# Manage medical student loans

Many residents, fellows and new physicians have substantial medical education loans. In 2016, the median debt burden for medical school graduates was $190,000.

Medical education loans are one type of student loan. They may carry lower interest rates than some student debt and may be subsidized by the government. Information on current Federal Direct Subsidized and Direct Unsubsidized Loans is available at Federal Student Aid, an office of the U.S. Department of Higher Education.

As a rule, you should start planning how you will handle your student or medical education loan payments 6 months before your grace period ends.

## Understanding loan interest

Interest is the cost of borrowing the principal balance, which is the original amount of money borrowed.  The interest charged on Federal Direct Loans and Federal Perkins Loans is calculated on a daily basis. This means interest will be calculated each day over the course of a year. This type of interest is called compound interest. In most cases, each payment you make towards your loan is applied first to any interest and fees that were added during the previous month and then to the principal balance. It is important to request that any money paid above the minimum payment is applied towards the principal balance. Lowering the principal balance is key to lowering the amount of accrued interest and can reduce the amount of money you owe in the long run.

If you have a variable-rate student loan, your loan servicer or lender will notify you each year in writing about changes to the interest rate that will go into effect on July 1. Your monthly payment amount will be adjusted to account for changes in the interest rate.

If you have a Direct Subsidized Loan, no interest was charged while you were in school, and none will be charged during your grace period. If you have a Direct Unsubsidized Loan, interest accrued while you were in school and will continue to be added during your grace period. If you have a Direct Unsubsidized Loan and you do not pay the interest as it accumulates—even while in school—it will be capitalized to the loan when you enter repayment. Capitalization means the interest earned will be added to your original loan amount, making your principal balance larger.

## Understanding the grace period

- A grace period is 6 months. During this time no payments are required.
- The grace period begins on the date of school separation or graduation.
- At the end of 6 months, the grace period ends and monthly payments begin.
- You may be able to secure a lower interest rate on your loans by consolidating them during the grace period. Ask your lender for more information, and be aware that consolidation sometimes shortens or ends the grace period on a loan.
- To meet the consolidation requirements, you must process and verify your application with a consolidation lender.
- The time to complete this consolidation may vary. A rule of thumb is to consolidate your loans at least 30 days before your grace period ends.

## Understanding deferment and forbearance

Deferment is a period of time during which you are not required to make payments.

- Common reasons for deferment are school attendance, unemployment and economic hardship.
- During the period of deferment, interest continues to accrue on the loan.
- Deferment is not automatic; you must apply.
- The terms of deferment may differ based on the type of loan or the type of lender. Contact your lender for more information.

Only certain federal types of loans are eligible for deferments including: subsidizied and unsubsidized Stafford, SLS, PLUS or Direct Consolidation. Application for deferment must occur before student loan payments are more than 180 days overdue.

Forbearance is a temporary end to or reduction of payments, or an extension of time for making payments.

- Lenders may grant forbearance if you are having difficulty repaying your loan but aren't eligible for a deferment.
- Forbearance is not automatic; you must apply.
- The objective is to prevent you from going into default on your loan or to allow you to resume honoring your repayment obligation after you've defaulted.
- When you're in forbearance, interest continues to accrue on your account.

- The terms of forbearance may differ on the type of loan or the type of lender. Contact your lender for more information.

## Understanding delinquency and default

It is important that you stay on top of your medical education loan repayment. If you are late on a scheduled payment, you are considered to be delinquent on the loan. This delinquency can be reported to national credit bureaus and may remain on your credit report for years. This may affect your ability to obtain an auto loan, credit cards or other financing.

If a borrower fails to make payments over a period of time, the loan goes into default.

The consequences of default on student and medical education loans include:

- The entire unpaid amount of the loan, including interest, may become immediately due and payable.
- The federal government may collect loan payments from federal and state income tax refunds, garnished wages or state lottery winnings.
- You will be ineligible to receive any additional federal or state financial aid funds at any institution.
- The default will have an effect on the future of the loan program and could jeopardize the educational opportunities of future students.

Remember that a lender may be able to grant a forbearance before a loan goes into default. Likewise, lenders may be able to adjust your payment terms, depending on your circumstances. If you are having trouble repaying your loan, consult your lender for options that may be available to help.

## Sources of loan-repayment assistance

Some hospitals and other employers will offer student loan reimbursement in an effort to recruit physicians. This can be a substantial benefit for a resident with significant residual medical education debt.

Many loan-repayment programs come with strings attached. This often includes a requirement that the physician stay and treat patients within a certain geographic area or for a specified number of years.

A variety of other organizations offer loan repayment assistance in exchange for service in physician-shortage areas. These organizations include The National Health Service Corps and the Public

Service Loan Repayment Program. The AMA and the Association of the American Medical Colleges (AAMC) provide additional information on loan repayment programs.

## AMA Member Resources

- Laurel Road

## Related AMA Resources

- Graduate Medical Education (GME) financing resources

## External Resources

- Repaying federal student loans
- Loan repayment and scholarship programs