Medical School Loans
Guide to Funding Your Medical Education

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One Student, One Loan

Learn what every medical student needs to know about consolidation.

There are two types of student loan consolidation programs: one for federal student loans and one for private student loans. You may use the same lender for your private consolidation and federal consolidation, but it's not possible to combine the two types of loans into one loan. There will always be a separate payment for each type of consolidation.

Federal Student Loan Consolidation

Under current law, interest rates on federal student loans, such as Stafford loans, are variable. Currently, students pay variable or fixed interest rates on their Stafford loans. However, the variable interest rates on federal student loans are subject to change on July 1 of every year. Consolidation locks in a low interest rate.

This significant difference in interest rates amounts to thousands of dollars in interest payments over the life of a loan. However, by taking advantage of the federal student loan consolidation program, it's possible to beat the new law and avoid paying thousands of dollars in unnecessary interest payments. The program allows users to lock in a low interest rate and avoid the new, higher rates.

With this kind of consolidation, your existing federal student loans are paid off and replaced with one new loan. Rather than multiple lenders and multiple monthly payments, you end up with one lender and one monthly payment.

That might already sound like a pretty good deal, but the most valuable benefit of consolidation is the savings. Once you consolidate, you lock in the current low interest rate for the entire life of your new loan. Securing this low rate on your consolidation and avoiding the upcoming rate increase will save you thousands of dollars in interest.

Your base interest rate will be the same regardless of what lender you use to consolidate your loans. However, there are still differences between lenders. Consider the customer service and payment incentives, or borrower benefits, that each lender offers before determining which lender to use for your consolidation. Most lenders will offer some type of payment incentive to help you reduce your interest rate even further. Carefully compare each lender's incentive program. Sometimes, the borrower benefits alone may save you tens of thousands of dollars over the life of a loan.

Another advantage to consolidating your federal loans is that you can stretch out the payments on a federal consolidation loan for as long as 30 years. That means that your monthly payment will be significantly lower when compared to the monthly payment on your current federal loans. Most lenders offer different types of graduated-repayment plans that will reduce monthly payments in the early years of your loan and then gradually increase your payments later on.

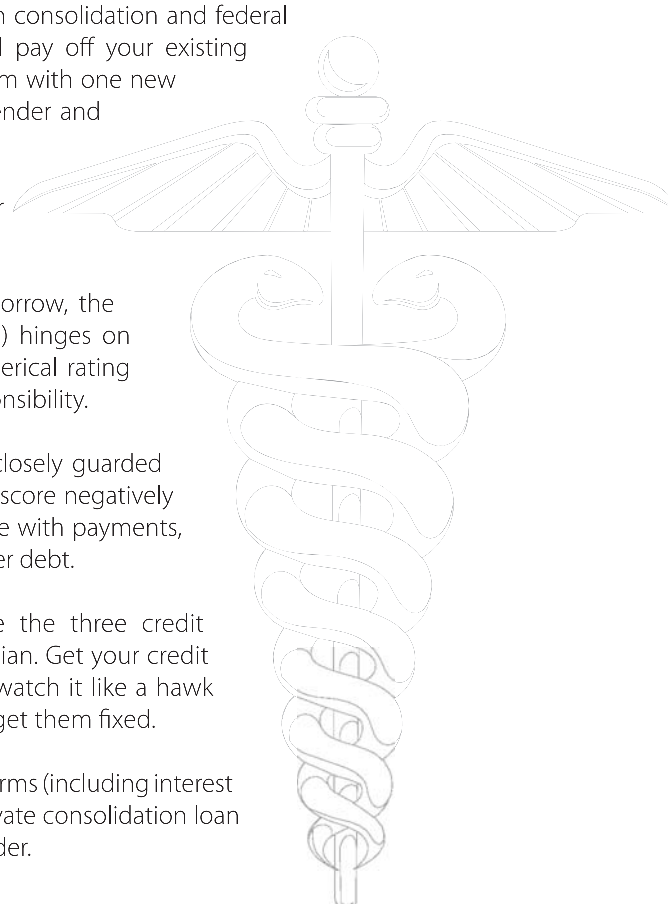
Best of all, there are no strings attached for federal student loan consolidation. There are no fees, no credit checks, and no prepayment penalties. To qualify, you only need to have more than $7,500 in eligible student loan debt and be in good standing with your lenders on these loans.

The application process is simple. Most lenders offer an online application requiring general information such as references, personal information, and loan information. Your lender should be able to provide you with details about your loan for your application.

Private Loan Consolidation

Private loan consolidation, like a private education loan, has nothing to do with the federal government. In reality, a private consolidation loan is just another form of consumer lending, like a credit card.

The main similarity between private loan consolidation and federal loan consolidation is that a lender will pay off your existing private education loans and replace them with one new private loan, so you end up with one lender and one monthly payment.



Unlike federal consolidation, eligibility for private consolidation is based on credit. With private consolidation, everything (your eligibility, the amount you can borrow, the interest rate, and any fees on the loan) hinges on your credit rating or FICO score, a numerical rating intended to indicate your financial responsibility.

