Student Loans 101: Taming The Educational Loan Monster

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***Note**: the educational loan environment has been a highly volatile one 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 2009 *JAVMA* salaries and indebtedness show that 11.2% of today's veterinary graduates have > $200,000 of educational debt while 11.4% have none. Just under one third have > $150,000. [1] At the end of the academic year, 2009, the mean debt was $129,976, up over $10,000 per graduate from 2008. Of considerable importance, however, is the fact that these numbers are modestly misleading. They exclude debt levels for more than 500 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 a mean of $65,185.[1] Moreover, rarely do they understand that the salaries for most of them as associates will plateau at between $85,000 and $100,000 ten years after they have graduated.[2] The worst mistake some 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, even by bankruptcy.

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 2009 graduates of US veterinary medical colleges. *J Am Vet Med Assoc* 2009; 235: 523-526.

[2] *AVMA Report on Veterinary Compensation, 2009 p. 43* (reporting data from 2007) and *2009 Survey of Compensation and Benefits For Associate Veterinarians 2009* p. 4-5.

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.[3] Thus, they also need to understand veterinary medicine as a business and not just as a "calling."

Since the interest rate on federal Direct Loans has been fixed at 6.8% since July 1, 2006 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 use the financial simulator salary projection and personal budget program located on the Veterinary Pet Insurance Co. sponsored www.finsim.umn.edu website.[4] 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 $28,545 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[5], 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. Even those borrowing the national average of $130,000 in 2009 will be paying $902 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 and Ross University provide access for their students to the Direct Loan Program. St. George's and St. Mathews Universities in the Caribbean are working diligently to allow their students access to these loans even though

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[3] Information acquired from NCVEI, 2009.

[4] 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 Veterinary Pet Insurance.

[5] 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.

as of 2010 they are still unaccredited. In general these loans are available to all undergraduate, graduate, and accelerated or continuing education students.

a. **Subsidized Stafford Loans** are available only to students who have financial need. The federal government pays the interest while the student is in school and/or an internship or residency in a post-secondary educational institution and during what is called the grace period. **Grace periods** consist of the time between graduation and a date when repayment of all federally subsidized loans starts. This is usually six months after graduation. The annual limit for these loans is $8,500 per year for graduate students.

b. **Unsubsidized Stafford Loans** are available to all 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. The annual limit here is $32,000. (http://www.finaid.org/loans/studentloan.phtml)

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. 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 2006 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 summer of 2010, it appears that these types of loans may disappear entirely, to be replaced only with Director or private loans. (Again, visit www.finaid.com for the most up-to-date information.)

3. **Graduate 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., 7.9% for Direct Grad PLUS loans. 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. **<u>Perkins Loans</u>**. 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. **<u>Private Loans.</u>** 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 Grad 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 2010 generally are at the LIBOR (London Interbank Overnight Rate) plus 10%, depending on the month of the year, and one's credit scores – as determined by the bank. In 2010, the average private loan interest rate is between 11% and 16%, cumulating interest while students are in school and this during a time of extremely low interest rates. 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.

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. **<u>Pell Grants.</u>** 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. **<u>Scholarships.</u>** 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.

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. As of 2010, it appears that this educational loan funding system for students is no longer a factor in the market.

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

Government 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. This interest rate has remained fixed at 6.8%

for **graduate students** since that time. The interest rate for undergraduate loans gradually drops to 3.4% by 2011 (on subsidized Stafford only). More information, including updated rates, can be found at www.studentaid.ed.gov.

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, achieving interest rates as low as 1.2%. **Unfortunately, those days are long gone for 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, **Graduate Leverage's Advisory Service** is a great resource to ensure you are well informed and are making the best decisions regarding your debt or any of the options described below. For more information and a personalized assessment of how they may be able to assist you can go to www.glAdvisor.com.

The section below outlines options available for postponing loan payments on Federal loans.

