

**Macielak:** Yeah, certainly more. To put it simply, the average medical student is coming out with about $190,000 in student loans. And that's a number that's risen in line with the overall outstanding debt in the economy. Medical school tuition costs have significantly risen, and as a result people who want to go to school have no choice but to take out loans.

And I think that's something that we actually did a survey on at Laurel Road to get a sense of recent graduates' feelings towards their debt. And one of the things that surprised me most was that over half of the respondents said they felt embarrassed about their student loans after graduation, which I think is unnecessary.

There's no reason to feel embarrassed given that it's a requisite to get an education these days. Unless you had a pile of money and could pay out of pocket, or a parent that wanted to sponsor your education, you have no choice but to take on these loans. I think there’s no need to feel any type of embarrassment given the situation.

**Dr. Shah:** Medical school's probably a little bit of a better investment than credit card debt.

**Macielak:** For sure. I think credit cards are about as bad a debt as you could have given the rates and the fact that they're so dangerous. You can keep charging and charging, and you don't have to make any type of regular payment; it's a minimum of maybe $25 or $50 payment. But medical school's an investment. I would look at that kind of through the same lens as investing in real estate:

You have high hopes that this money you pay to get the education is going to pay off exponentially in the future.

**Dr. Shah:** For me, to be honest, I looked at it as an investment. I worked prior to going to medical school, so I had a little bit of money saved up to pay for the first part of it, but obviously it's very expensive. I went to one of the most expensive medical schools in the country, and I definitely have a lot of debt. I was able to refinance, actually, and it made me feel a little bit better about the investment I was making.

But yeah, it's definitely a scary thought, and it's not a small number, which obviously adds to the anxiety. But as working professionals, we should be able to pay that off over the time frame that most of these loans are over. And then, specifically for Laurel Road, are the rates any different when you refinance as a medical professional versus, say, just as undergrad debt, versus maybe an MBA, or a JD what have you?

**Macielak:** They could be. There's a number of factors that we look at in under writing and pricing the loans. Degree and career are certainly some of them, as is credit profile and total monthly debt expenditures. Total monthly income as well. Those are the main things we're looking at.

**Dr. Shah:** And if you want an attractive rate, what are the best things you can do to position yourself before you apply for refinancing?

**Macielak:** I think probably the one most within your control, other than asking to get paid more money by your employer, is your credit score. That's something, at least I've found, people are maybe unfamiliar with how it's calculated and what exactly goes into it.

**Dr. Shah:** How is it calculated and what goes into it?

**Macielak:** The biggest factor is making on-time payments. That seems to be a very easy thing one would know, but you'd be surprised how many people find it perfectly acceptable to miss a month or two of paying their credit card. I think the one which people are the most unfamiliar with, which actually does play a fairly significant part in your credit score, is credit utilization level. The credit bureaus, they don't want to see you utilizing more than 30% of your revolving credit limit.

If you had a $10,000 limit on your card, they don't want to see you spending more than $3,000 a month on that card even if you pay it off every month. If you did find yourself paying more than—or using more than—30% of your revolving credit limit each month, you would want to call the credit card company to ask for an extension on your line of credit, and that'll reduce your credit utilization level. That's one pretty significant opportunity to increase your credit score through really doing nothing other than calling the credit card company.

**Dr. Shah:** Right. And then a lot of people also worry about applying for new credit cards. Does that hurt your score, or will it help overall since your total credit line will increase with whatever you're approved for?

**Macielak:** Yeah that's a good question, and I think there are some nuances to it. As you said, taking out another card increases your overall revolving credit limit, which should help. Another factor though in your credit score is how seasoned are your accounts? How old are they? If you have a lot of new accounts, that won't reflect particularly well on the credit score.

What I've recommended in the past for people to take a look at is if you have a card—say that you took out in high school or college and has no annual fee—even if the benefits of the card really aren't that attractive later in life, just keep it open because that card will stand as a long-standing credit account that you've had open, and that'll help improve the score.

**Dr. Shah:** OK. It sounds like the five components we've kind of gone over for the FICO score are the payment history, the amount owed, the length of credit history, new credit and the types of credit used. So then how do I protect my credit score once I get it to the level I want it to be at? How do I avoid identify theft, and what kind of precaution do you recommend one takes?

**Macielak:** I think being vigilant in checking your credit score at least once annually. There are a number of services which can provide you an automated update at much greater frequency than that, but continuing to monitor it is the biggest thing. Identify theft can go unnoticed for months if you're not on top of your credit score and continually checking it.

