Student Loans 101: Taming The Educational Loan Monster

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Note*: the educational loan environment has been highly volatile since mid-2006, often changing significantly within months. Thus, the ongoing accuracy of some of the following information can change on a regular basis.*

Background

Data from the 2013 *JAVMA* salaries and indebtedness survey[1] show that 33.2% of today's veterinary graduates have > $200,000 of educational debt while 9.8% have none. In 2014, 63.3% had > $140,000, up from 47.2% in 2012 and 40% in 2011.[2] At the end of the 2014 academic year, the mean debt for those with debt was $165,675, up $3,562 per graduate from 2013, $23,060 from 2011 and $31,802 from 2010. All but 7.4% of the debt incurred was from veterinary school. Of considerable importance, however, is the fact that these numbers are modestly misleading. They exclude debt levels for more than 900 students graduating annually from unaccredited schools of veterinary medicine such as those at Ross, St. George's and St. Mathew's as well as the Americans attending accredited schools in Canada, the UK and other locations. Experience teaching at two of these schools for more than five years has confirmed that most of these graduates have debt in excess of $250,000.

As the vast majority of veterinary students seek financial assistance to pay for all or part of their college education, many fail to realize the impact of their decision to borrow such large sums of money for jobs in private practice that offer starting salaries at an AVMA mean of $67,859 in 2014, up from $67,535 in 2013[1], from $65,998 in 2012 and also from $66,714 in 2011. Moreover, rarely do they understand that the salaries for most of them as associates will plateau at between $85,000 and $110,000 ten years after they have graduated.[3] The worst mistake some students make is borrowing more than is absolutely needed while in school.

The following text offers: a) information about the wide variety of loans available, b) the monumental changes in the educational lending business since September of 2007, c) the status of recent loan forgiveness programs and d) the array of deferment and repayment options.

Introduction to Financial Realities and Budgeting

Unlike grants and scholarships, **educational loans** consist of borrowed money that ***must*** be repaid with interest. These loans ***cannot*** be canceled because of dissatisfaction with the education received or a lack of employment in the desired career or field of study. They constitute legal obligations and will not be eradicated, except by death of the borrower. When a borrower declares bankruptcy, courts will only discharge student loan debt in very rare and extreme circumstances.

Before any amount of money is borrowed, the smartest course students can take is to prepare a bare bones budget for their first year post-graduation so that they understand the consequences of their borrowing.

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[1] Shepherd AJ. Facts & Figures, employment, starting salaries and indebtedness of year 2013 graduates of US veterinary medical colleges. *J Am Vet Med Assoc* 2013; 243, No, 7, Oct 1, 983-987.

[2] Shepherd AJ. Facts & Figures, employment, starting salaries and indebtedness of year 2011 graduates of US veterinary medical colleges. *J Am Vet Med Assoc* 2012; 239, No, 7, Oct 1, 890-894.

[3] *AVMA Report on Veterinary Compensation, 2011 Ed. p. 43* (reporting data gathered in 2009).

Equally important, however, is the need to understand that over half of the associate veterinarians in the U.S.A. will have their salaries linked to their revenue production.[4] Thus, it is important for most associates and all practice owners to treat veterinary medicine as a business and not just as a "calling." With interest rates on new federal Direct Loans now tied to the 10-year Treasury Note and currently sitting at 5.84% until the next adjustment on July 1, 2016, the only way to understand the financial effects of their investment in their veterinary degree is to calculate the total cost of repaying their debt at different terms of years and, then, add that to their expected costs of living, FICA, Medicare and income taxes.

The best source of assistance for this is to learn to use the financial simulator salary projection and personal budget program located on the Nationwide sponsored www.finsim.umn.edu website.[5] Users need to be aware, however, that under the *Income Based Repayment* option for loan repayments, discussed later in this document, it will be increasingly difficult to create accurate budgets. This is because each successive year's loan payments will be based on the prior year's *Adjusted Gross Income* on their tax returns, a number that is unknown until the end of each tax year. Nonetheless, the hope is that as students do this, they will have a clearer understanding of the true effect of the money they are borrowing. Lastly, they must then relate all of this financial information to their potential generation of income so they can see what will be required to balance their budgets and save for the future after graduation.

Any education at the collegiate level must be considered a long term investment. However, because the veterinary degree adds four more years and, for nearly half of today's graduates, a $29,116 internship[1] to the cost of this educational degree, matching the right educational loans and debt level to the potential career income is crucial to investing this borrowed money wisely. For example, if the only way for students to complete the necessary education and training to become a veterinarian is to borrow $250,000 or more[6], and they are unwilling to work 40 plus hours per week for more than 25 years, then a career in veterinary medicine most likely will not provide them with a good enough ROI (return on investment) for their loans to be considered a smart use of the money they are borrowing. Those who borrow "only" the national average of $165,675 in 2014 and do NOT elect IBR or PAYE would be paying an average of over $1,100 per month in principal and interest for twenty-five years post graduation. This is more than the vast majority of students are paying in rent while attending veterinary school.

Understanding the Types of Educational Loans, Sources of Money and the Key Terms

Much of the information that follows is available on web pages at www.studentaid.ed.gov and/or www.finaid.org.

1. **Direct Stafford Loans**. These are direct loans that come from and are repaid directly by the borrower to the federal government. All AVMA accredited schools, including Ross University in 2011, provide access for their students to the Direct Loan Program. St. George's University was approved for Direct Stafford Loans in the spring of 2011. At the time of this version of this document, St. Mathews University does not allow their students access to these. In general these loans are available to all undergraduate, graduate, and accelerated or continuing education students.

[4] Information acquired from NCVEI, 2009.

[5] Updated annually, this calculator was developed by David Lee, DVM, MBA, Hospital Director at the University of Minnesota in collaboration with JF Wilson, DVM, JD and funded by Nationwide.

