Medical student loans: Use debt efficiently, find best repay option

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The number of medical student loan debt-repayment options can feel over overwhelming. How do you choose the best one?

In an episode of the AMA’s “Making the Rounds” podcast, Laurel Road’s Alex Macielak and anesthesia fellow Chirag Shah, MD, discuss how to use your debt efficiently and find the best repayment option. 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 full episode in on Apple Podcasts, Google Play or Spotify.

Dr. Chirag Shah: When I was refinancing my loans, I used to get a bunch of things in my mailbox—Laurel Road, SOFI, all these others, Bank of America—they would all have offers for me. How do I pick and decipher between which lender is best? What things should I be looking at? What parameters are the most important? Obviously, interest rate is a big one, but are there other differences and nuances that we should be picking up on?

Alex Macielak: There are. I mean, you hit the nail on the head: The interest rate, it's the factor that people go into this most interested in. You want to get your rate as low as possible, but there are other factors, certainly. Those ancillary benefits that I've mentioned throughout the podcast—like the loan being forgiven in the event of death or disability, 12 months of forbearance available.
We at Laurel Road offer a quarter-point rate discount for making automatic payments, another nice benefit. And, certainly, our affiliation with the AMA. We give all American Medical Association members an extra quarter of a point off of their interest rates. If you were to come to us off the street, and you weren't an AMA member, we would maybe offer you a 5% rate, but by virtue of that AMA affiliation your rate would be a quarter point lower, so 4.75%. Things like that are certainly a factor, as well as structure of the lending institution that you're talking to.

**Dr. Shah:** What do you mean by structure of the lending institution?

**Macielak:** The student-loan refinancing marketplace, again, is sort of unique in that there's a mix of businesses that give these loans. Some online lenders go to venture capitalists or banks to get lines of credit to then lend to people.

We at Laurel Road, conversely, are the actual bank ourselves. We're an FDIC-insured lending institution. And with that comes, in all likelihood, a greater level of borrower information security, compliance, some benefits associated with being a bank. And going back to the rate. As a bank, we have our own balance sheet to lend off of and inherently lower cost to capital, which allows us, in many cases, to provide a borrower's best interest rates. So, in short, there are a number of factors to look at. It's something certainly worth doing some research on as you make a decision.

**Dr. Shah:** And then we touched on the forbearance and the economic hardship exceptions. Do most lenders offer that? Obviously, the federal government does and Laurel Road does, but are you guys the exception to the norm or is that pretty widely spread out amongst the lenders?

**Macielak:** It's a mix. Most of the reputable ones do offer those similar types of protections. Smaller lenders may not, but by and large, most of the refinancing players are offering a quarter point rate discount for making automatic payments or offering up to 12 months of forbearance. Those have become industry standard.

**Dr. Shah:** How do I know if someone is reputable? Yes, I know that the AMA relationship can signify you have the trust of the AMA, but what are some other factors I should be looking at?

**Macielak:** That's a good question, and I think at the root of it is the question, what is reputable? What do you define as reputable? Certainly, doing a Google search of each company is well worthwhile. How have their executives behaved? What type of charitable efforts have they made? Those might be things that you want to look at, but it depends on what is your priority. Some folks care about those, others less so.

**Dr. Shah:** And then if I wanted to refinance my loan—if I have $200,000 and I want to refinance, let's say I want to refinance for more—is that a possibility if I have a wedding to pay for, if I want a new

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car, what have you?

**Macielak:** That's a good question, like a cash-out refi, almost.

**Dr. Shah:** Right.

**Macielak:** It's not a possibility, with our program at least, and I don't believe any other lenders allow you to take additional funds on top of what you currently own on student loans. But what you can do is take a supplemental personal loan.

**Dr. Shah:** Is the interest rate higher on that than it would be on an educational loan, essentially?

**Macielak:** A bit, but still very low relative to not only the credit card marketplace, which in a lot of cases is the alternative, but also to standard personal loan offerings from other lenders.

**Dr. Shah:** So, it definitely makes sense to take out a loan like that if you have a lot of credit card debt, and you can essentially lower your effective interest rate. That would be how I would utilize it. It sounds like it's a great option for that.

**Macielak:** It's the most common usage. People who've racked up credit card debt, for whatever reason—moving to residency, moving to go practice, you know maybe getting married—you can take a personal loan, pay off the credit card debt, and now you're paying back this fixed-rate personal loan on a defined schedule rather than having a large credit card balance, which might be, like you said, 10% to 15% to 20%. So, a good deal of interest savings.

It also helps your credit profile by doing that. Again, the credit bureaus don't like to see a high revolving credit-debt utilization level, which tends to be the case if you have a lot of outstanding credit card debt. By removing that and moving it to fixed term loan, which this personal loan would be, you're actually going to improve your credit score as well. So, there are a number of benefits.

We have a dedicated program for residents, or residency interviews, I should say. In your fourth year of school, you have to fly around the country to interview. Rather than put all that on a credit card, take one of these loans with lower rates and a defined payment schedule.

**Dr. Shah:** I definitely know that can get very expensive. I myself interviewed at 20 places.

**Macielak:** Wow.

**Dr. Shah:** It definitely adds up. Just to summarize what we discussed today: Don't be stressed about your student loans. You're going to make enough money to repay them.

When you're thinking about refinancing, have an idea of whether you want to go for the public service
loan forgiveness versus a lower rate by refinancing through a private entity. The earlier you know, the better off you'll be because you'll save a little bit more money. And then credit card debt is obviously the worst type of debt, so be very cognizant of not accruing that, and be cognizant of the impact that has on your credit score because the refinancing rates you’re going to get are going to be built on that FICO score. So, try to optimize that as much as possible.

We’ve mentioned a bunch of factors that go into optimizing it, including length of credit history, usage of your revolving credit limits, payments on time and a few other smaller factors that'll go into it as well. What are some other highlights for the residents and professionals to take a look at?

**Macielak:** I think, if there’s on high level takeaway here, it's that there are opportunities available to utilize debt efficiently and economically. Be that through using the federal repayment programs to capture some interest subsidy or get your loans forgiven or through refinancing and locking in a lower interest rate. There's opportunities out there, certainly for medical professionals. You guys tend to have very, very low unemployment rates and therefore very low default rates on debt, and that makes you some of the best borrowing candidates in the marketplace, and in a lot of cases, as you saw by refinancing, eligible for some very, very low interest rates.

It's certainly not a one-size-fits-all approach. I mean, everybody listening to this should be looking at their individual situation and not just taking blanket advice from a colleague. Certainly, people have different financial goals, and you treat your debt accordingly. Do your individual research. Take advantage of our student-loan assessment tool for that piece of the pie and figure out what's best for your given situation and your optimal goals.

**Dr. Shah:** The last thing I would say is make sure that you pay attention to this because these things can snowball. Have an idea about what your financial goals should be. As medical professionals, we spend a lot of time in residency studying, thinking about patient care, and all that's really important. But if you can spend about an hour or two about this aspect of your personal life, it'll probably help you down the road as well.

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