**Dr. Shah:** Should we be checking it every month, every six months, every year?

**Macielak:** I think every month is probably excessive, though there are actually some credit cards available which will send you a health-of-credit check every month along with your statement, and that could be a nice feature for people who do want to stay particularly vigilant. I think a typical good rule of thumb is a few times a year, a handful of times a year. There are services that provide you a free credit report at least once a year. That I would say is the minimum, once a year.

**Dr. Shah:** Yeah, I was actually lucky enough to be born into a household that taught me a lot about finance and economics, and I was an economics major in college. I got my first credit card my freshman year. I go to Northwestern, and there's always a Citibank rep that walks around. I was like, “Yeah, sure, I'll apply, it's a no fee credit card.” I've had it now for—oh, man—15 years. And yeah, it doesn't have a lot of benefits, but I keep it solely for the reason that it's old and I've utilized it previously.

I use credit cards a lot, because I think my generation prefers to pay for anything with credit card instead of cash. A lot of my peers don't even carry cash with them. Our utilization rates are probably higher than that of later or older generations. In terms of how I personally think about it, I essentially think about it as an interest free loan for 30-45 days depending on whenever I charge from. Of course, you can't buy things that you can't afford, and you've got to pay off your bill in full every single month. And if you aren't doing that, that's the first thing I would think about doing, since interest rates range from about 11% to 20%, which is obviously a lot higher than any student loan or car loan, or even mortgage you may be looking at. That's how I personally think about it. There's a lot of benefits: airline points, hotel points and what have you. It's always exciting to open a new card and get those fringe benefits.

**Macielak:** For sure. I think you summarized it really well, and you're using it much to your benefit, and I think people shouldn't be afraid of doing that. That's one sentiment I've picked up in the past, is people just have this perception that all credit cards are bad, and you shouldn't put things on a credit card. You should just pay for them in cash or on a debit card. That's not true by any means.

If you're using your credit card responsibility and not living beyond your means with it, it's much to your benefit, from a credit profile standpoint, in that it's another line of debt that you have open, improving your credit history. And also, you mentioned the points. I personally have a number of credit cards, which I use strategically based on what that purchase is, whether it's travel, dining, groceries. You can get two, three, five points, in some instances, for each dollar spent, which is the equivalent of 2% off, 3% off, 5% off every purchase you're making. It can be used to your benefit so long as it's done strategically.

**Dr. Shah:** Alex we've talked about the FICO score. What exactly is a good score? I know the range is wide. What would you recommend?

**Macielak:** It is a wide range from 300 to 850. Though, anecdotally, I have seen no credit scores in the 300s and very few in the 800s as well. The scores, by and large, are pretty concentrated in … call it the 600 to 750 range. In terms of refinancing with Laurel Road, our credit score minimum is 660. That's similar to what it would take to qualify for a mortgage. Mortgage requirements on a conventional mortgage might be a bit lower than that, but by and large, you want to have a credit score of at least 650.

**Dr. Shah:** Does it matter if your score is higher? Will you get a lower interest rate or, if it's lower, will you get a higher interest rate?

**Macielak:** Both. The higher your credit score is, the more favorable pricing and terms you'll receive on loan offers. Not just student loans, but mortgages, auto loans and credit cards. The higher your score, the more favorable terms you're going to qualify for. And conversely, the lower your score, the less options you'll have at your disposal. I mean, on the credit cards side, if your credit was really suffering and subprime, you would have a hard time qualifying for some of those premier type of cards with nice point incentives that we talked about. You're more likely in a starter, credit-building type of card.

**Dr. Shah:** If my score was struggling, and it was 500, I should reduce the amount of debt I owe, get current on missed payments and then pay off debts that have gone into collection. And I guess I can always increase my credit limit by applying for more cards, but that's something to be exceptionally careful with, especially if you're struggling with repayment. … Otherwise it's a spiral, and your scores obviously won't improve if you're utilizing that new limit.

**Macielak:** Correct. I know that it's a tough situation if you've had some struggles with your credit, but there are certainly steps which you just outlined that can be taken to increase a credit score. And I think, holistically, credit scores tend to increase organically as you progress through your career.

Those of you coming right out of school, you probably don't have many lines of debt. You certainly don't have much of a mix of debt, and those are things that tend to just naturally happen as you progress through your life. You graduate, you have your student loans, maybe you have a credit card, you shortly thereafter maybe take out an auto loan, you purchase a home, you perhaps take a personal loan to make a major purchase. All things that, so long as they're done within your means, are good financial decisions and will ultimately help your credit score increase as you go on throughout your life.

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.

AMA members who refinance their student loans with Laurel Road receive an additional 0.25% rate discount through AMA Member Benefits PLUS