Medical student-loan repayment and COVID-19: What you need to know

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When the Coronavirus Aid, Relief, and Economic Security (CARES) Act was signed into law, the headline for most Americans was that they would be receiving a direct cash injection, in the form of a stimulus payment. The headline for most physicians was that the bill would offer direct financial support to hospitals and physician practices.

An aspect of the CARES Act that grabbed fewer headlines could mean additional economic relief for the thousands of residents, fellows and practicing physicians with medical student-loan debt. The legislation suspends payments and accrual of interest on most federal student loans for roughly six months through Sept. 30, 2020.

This is a development that significantly affects the student loan landscape for borrowers, and it's not the only one. Alex Macielak works in business development for Laurel Road, a brand of KeyBank NA that offers student-loan refinancing. Macielak offered insight on student loans during the COVID-19 pandemic.

What it means for medical residents

According to the Association of American Medical Colleges, 75% of medical students who graduated in 2017 borrowed an average of over $170,000.

That debt load weighs heaviest on residents; they have yet to maximize their income and tend to make payments based on a share of their earnings. The CARES Act gives residents cash flow and, just as importantly, a time frame in which interest will not be accruing.
"In light of the situation, it's an appropriate offer for borrowers," said Macielak, who was a featured guest on a series of episodes of the AMA's "Making the Rounds" podcast regarding student loans.

"As a resident, you probably have a modest payment to begin with, but this should help from a cash-flow standpoint, and the long-term cost of the loan is going to be reduced because of the 0% interest rate you'll be charged for 6 months. It's important to recognize that the rate will return to what is written on your loan once the 6-month interest waiver is up."

What medical students should know

As far as borrowing, the CARES Act doesn't offer additional liquidity relief to those who are yet to enter repayment. For medical students who are graduating and entering residency in the coming months, under normal circumstances, there is a built-in six-month grace period before federal loans are to be repaid.

That will remain the case under the CARES Act. The one key difference under the law is that those loans will not be accruing any interest through September. So those who aren't currently in repayment will benefit from the 6-month interest waiver.

The CARES Act allows students who withdraw from school as a result of COVID-19 to not return Pell grants, other grant assistance, or loans. Additionally, for students who withdraw from school as a result of COVID -19, the current academic term would be excluded from counting toward lifetime subsidized loan or Pell grant eligibility.

Loan forgiveness and the CARES Act

Many doctors are enrolled in repayment options that fall under the umbrella of the Public Service Loan Forgiveness Program (PSLF). The program forgives loan balances after 120 payments—typically, 10 years of payments—for physicians and others who work full-time at nonprofit entities.

The CARES Act calls on the Department of Education to count $0 payments made by borrowers over the next six months towards the 120 payments required to qualify under the PSLF. One potential exception: If an employer does not consider a practitioner to be working full-time during this period, due to reduced hours associated with COVID-19, then the months during which they employee wasn't working full-time will not count toward PSLF, even if the practitioner makes a payment.

The CARES Act also applies to borrowers who are enrolled in federal income-based repayment (IBR) plans, some of whom may not work in non-profit settings. Federal IBR plans have a maximum duration of either 20 or 25 years, depending on the plan. At the end of that span, the remaining loan balance is forgiven. Under the CARES Act, $0 payments count as qualifying payments made during that maximum duration on IBR plans.

Private loans not covered by CARES Act

While private loan providers are not offering 0% forbearance, many are offering some sort of relief. Laurel Road is offering hardship relief for those affected by the COVID-19 pandemic, which includes six months of forbearance in addition to the 12 months that they offer borrowers.

The company also may be an attractive option for those considering refinancing their loans. Refinancing means essentially paying off your existing federal and private loans and taking out a new loan at a potentially lower interest rate. This could reduce both your monthly payment and your total repayment amount.
Refinancing is a particularly attractive option for physicians who don't intend to work at a nonprofit hospital or for a government agency, meaning they are unlikely to qualify for the PSLF. For those considering refinancing, now is a good time, with interest rates at historical lows.

Pros and cons of refinancing

If you already have private loans, refinancing now could be a wise move. It also still could make sense for those who currently have public loans, in certain circumstances, Macielak said.

The short-term savings of sticking with federal loans during the six-month interest and payment wavier period is obvious. Looking beyond that, however, depending on your federal loan rate and the rate a a lender like Laurel Road offers if you refinance, you could save money refinancing now.

There's also nothing stopping borrowers from waiting out the six-month forbearance period and then opting to refinance. The risk there is that interest rates could rise by the end of September.
"Those who are deciding to keep their loans federal and have zero percent interest for six months, that's a sound decision. If you removed this interest waiver provision, there would be no better time to refinance since the re-fi market has been in existence," Macielak said. "Treasury rates are historically low. It is unprecedented for the government to waive interest for six months. It makes it a tougher decision as to whether you want to take advantage of that or lock in a lower financing rate. Everybody has to do their own research within the context of their overall financial plan."

Those considering refinancing should also note that, in general, federal loans offer better forbearance options—outside of the CARES Act—than private loans. Taking your loans private would mean a borrower no longer had those options available.

The AMA has also curated a selection of resources to assist residents and medical students during the COVID-19 pandemic to help manage the shifting timelines, cancellations and adjustments to testing, rotations and other events.

AMA members who refinance their student loans with Laurel Road receive an additional 0.25% rate discount through AMA Member Benefits PLUS. The 0.25% AMA member interest rate discount is available only to current AMA members in good standing. The rate discount will end if AMA notifies Laurel Road that borrower is no longer in good standing. Offer cannot be combined with other offers, except for any discount for making automatic payments. An additional 0.25% “Automatic Payment Discount” is available for making automatic payments from a bank account. These discounts do not reduce the monthly payments, instead the discounts are applied to the principal to help pay the loan down faster.