[6] Author's note: A $250,000 educational loan at the current 6.8% interest rate payable over the longest repayment term currently available, i.e., twenty-five years, results in payments of $1,735 per month.

a. **Subsidized Stafford Loans** are now available only to **undergraduate** students who have financial need. This change took place in 2012 and impacts all students in graduate programs.

b. **Unsubsidized Stafford Loans** are available to all graduate students, regardless of financial need. However, unless the interest on this loan is paid while students are in school, it cumulates and is added to the loan amount when payments start. According to the website below, the **annual** limit here is $40,500. (http://www.staffordloan.com/stafford-loan-info/stafford-loan-limits.php)

An important distinction between subsidized and unsubsidized loans is the federal government pays interest that accrues during deferment of subsidized loans. Accrual of interest during deferment periods in unsubsidized loans can either be paid by the borrower with out of pocket funds, or the accrued interest will be added to the principle balance of the loan. When added to the principle balance, the accrued interest will generate additional interest in future years, leading to compounding interest. Compounding interest can lead to a substantial amount of money that the borrower will have to pay over the life of the loan.

2. **Federal Family Education Loans (FFEL).** Historically, these were student loans made by private lenders (usually banks) that provided funds and for which students made loan repayments directly to the banks. Only students who attended college and took out educational loans prior to 2007 are likely to have any of these loans remaining in their portfolios.

   As with Direct Loans, the federal government and guaranteed the repayment of these. FFEL loans consisting of the following: a) Stafford Loans described above as Direct loans, b) FFEL PLUS Loans, and c) FFEL Consolidation Loans. Prior to 2008, vigorous competition forced banks to offer FFEL loans with various types of incentives. In the heyday of the loan consolidation period from 2004 to 2006, these programs included reductions of 0.25% in the interest rate for direct withdrawals from checking accounts and up to another 1% after 36 consecutive on time payments. With added subsidies from state governments some students ended up with interest rates of less than 1.5%. However, if borrowers had a month with insufficient funds to make a payment, in many cases this reduction was lost forever.

   As a result of the regulatory changes in educational loans made by the U.S. Congress in 2007 the private bank FFEL lenders were pretty much knocked out of the lending business. In fact, as of the July 1, 2010, no new FFELP loans will be originated as they have been replaced by the Direct Loan Programs. (Again, visit www.finaid.com for the most up-to-date information.)

3. **Direct PLUS (formerly Grad Plus) Loans (Direct and FFEL)**. These loans are only available to graduate students and are supplemental to the $40,500 available annually via Stafford Loans. Because they are higher risk loans, the interest rate on these loans is higher than Stafford Loans, i.e., 6.84% for Direct PLUS loans during the 2015-16 school year. After borrowing the maximum allowed through the Stafford Loan program, students may borrow up to the cost of annual graduate school attendance via these loans. Students attending state schools as non-residents and/or the private schools are those most often using these loans. The university determines the amount needed to fulfill the cost of attendance.

4. **Health Professions Student Loans (HPSL).** These, too, are need-based, long-term, low-interest (5% five percent) loans provided by the U.S. Department of Health and Human Services for health professional schools, including veterinary schools. If these loans are available at the student's school, the financial aid office will determine the eligibility.

As with subsidized Stafford loans, the interest is paid by the government while borrowers are enrolled in schools, during internships and residencies and over a one year grace period.

5. **Perkins Loans**. These loans are offered by schools to students who have the greatest financial need. Perkins loans come from the schools that students attend and, thus, are repaid to the school itself. Perkins loans are low interest (5%) and have no additional fees or charges unless borrowers default on their payments. As with subsidized Stafford loans, the interest is paid by the government while the borrower is enrolled in school, during internships and residencies and over a nine-month grace period.

6. **Private Loans.** These are educational loans from banks and/or other financial institutions that lend money to students who are in non-AVMA accredited schools or who are non-residents and unable to obtain any, or enough, money from the above loan sources. Because of the credit crunch following the crash of real estate loans in the fall of 2008 and the fact that these loans are not guaranteed by the federal government, they bring with them a higher risk of default. They usually come with loan origination fees, some of which could be as high as 8% of the loan balance and much higher interest rates than Direct and Plus Loans. Occasionally, students mistakenly use private loans before exhausting all available federal loans. This can be costly.

   Private student loans can be a helpful source of funds when federal loans are not available (e.g., during internships or for emergency or relocation expenses). However borrowers must understand the effect of the high interest rates and costs of acquiring such loans.

   Interest rates for private loans in 2014 can be quite variable. The www.salliemae.com private loan site quotes a range of 3.15% to 9.37 APR. It should be noted that the private student loan market it so volatile that information on it changes weekly! Since private loans almost always have variable interest rates, these loans will likely have much higher rates in the future when the underlying rates (Prime or LIBOR) trend back to the average. The turmoil in the credit markets has caused lenders to increase the margins (prices) on loans as well as the credit standards. The results are higher-priced private student loans that are more difficult to obtain.

   Update – February 2014 – With credit markets beginning to recover, lenders such as Great Lakes, Sallie Mae, Citibank and The Access Group now areoffering private loans at more attractive interest rates. Qualifying borrowers may be inclined to refinance their existing federal and private loans to lower interest rates, but must consider a number of factors including the loss of federal subsidies, income driven repayment options forbearance/deferment options and the fact that these are adjustable rate loans, most likely with higher caps than the Federal Direct Loans.

WAYS TO OBTAIN MONEY THAT DOESN'T NEED TO BE REPAID

While almost all students can qualify for loans, some can acquire money that does not need to be repaid. The most common forms for this come from grants and scholarships. Some schools also offer achievement awards, commuter discounts, as well as work study programs to ease the financial burden facing their students.

1. **Pell Grants.** Unlike loans, Pell Grants do not need to be repaid and are usually provided only to undergraduate students who have documented severe economic needs. These grants are available to undergraduate and graduate students but not to accelerated or continuing education students.

2. **Scholarships.** In addition to a multitude of athletic scholarships that provide a full ride for athletes in exchange for their athletic performances, millions of dollars in scholarship money are awarded for other reasons. This includes everything from academic performance to simply being left handed. If you don't mind writing essay after essay, there likely is a scholarship that is right for you.