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. Graduates must meet certain qualifications to receive a deferment. The most common qualifications for federal loans are listed below. The entire list can be found at https://www.dl.ed.gov/borrower/QctrHelpIndex.do?SectionId=FAQU&APageID=QctrFaquA011.

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

    b. Education related deferments are for students with these types of loans who are seeking post-graduate training at institutions of higher education or at other named institutions or organizations during their graduate fellowships, internships, and residencies. This is almost always limited to situations where students are obtaining another or an advanced degree, yet still considered a student.

    Interest is deferred on subsidized loans but cumulates on unsubsidized ones, although borrowers have the option of paying the unsubsidized interest as they go – if they can.

    c. 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.

d. 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.

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

2. **Forbearance**. This is a temporary suspension of loan payments where interest accrues on both subsidized and unsubsidized loans. Graduates do not need to meet any qualifications to be granted forbearance, and 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 www.studentaid.ed.gov and www.loanconsolidation.ed.gov 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, will finally be implemented in 2010.

   The VMLRP will assist veterinarians selected for the program with repayment of their educational debt. To date, Congress has provided a total of $9.6 million for the program, including $4.8 million in the fiscal year 2010 agriculture appropriations bill, signed by President Obama in October2009.

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. Based on a May 2010 PVMA newsletter, Pennsylvania has two shortage areas. In both of these designated areas there is a shortage of private practice veterinarians who serve beef and dairy cattle, swine, poultry, and small ruminants.

The VMLRP will 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, at least for 2010 recipients, 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.

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 area, and spend 80% 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.

Interested parties can follow further action at http://www.avma.org/advocacy/default.asp. It is expected that NIFA will select the first cohort of veterinarians to fill these slots by Fall 2010. 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 Forgiveness Plans.** As a result of recent state VMA legislative lobbying, many states now have their own loan forgiveness plans, especially for veterinarians serving the rural and food animal sectors of the industry. For more information on these options visit www.avma.org/advocacy/state/loan_repayment_programs/default.asp.

3. **Standard Repayment Plan.** This entails monthly payments at a fixed amount for up to ten years. There is a $50 minimum monthly payment.

4. **Extended Repayment Plan.** This is similar to standard repayment but calculates a loan term between 12 and 25 years based on the total amount borrowed and the type of loan. 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. A balance of $30,000 or more in total student loan debt is required for the twenty five-year extended plan. In all cases grads can pay down the loan more quickly at any time.

5. **Graduated Repayment Plan.** Like the extended plan, the loan term is between 12 and 25 years. Unlike the standard and extended plans, the graduated plan starts off with lower payments which increase every two years. 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.

6. **Income Contingent Repayment (ICR).** 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.[6]

7. **Income Sensitive Repayment (ISR).** This plan pertains only to older FFELP loans. 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.

8. **Income Based Repayment (IBR).** This is a **new type of payment relief** starting 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) and d) loan forgiveness for balances remaining after 25 years of repayment.

   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.

   As of 2010, 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, this will be a serious tax burden for which excellent financial planning will be essential.

   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 probably 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. Public service jobs include, among other positions, government and military service plus many others, including work for tax exempt §501c(3) organizations.

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[6] If the direct consolidation loan people say that you must have defaulted 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.

As mentioned previously, the Graduate Leverage firm has spent considerable time developing a loan repayment analysis system that helps fourth year students, interns, residents and recent grads determine how and whether IBR repayment plans can assist them as they select from among these six repayment options.

See Also – Separate Document Entitled

Newest Changes Coming in Federal Loan Repayment Programs (July 2010)

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 2009 national average of $130,000. It is not a pretty picture, and because of the skyrocketing national debt, no easy governmental solutions are in sight.

However, as discussed previously, many options exist for students or new grads who want to do their homework to reduce their debt and total payback of interest and principal - and more options are becoming available. Graduate Leverage (GL) provides a valuable debt advisory service and the analytical tools to graduate level college students who often will not find time in their schedules to pick the best course for repayment as they migrate through this minefield of options. 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. A more thorough description of Graduate Leverage's service can be found at www.glAdvisor.com.

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