For more information about potential scholarships log onto www.scholarships.com or contact your university's financial aid office.

Armed Forces F. Edward Hébert Armed Forces Health Professions Scholarship Program (HPSP) The Army offers one of the most generous and comprehensive scholarships in the health care field. It's called the F. Edward Hebert Armed Forces Health Professions Scholarship Program (HPSP) and can start at ANY TIME while in veterinary school. If you qualify, you could earn a full-tuition scholarship, plus a monthly allowance of over $2,000 per month for the 10 ½ months of each school year through the HPSP. Only students from AVMA accredited veterinary schools are eligible for these. Information pertaining to this scholarship program can be found at http://www.goarmy.com/amedd/education/hpsp.html.

3. **Tuition Reimbursement.** In an effort to improve the value and knowledge of their employees, some employers offer tuition reimbursement benefits to employees interested in continuing or finishing their education.

   Benefits can range from partial to full reimbursement with limited to no commitment from the employee to stay employed by the company. These are tax deductible for the employer and result in tax-free income for employees. They are called §529 Qualified Tuition Programs (QTPs) or §529 Plans. If you are employed even part-time at a veterinary practice at which you are likely to seek work after graduation, ask your employer about this option. Of course, if you are a 3rd or 4th year vet student, there will be not time during which you could work.

4. **Federal Relief.** The federal government has recognized the need to relieve the educational debts for employees working in the field of education. Thus, it is creating loan repayment incentives for students entering this arena.

5. **Work Study.** Most universities offer work study programs where students can work for the school or organization in exchange for discounted tuition, paid tuition, class credit, or other benefits.

   Work study differs from reimbursement because the money goes directly to the university strictly for tuition. Most jobs are only available through the schools that students attend.

WHO'S IN CHARGE OF REGULATING FINANCIAL AID?

In general, the U. S. Government regulates the majority of the educational loan market for college students through federal legislation that sets interest rates and allows for funding directly by the federal government (Direct Loans) or, in prior years, by private banks through the FFEL approach such as by Bank of America, JPMorgan Chase, Sallie Mae, Wachovia (now owned by Wells Fargo) and many more. Loans that were derived through the banking industry had been funded via an infusion of money primarily from private investors in the form of notes known as securities.

The banks then formed lending relationships with students who received loan payments directly from them (FFEL loans). Up until 2007, banks were able to receive an attractive return on their investments in the student loan business. Though profit margins may not have been as high as in other investment sectors, students generally paid back their loans, and if they defaulted, the government backed the loans. Private bank lenders still exist in 2014. As mentioned previously, the big remaining lenders are Great Lakes, Citibank, Sallie Mae and The Access Group.

WHAT PUSHED BANKS OUT OF THE MARKET?

Two key factors contributed to the spring 2008 exit of over 55 lenders who made up 13% of the total student loan market (www.money.cnn.com, April 2008)

1. As part of the federal legislation signed by President Bush in September of 2007, banks began receiving lower subsidies from the federal government in the form of a lower interest rate margin with which to work. Historically, the interest rate for the federally-backed FFEL loans was set at the 90-Day Treasury Bill rate plus 2.34%. This gave banks a reasonable margin with which to work and still make money on their educational loan portfolios. However, as part of this 2007 legislation, Congress lowered the subsidy for these loans to the T-bill rate plus 1.79% for loans originating after July 1, 2007. This 0.55% reduction in the subsidy lowered the margins for the banks. Coupled with the second major change in the financial sector, i.e., higher funding costs as a result of the subprime real estate mortgage debacle, it became clear that bank lenders could no longer generate any profits from this line of business (www.money.cnn.com, April 2008). In fact, many who considered staying in the business found that they would lose money on each educational loan they made.

2. The 2007-2009 credit crunch that hit Wall Street. Changes in the real estate mortgage market that started in 2007 caused interest rates to go up as a result of the reduced amount of available capital. Millions of borrowers with adjustable rate mortgages (ARMS) saw their variable rate interest loans rise by as much as several percentage points. This has brought about the default in payments on such loans by up to 2% of homeowners across the USA, much higher than that in some hard hit regions of the U.S.A. As a result of this change in the market, large financial institutions such as Citigroup, Merrill Lynch, Lehman Bros., Countrywide Financial, and Bank of America lost hundreds of billions of dollars. One of the five biggest, Bear Stearns, was saved from bankruptcy in the fall of 2008 only by action of the Federal Reserve Banking System and a buyout by JP Morgan Chase. Lehman Brothers had already gone bankrupt in the spring of 2008. To avoid a bank failure, Wachovia was purchased in the fall of 2008 by Wells Fargo, one of the wiser banks that had not been devastated by the subprime mortgage mess.

   The result has been private investors demanding higher interest rates for their securities. Historically, this has been the source of the money lenders have used for their educational loans. This resulted in less (or in many cases no) money available for educational loans in 2008; and, when coupled with a slowing economy and higher risks of default by debt burdened recent graduates, the educational loan industry was thrown into a spring 2008 turmoil (www.bloomberg.com).

The bottom line: lower subsidies from the government and increased borrowing costs for banks in the educational lending industry made the federally guaranteed student loan market an unprofitable venture for the banks that previously served as a major source of funds for student loans.

THE FUTURE OF STUDENT LENDING AND EDUCATIONAL DEBT

In May of 2008, the Federal government passed a bill (H.R. 5715) allowing the U.S. Department of Education to buy the remaining 2007-08 federally guaranteed loans that had not been purchased by private banks. Without government intervention, it was expected that demand for loans to fulfill the needs of students headed to school in the fall of 2008 would have vastly exceeded supply.

This, in turn, would have prevented many students from attending school and many universities from balancing their budgets. A June 11, 2008, report estimated that students would be borrowing about $93 billion for their 2008-2009 academic year, $70 billion of which would come from federally guaranteed loans (www.bloomberg.com).

LOAN CONSOLIDATION – MAJOR CHANGES IN RECENT YEARS

1. Prior to July 1, 2006, Stafford loans were variable rate loans that changed each July 1st as adjusted by the rate on the 90-Day Treasury Bill. The Federal Consolidation Loan Program allowed students to lock-in these variable rate loans, which is why consolidation became popular during the period of low interest rates commencing in the early 2000s. A regulatory change announced in 2005 adjusted Stafford Loan interest rates to a fixed rate of 6.8% for all new graduate student loans disbursed after July 1, 2006. That changed in August (2013) when President Obama signed H.R. 1911 and effectively tied student loan interest rates to the 10-year Treasury Note. Each July 1 the rates on newly issued loans will adjust based on the current 10-year T-Note. Once loans are issued, the interest rates are fixed. While this has lowered rates recently, there is the potential, and expectation, that rates will increase in the future. As such, the new law places interest rate caps on the various types of loans. The table below outlines the rates for the 2014-2015 academic year compared to previous years.

Loan Type	Borrower Type	1st Disbursement Date	Fixed Interest Rate
Direct Subsidized Loans*	Undergraduate	7/1/15-6/30/16	4.29%
		7/1/14-6/30/15	4.66%
		7/1/13-6/30/14	3.86%
		7/1/11-6/30/13	3.4%
		7/1/10-6/30/11	4.5%
		7/1/09-6/30/10	5.6%
		7/1/08-6/30/09	6.0%
		7/1/06-6/30/08	6.8%
	Graduate or Professional	7/1/06-6/30/12	6.8%
Subsidized Federal Stafford Loans**	Undergraduate	7/1/15-6/30/16	4.29%
		7/1/09-6/30/10	5.6%
		7/1/08-6/30/09	6.0%
		7/1/06-6/30/08	6.8%
	Graduate or Professional	7/1/06-6/30/10	6.8%
Direct Unsubsidized Loans	Undergraduate	7/1/14-6/30/15	4.66%
		7/1/13-6/30/14	3.86%
		7/1/06-6/30/13	6.8%
	Graduate or Professional	7/1/15-6/30/16	5.84%
		7/1/14-6/30/15	6.21%
		7/1/13-6/30/14	5.41%
		7/1/06-6/30/13	6.8%
Unsubsidized Federal Stafford Loans**	Undergraduate & Graduate or Professional	7/1/06-6/30/10	6.8%
Direct PLUS Loans	Parents & Graduate or Professional	7/1/15-6/30/16	6.84%
		7/1/14-6/30/15	7.21%
		7/1/13-6/30/14	6.41%
		7/1/06-6/30/13	7.9%
Federal PLUS Loans	Parents & Graduate or Professional	7/1/06-6/30/13	8.5%

*As of July 1, 2012 graduate or professional students are no longer eligible to receive subsidized loans.

**No new FFEL program loans have been made since July 1, 2010

Most loans (excluding Perkins Loans) first disbursed prior to July 1, 2006 have variable interest rates that are effective from July 1 of one year through June 30 of the following year. Interest rates for these loans are not displayed on this table. Additional information, including updated rates, can be found at https://studentaid.ed.gov/types/loans/interest-rates.

2. Prior to the 2006 legislation on this subject, students could consolidate their loans while in school. Even better, as interest rates dropped, they could consolidate (i.e. fixing the interest rate downward) more than once. This was big business for all of the bank lenders from 2003 to 2006. During that time students were consolidating their loans at less than 3% and in some cases with the aid of various incentives for direct deposits and on-time payments, achieving interest rates as low as 1.5%. While consolidation is still available via the Direct Loan Program, the benefit of locking in low interest rates is only available for those borrowers who have variable rate loans that were originated prior to July 1st 2006. **So, unfortunately, the days of sub 4% federal loans are long gone for most of today's students.**

DEFERMENTS AND FORBEARANCE

Upon graduation, loans typically have a six-month **Grace Period** during which students do not have to make any payments. After this grace period there are two different ways to delay payment, each of which will generate even more interest in most cases! **Graduates who feel they will be unable to make their monthly payments should not waste any time before contacting their loan providers. Fees and penalties are high for missing payments and will adversely affect credit scores.** That, in turn, leads to higher interest rates for credit card and other debts incurred for costs of living or auto loans.

If you are concerned about making payments or would like assistance in determining the best strategy, , including webinars on the subject such as the one offered by student loan expert, **Heather Jarvis,** www.askheatherjarvis.com is a resource filled with information on loan repayment options and ongoing political and legislative changes on this subject.

The section below outlines options available for postponing loan payments on Federal loans. More information about these alternatives to postpone loan payments can be found at: http://studentaid.ed.gov/PORTALSWebApp/students/english/difficulty.jsp.

1. **Deferments**. This is a temporary suspension of loan payments where interest does not accrue to the borrower on subsidized loans but does on unsubsidized ones[7]. Graduates must meet certain qualifications to receive a deferment. The most common qualifications for federal loans are listed below. The following link provides a list of conditions applicants need to apply for Deferments: https://studentaid.ed.gov/repay-loans/deferment-forbearance.

   In-school deferments are for students who are enrolled in school at least half time and fulfill the qualifications for this valuable aid.

   a. Education related deferments are for students in approved graduate fellowship programs at named institutions or organizations during their graduate fellowships, internships and residencies.

[7] See page 64

This is almost always limited to situations where students are obtaining another or an advanced degree, yet still considered students. Prior to July 1, 2012 interest was deferred on subsidized loans but cumulated on unsubsidized ones. Since that date, there no longer are any subsidized loans, instead, they all cumulate interest.

b. Economic hardship deferments (EHD). Historically, borrowers qualify for this type of deferment for up to three years post-graduation and qualification is based on a number of factors. Many borrowers who qualified for EHD in the past did so through a debt to income type ratio, however, this type of qualification changed on July 1st 2009. Going forward, income alone will determine qualification for most applicants. Financial data must be provided to the lender or servicer each year to retain this EHD and there currently is a three year limit. This type of deferment often was used by students who were in private practice internships or residencies. Similar to the above types of deferments, borrowers will not accrue interest on subsidized loans but will on all unsubsidized loans, adding to the loan balance to be repaid once payments start again.

   The change in qualification requirements for EHD makes it much more difficult to qualify and, in fact, as of 2010, this option has nearly been replaced by the income based repayment (IBR) system discussed subsequently.

c. Unemployment deferments. Borrowers who are unable to find employment may qualify for deferments for up to three years. Again, interest cumulates on all unsubsidized loans during this period and is added to the principle.

d. Military deferments. These have been created for those who pursue military service. For more information on this option visit www.studentaid.ed.gov.

e. Post active duty deferment. This is for students who were called to active duty while enrolled or within 6 months of being enrolled, at a qualified institution.

2. **Forbearance**. This is a temporary suspension of loan payments where interest accrues on both subsidized and unsubsidized loans. The qualifications for forbearance are less stringent than deferment but vary from lender to lender. Depending on the lender borrowers may reapply for up to five years in some cases. As expected, the loan balance will rise substantially but this may give new graduates time to grow into their career, earning a much higher salary than during their first year after graduation.

LOAN REPAYMENT OPTIONS

When considering loan repayment, there are several options and plans from which to choose. And, choose you must, unless you plan to pay off the loans within a ten-year period. If a repayment period or extension is not specified, the plan will automatically be set and billed at the 10-year Standard Repayment Plan. The list below is specific to Direct Stafford loans. For more detailed information on all of these options, visit the websites provided below on a regular basis.

Whereas most of the repayment options apply to all students who have Federal Direct Loans, the first of this group has a long history and is unique to veterinary medicine.

1. **Veterinary Medicine Loan Repayment Program (VMLRP).** In the spring of 2010, the USDA National Institute of Food and Agriculture (NIFA) announced the next phase of the Veterinary Medicine Loan Repayment Program (VMLRP). It is designed to identify and communicate the designated shortage areas (undeserved areas selected by the USDA from the applications received by the State Animal Health officials) and to promote requests for applicants.

Thanks to persistent lobbying by the AVMA, this program, first passed by Congress in 2003, was finally implemented in 2010. The VMLRP assists veterinarians selected for the program with repayment of their educational debt. To date, Congress has provided a total of $23.6 million for the program, including $4.8 million in the fiscal year 2010 agriculture appropriations bill, signed by President Obama in October 2009. Funding for 2011 was $4,790,400, slightly less than it was for 2010. The AVMA was able to secure funding for the 2012 enrollment cycle at the same amount as 2011, which will allow the USDA to award up to $4.3 million to veterinarians across the country. Funding for 2013 fell to $4.43 million, rose to $4.79 million for 2014 and fell again to $4.4 million for 2015. At $75,000 per recipient, this would allow for approximately one veterinarian per state to receive this type of loan repayment, not a big help when we are graduating > 3,200/year. Information about the program, the designated shortage areas, and the application forms can be found at www.nifa.usda.gov/nea/animals/in_focus/an_health_if_vmlrp.html.

What the VMLRP does is to allow participants to retire up to $25,000 per year of qualified educational debt incurred at accredited U.S. colleges of veterinary medicine. In addition, the National Institute for Food and Agriculture, NIFA, (formerly titled the Cooperative State Research, Education, and Extension Service) will reimburse participants for the tax liability they would have incurred as a result of this loan forgiveness program which, depending on their tax bracket, could be up to 39% of the total amount of the loan forgiveness in a calendar year. Without this supplemental funding that money would have created heavily burdensome taxable income for recipients.

A bipartisan group of House and Senate lawmakers introduced S. 553/H.R. 1125 on March 13, 2013 seeking to make the VMLRP awards tax-exempt so more veterinarians can practice in parts of the country where their services are in short supply. The AVMA and more than 150 supporters of the VMLRP point out that eliminating the tax would free up enough money for as many as 20 additional veterinarians to serve in underserved areas with no additional funding from Congress.

The Department of Agriculture announced on November 12, 2013 that it offered awards totaling $4 million to nearly 50 veterinarians toward repayment of veterinary student loans in return for service in shortage areas. This is the first year that the USDA has made renewal awards through this program. Following is a breakdown of the awards:

- The USDA offered 46 awards totaling $4,053,280, comprising loan and tax payments. The mean award was $88,115, comprising loan and tax payments.
- The mean eligible debt for repayment on new awards was $115,793. 79% of new recipients received the maximum loan payment of $25,000 per year, plus tax payments.
- 59% of new awards went to veterinarians who earned a veterinary degree within the past 3 years.
- The awards are for service in veterinary shortage areas in 18 states. These shortage areas include 4 in Iowa, and 3 each in Kansas, Minnesota, Nebraska, and Oklahoma.
- 13 awards were for Type 1 shortages, at least 80% food animal practice. 27 awards were for Type 2 shortages, at least 30% food animal practice in rural areas, 6 awards were for Type 3 shortages, at least 49% public practice.

Eligible applicants must have a veterinary degree, or the equivalent, from a school accredited by the AVMA, have qualifying educational loan debt, be offered employment, establish or maintain a practice in a veterinary shortage of their time as food animal veterinary practitioners.

They also must stay in the designated area for three to four years. Because funding is limited, not all veterinarians applying to the VMLRP are expected to receive loan repayment awards as evidenced above. Interested parties can follow further action at https://www.avma.org/Advocacy/Pages/default.aspx. Those who are interested in the VMLRP can also learn more about this initiative by going to http://www.nifa.usda.gov/nea/animals/in_focus/an_health_if_vmlrp.html. Anyone who wishes to receive news on this subject as it is published in the AVMA Advocate should contact Eric McKeeby at emckeeby@avma.org and asked to be placed on the mailing list.

2. **State Loan Repayment Programs.** As a result of recent state VMA legislative lobbying, 17 states now have their own loan repayment programs, while 2 states (Pennsylvania and Minnesota) have loan forgiveness programs. These plans are especially geared towards veterinarians serving the rural and food animal sectors of the industry. For more information on these options visit https://www.avma.org/Advocacy/StateAndLocal/Pages/State-veterinary-loan-repayment-programs.aspx.

3. **Public Service Loan Forgiveness (PSLF)** This program was started in 2007 by Congress to encourage graduates to work full-time in public service (mostly government and 501 (c) (3) not-for-profit organizations) jobs. Graduates must work in these public service jobs and make 120 on-time payments while employed by a designated 501(c)(3) for at least 30 hours a week. These payments do not need to be contiguous, full, scheduled payments under certain 10-year repayment programs in order to become eligible to have their remaining loan students forgiven. Only Federal Direct Loans are eligible to be repaid. Federal Family Education Loans (FFEL), and Perkins loans, must first be consolidated into Direct Loans in order to be forgiven through this program. An important distinction of the PLSF is loan amount that is forgiven is not taxable as income, which for other forgiveness programs is a significant burden. For additional information, visit http://studentaid.ed.gov/PORTALSWebApp/students/english/PSF.jsp.

4. **Army Active Duty Health Profession Loan Repayment Program** Eligible candidates who become Active Army professional receive up to $40,000 over three years to help repay veterinary school loans. This plan is open to veterinarians with current, unrestricted state licenses and enables them to work in their communities and serve when needed.

   For general information about the financial incentives and benefits associated with joining the U.S. Army Medical Department, visit http://www.goarmy.com/amedd/health-care/benefits.html#finvet. For more information specifically about joining the Veterinary Corps as an active officer and locating a recruiter, visit http://www.goarmy.com/amedd/veterinarian.html.

5. **Army Healthcare Professional Loan Repayment Program.** Eligible candidates who join the U.S. Army Reserve health care team can receive up to $50,000 over three years to help repay veterinary school loans. This plan is open to veterinarians with current, unrestricted state licenses and enables them to work in their communities and serve when needed. Veterinarians on the Reserve health care team also receive special pay in the amount of $25,000 paid in three year increments, for a total of $75,000. For general information about the financial incentives and benefits associated with joining the U.S. Army Medical Department, visit http://www.goarmy.com/amedd/health-care/benefits.html#finvet. For more information specifically about joining the Veterinary Corps Army Reserve and locating a recruiter, visit http://www.goarmy.com/amedd/veterinarian.html.

6. **Federal Faculty Loan Repayment Program.** This is a loan repayment program targeted to health professions faculty members from disadvantaged backgrounds.

Individuals can receive up to $40,000 to help repay their eligible student loans as well as funds from the government to offset the tax burden. In return, they must agree to work as a full-time or part-time faculty member at an accredited health professions college or university for 2 years. Applicants must make sure their employing educational institution will match the funds given by this program. For more information about this program, including PDFs of the fact sheet, application and program guidance, and supplemental forms package, visit, http://www.hrsa.gov/loanscholarships/repayment/faculty/**.**

7. **NIH Student Loan Repayment Program** Two types of loan repayment programs (LRPs) are available through NIH: extramural and intramural. The extramural LRP is for people who are or will be qualified research paid for by a domestic nonprofit institution **outside of the NIH**.

   There are currently 5 programs to which veterinarians can apply, provided applicants can commit at least 2 years to conducting qualified research at a domestic nonprofit organization or U.S. federal, state, or local government agency. The programs are: clinical research, pediatric research, health disparities research, contraception and infertility research, clinical research for Individual from Disadvantaged Backgrounds. In return, NIH may repay up to $35,000 of qualified student loans each year.

   The intramural LRP is for current NIH employees and includes 3 programs: AIDS Research Loan Repayment Program, Clinical Research Loan Repayment Program for Individuals from Disadvantaged Backgrounds, and General Research Loan Repayment Program General Research Loan Repayment Program for ACGME Fellows. They must agree to sign a contract agreeing to conduct appropriately qualified research activities as NIH employees for a minimum of two years for the AIDS and Clinical Research-LRPs, or three years for the General Research LRP. In return, the LRP may repay a maximum of $35,000 a year toward each participant's outstanding eligible educational debts.

   For more information about these programs, eligibility requirements, and the application cycle deadline, visit http://www.lrp.nih.gov/index.aspx.

8. **Standard Repayment Plan.** This entails monthly payments at a fixed amount for up to ten years until your loans are paid in full. There is a $50 minimum monthly payment. People who use this repayment plan may pay the least interest of all repayment plans, but, depending on the amount of debt, will likely have a considerably higher monthly payment compared to others on some of the repayment plans below.

9. **Extended Repayment Plan.** This is similar to standard repayment but calculates a loan term that will not exceed 30 years based on the total amount borrowed and the type of loan. Only FFEL and Direct Loan borrowers who **never consolidated any of their loans** can use this plan.

   If you're a FFEL borrower, i.e., someone with one of these loans prior to 2010, you must have more than $30,000 in outstanding FFEL Program loans. If you're a Direct Loan borrower, you must have more than $30,000 in outstanding Direct Loans. In other words, you may have taken out both types of loans, but will only be able to use the plan on the loan type where you have taken out at least $30,000. Keep in mind that although a longer repayment period may create smaller payments, it also increases the total amount of money that must be repaid due to the accrued interest. In all cases graduates can pay down their loans more quickly at any time.

10. **Graduated Repayment Plan.** The loan term is up to 10 years for this plan.

Unlike the standard and extended options, the graduated plan starts off with lower payments, which increase every two years. (If you expect, your income to increase steadily with time, then this might be a good repayment plan to consider.) There is a $25 per month payment minimum, and the monthly payment at any time must be greater than 50% and less than 150% of what the monthly payment would be under the standard repayment plan.

11. **Income Contingent Repayment (ICR).** This plan only helps repay Direct Loans and has little value in 2014-15. Monthly payments are based on the borrower's annual income, Direct Loan balance and family size, with fixed interest and repayment periods of up to 25 years. After 25 years, any remaining unpaid debt will be forgiven and treated as one-time taxable income that year. Additionally, the ICR includes an interest capitalization cap. ICR only applies to loans made by the U.S. Department of Education, not those in the pre-2006 FFEL Program. However, FFEL loans may be consolidated into federal direct consolidation loans, which then may be ICR eligible.[8]

12. **Income Sensitive Repayment (ISR).** This plan pertains only to older FFELP loans and, like ICR, has little application in the middle of the 2010 decade. The maximum repayment period is equal to the standard ten-year period, and payments are based on annual income alone and range from 4% to 25%. Lenders providing this option are concerned with the debt to income ratio of the borrower in order to ensure that the monthly payment is higher than the interest accrued during that period. Borrowers must apply yearly for this option.

13. **Income Based Repayment (IBR).** This is a **type of payment relief** that became available July 1, 2009. It provides a middle ground between Economic Hardship Deferment and Standard Repayment Terms. Intended to help graduates with lower salaries, many veterinary students with a high debt-to-income ratio stand to gain substantial support from this plan when compared to other professional graduates.

    The plan includes a) an alterable, 25-year repayment period, b) monthly payments based on family size and yearly income, capped at 15% of the borrower's discretionary income, c) partial subsidies for interest on Stafford Subsidized loans (for up to three years), d) loan forgiveness for balances remaining after 25 years of repayment and e) accrued interest does not capitalize to the loan balance. Because you are unlikely to have any income as a single person during your 4th year of veterinary school, it is likely that you may not have to repay anything during your first year post graduation. For a quick assessment of how this works check out the IBR calculator at http://studentaid.ed.gov/PORTALSWebApp/students/english/IBRPlan.jsp to see just what your loan repayment will be for the year following your internship.

    To determine discretionary income, loan servicers will use the bottom line on the first page of a taxpayer's Form 1040 tax return. This establishes what the IRS terms as the taxpayer's *Adjusted Gross Income (AGI)*. This important figure also is the basis for tax deductions elsewhere in the tax return. In the future, servicers and/or lenders will obtain this information directly from the IRS for calculations associated with this program. Participants' AGIs will be used to determine their qualification and to calculate each succeeding year's monthly payments under this program.
    The basic formula for the IBR monthly payment is: (AGI – 150% Poverty Level) times 15%) ÷ 12 months). If that payment amount is lower than the borrower's standard 10-year payment, then the borrower will qualify for IBR.

[8] If the direct consolidation loan personnel require that you default on your FFEL loans to consolidate into direct loans, remind them that this restriction was repealed by sections 7015(c) and 7015(d) of Public Law 109-234, the Emergency Supplemental Appropriations Act for Defense, the Global War on Terror, and Hurricane Recovery, June 15, 2006. If they still give you trouble, ask the FSA Ombudsman for help.

Borrowers who have not been in repayment for 12 months may have to provide alternative documentation to demonstrate their income. In this case it is important for borrowers to appropriately prepare their alternative documentation to ensure their payments are calculated correctly.

As of 2014, the amount of each person's loan that is forgiven at the end of the twenty five-year IBR period will become taxable income in that year. For graduates with large debts remaining at that time, i.e., greater than $450,000, this will be a serious tax burden for which excellent financial planning will be essential. For some, the tax itself could be >($125,000) may be so large that this tax can be discharged only in bankruptcy.

Further details regarding forgiveness, the debt-to-credit ratio and joint vs. individual income rules are available at www.finaid.org.

Overall, income-based repayment (IBR) is usually better for borrowers than income-contingent repayment (ICR), especially as the borrower's financial circumstances improve. (See www.finaid.org for more information on this and the Public Service Loan Forgiveness program that provides loan forgiveness after ten years of public service. However, see also the next section covering Pay As You Earn (PAYE).

Public service jobs include, among other positions, government and military service plus many others, including work for tax exempt §501c(3) organizations. For veterinary graduates, this may include working for a University or for federal organizations such as the USDA, FDA or CDC.

For the most current information on IBR please visit http://studentaid.ed.gov/PORTALSWebApp/students/english/IBRPlan.jsp. At this site you can determine your eligibility via the IBR calculator. As a new grad doing an internship, you will be amazed at how small your monthly payment is. For example, a student with $200,000 of educational debt being paid $29,000 in W-2 income while completing an internship will be paying a mere $160.month. Of course, the unpaid interest on unsubsidized loans is cumulating rapidly so that as you start earning more money, and have a higher AGI, your payments will rapidly rise. Also visit http://www.finaid.org/loans/ibr.phtml. Both of these sites have a wealth of valuable information that cannot be fully articulated in this handout.

14. **Pay As You Earn (PAYE) Repayment Program.** PAYE is very similar to the Income-Based Repayment (IBR) plan, but with two very distinguishing factors. First, monthly payments under it are reduced to 10% of a borrower's discretionary income versus 15% under IBR. Secondly, under PAYE the remaining balance on a borrower's loan is forgiven after 20 years of qualifying payments instead of 25 years as is with IBR.

    PAYE is available for borrowers who received their **first** federal student loan on or after October 1, 2007 **and** a federal student loan on or after October 1, 2011. You must be a new borrower. You are a new borrower if you had no outstanding balance on a Direct Loan or FFEL Program loan as of Oct. 1, 2007, or if you had no outstanding balance on a Direct Loan or FFEL Program loan when you received a new Direct Loan or FFEL Program loan on or after Oct. 1, 2007. In addition, you must have received a disbursement of a Direct Subsidized Loan, Direct Unsubsidized Loan, or Direct PLUS Loan for graduate or professional students on or after Oct. 1, 2011, or you must have received a Direct Consolidation Loan based on an application that was received on or after Oct. 1, 2011. In addition to your being a new borrower, you must also meet the Partial Financial Hardship requirements as with IBR.

Students who received federal student loans prior to October 1, 2007 and none after October 1, 2011 will **not** be eligible for this program. The finalized regulations were published in November of 2012 and are available with the other electronic files for the Career Development Personal Finance course or at http://studentaid.ed.gov/repay-loans/understand/plans/pay-as-you-earn.

That site includes a link to a calculator to help students determine their monthly payments. It compares the cost of repaying Federal student loans using the Income-Based Repayment (IBR) option and the standard repayment option, including the net present value of those payments. Interestingly enough, the UK, Ireland, New Zealand, Australia and Morocco all have similar systems in place. Also available is a PAYE calculator(10% IBR Version) at www.finaid.org/calculators/ibr10.phtml.

President Obama used his regulatory authority to fast-track implementation of the improvements, which started December 21, 2012. Because the fast-tracked version of Pay as You Earn was based on the income-contingent repayment plan, it is available only for loans in the Direct Loan program.

Borrowers with loans in the FFEL program may consolidate their loans into a Direct Consolidation loan to qualify, even if they previously consolidated their loans in the FFEL program.

Borrowers who are ineligible for the 10% version of income-based repayment are eligible for the existing 15% version of the income-based repayment plan. When calculating their loan repayments, these borrowers should use the 15% version of the income-based repayment calculator if they do not qualify for the 10% version of the income-based repayment plan.

15. **REPAYE.** As of May 2015, the Department of Education, as directed by President Obama, announced a proposed revision of the PAYE program called Revised Pay As You Earn (REPAYE). Under the proposed REPAYE, payments will be capped at 10%, graduate loans will be forgiven at 25 years, REPAYE will qualify for the Public Service Loan Forgiveness program and excessive interest over the monthly payment amount will be reduced by 50% at the end of the term. From the borrower's perspective, REPAYE has one significant downside. REPAYE requires the addition of the spouses' income for all married persons. REPAYE is going through the rulemaking process and is expected to be opened for public comment by end of year 2016.

16. **Comparing the Various Loan Repayment Options –** Thanks to a yeoman's effort by Dr. Paul Pion, VIN CEO and his VIN Foundation (and with Dr. Wilson's assistance) there is a new tool that can be used to compare the four available repayment options. It takes some time to learn how to use the program but it is of huge value as debt laden students contemplate their repayment options. You may need to use your VIN number to access it. If you have one, click the following link, http://www.vinfoundation.org/loansim

17. **2013 Legislation That Changes Student Loans.**
    In late July, 2013 members of the House of Representatives voted 392 to 31 to lower rates for undergraduates taking out government loans this school year to 3.86% - cheaper than the 6.8% interest rate that kicked in on July 1. The new rates would be retroactive and apply to loans taken out after July 1. President Obama signed this bill into law on August 9, 2013.

    As House members debated the bill, many Republicans took credit for the deal. They noted that the Senate version wasn't much different from their own student loan bill, which linked rates to the bond markets.

"My colleagues and I have been fighting for months for a long-term market-based solution that will serve students and taxpayers, and the legislation before us today will do just that," said Minnesota Republican John Kline, who runs the House education panel. The new rule doesn't apply to loans that students get from private lenders. It only affects Federal loans, which are made by the U.S. government to help finance a college education.

On July 1, 2013 **the interest rate on subsidized Stafford loans doubled** from 3.4% to 6.8%, affecting 7.4 million students. The subsidized loans are based on financial need and account for about 26% of all federal student loans, according to the Congressional Budget Office. Unsubsidized loans and graduate loans were already paying 6.8% interest rates.

The latest bill "helps" all students, with the basic principle being that it ties student loan rates to the bond markets. This fall, undergraduate students will pay an interest rate of 4.29% on their loans, down from 4.66% last fall. This rate is comprised of the yield on the 10-year U.S. Treasury note on June 1, plus an additional 2.05%. Graduate students will have to pay 5.84% on loans this fall, down from 6.21% last fall, 3.6% over the 10-year Treasury.

When rates on Treasury notes rise, so would student loan rates under the new deal. PLUS loans have been set to 6.84% for the current academic year, a 4.6% spread above the 10-year T-Note. However, the bill makes provisions to protect students if bond yields were to spike. Loans will **be capped at 8.25% for undergraduate loan vs. 9.5% and 10.5% for PLUS loans for graduate and professional students.** The law applies to loans made on or after July 1, 2013.

Sen. Tom Harkin, the Democratic chairman of the committee that oversees federal education programs, also was present in announcing the deal. The Iowa senator had resisted for weeks agreeing to a plan unless it included caps on how high the interest rates on the loans could rise. Speaking after Thursday's news conference, Harkin said lawmakers may revisit the student loans issue when his committee wades into altering the Higher Education Act in the next several months. Even as Harkin praised the deal, he said he might reopen it as early as next year.

"Can we change it? Sure we can change it," Harkin told reporters. "This is not the Ten Commandments written in stone for God's sake." "If we don't pass a Higher Education Act at least there is certainty in the future. If we pass a Higher Education Act, we might want to leave it the same we might want to change it a little bit. I don't know," he continued.

SUMMARY AND WHERE TO GO FROM HERE

This is a condensed explanation of the recent crisis in the rapidly changing educational loan world. It is truly wreaking havoc on all veterinary students with loans equal to or higher than the 2014 national average of $165,675. It is not a pretty picture, and because of the skyrocketing national debt, no easy governmental solutions are in sight.

Obtaining correct and contemporary information requires a great deal of due diligence and planning in order to make decisions about this expensive, complex, confusing and ever-changing financial issue. Here's hoping this handout helps you migrate through the maze of student loans and repayment options with more ease and much less time than you would have without this information.

Many thanks to Steve Kellner, Dr. Wilson's Executive Assistant and Lance Roasa, DVM both of whom have spent time locating the materials for and editing the multiple drafts of this information to help students in veterinary schools across America!

Some of the most important thanks, however, are in order for the effort provided by Heather Jarvis, without whom the accuracy of this most difficult article would not have been possible.