How your score is calculated is a very closely guarded secret; but some things that affect your score negatively are not having a credit history, being late with payments, and having too many credit cards or other debt.

The keepers of your credit rating are the three credit bureaus: Equifax, TransUnion, and Experian. Get your credit report from them; read it; and start to watch it like a hawk from now on. If there are any mistakes, get them fixed.

In contrast to federal consolidation, the terms (including interest rate, fees, and repayment terms) of a private consolidation loan may vary significantly from lender to lender.

The interest rates on private consolidation loans are usually variable rates. The method of calculation differs depending on the lender. Repayment terms will vary between 10 and 30 years, based on the lender and the amount of the consolidation.

A lender can preapprove you over the phone for a private consolidation loan in about 10 minutes and will explain the proposed terms of the loan at the same time. It pays to shop around; there may be room for you to negotiate the terms of your private consolidation loan with your chosen lender. The consolidation process usually takes around three months. The actual time to process your consolidation depends on how long it takes for your loan holder to release your information.

Finding Federal Funds

If you are planning to pay for medical school through a loan, consider taking out a Stafford Loan. Stafford Loans are ideal for medical school students because of their locked interest rate and convenient repayment options. The interest rate for Stafford Loans is fixed at 6.8% for loans dispersed after July 1, 2006, and starts at a variable rate of 6.54% for loans dispersed prior to July 1, 2006. Either way, the interest rate is capped at 8.25%, and new rates will be decided July of 2007. With medical school Stafford Loans, you have a six month grace period after you graduate to start repaying your medical school loan, and you then have ten years to completely pay off your medical school loan. Keep in mind, there are various channels from which can receive an extension.

Medical school Stafford Loans can be subsidized or unsubsidized. When a loan is subsidized the federal government will pay your interest while you are in school, a grace period, or in deferment. Unsubsidized loans are loans in which you have to pay the interest on the loan, but payment is deferred until after you graduate. To receive a subsidized Stafford Loan, a student needs to be able to exhibit financial need.

The amount of money you can borrow through Stafford Loans is decided by your plan to advance in your education. New borrowing laws will go into affect on July 1, 2007, which will allow for more borrowing than has previously been permitted. The following statistics are based upon this new data for dependent students; students who are legally still under their parents.

Medical School Student Borrowing Limits

- Per Year - $40,500
- Cumulative Limit - $189,125

The two different types of Stafford Loans are: Federal Family Education Loan Program (FFELP) Loans and Federal Direct Student Loan Program (FDSLP) Loans.

Federal Family Education Loan Program (FFELP)

FFELP Loans are financed off of money from private lending institutions, including but not limited to-
Banks

- Credit Unions
- Savings and Loan Associations

Though FFELP Loans are private, they are still insured against default through the federal government. The main advantage of FFELP Loans is that you have the choice to borrow from wherever you want to. Many schools have a preferred lenders list that will provide you with solid borrowing options. The lenders on this preferred lenders list are recommend by the school as reputable and easy to work with. Though schools would rather that you borrow from one of their preferred lenders, you are not required to do so. The disadvantage to a FFELP Loan is that your loan can be resold resulting in a different institution handling your Stafford Loans. This can lead to unnecessary complications when you have any questions or concerns about your loan.

Federal Direct Student Loan Program (FDSLP)

FDSLP Loans are offered through certain colleges or universities known as Direct Lending Schools and are offered by the US Federal Government directly to students and their legal guardians. Direct Lending Schools loan money directly to students, eliminating the middleman in the equation. If you are attending one of these medical schools, you have the option of taking out FDSLP Loans or a combination of FDSLP and FFELP Loans. The downside to FDSLP Loans is that you are stuck with the schools set interest rate. However, by eliminating the middleman your loan will be easier and less stressful to manage.

Consolidation

By consolidating your loans, you are able to lock-in a fixed interest rate based on the weighted average interest rate of your loans. In addition to the fixed rate, monthly payments may also be lowered, as your loan repayment period may be extended up to thirty years. The borrower benefits that you receive when consolidating through Medical School Loans can help you save even more money. By enrolling in our automated debit program, your interest rate will be reduced by 0.25%. You can also receive an additional 1% interest rate reduction by consolidating $20,000 or more in eligible medical school student loans and making thirty-six consistent on-time payments.

Repayment Options

Repayment options differ depending on the type of loan you have. Attending Exit Counseling will give you detailed information on your repayment plans. With a FFEL or a Direct Loan, there are a variety of options available for repayment. With a Federal Perkins Loan, your monthly payment will be dependent upon the size of your loan, and the length of the repayment period, which is normally ten years.

Deferment

A medical school loan deferment allows you to temporarily suspend payments for a specific period of time after your grace period is over. This option is available to borrowers who based on a variety of reasons, find it difficult to make their medical student loan monthly payments. You must apply for deferment and meet the qualifications, therefore proving that your circumstances have need for it. This is usually due to financial situations that hinder your repayment progress.

Forbearance

Like deferment, forbearance a temporary allows you to suspend monthly payments for a period of time. Forbearance is used when a borrower is financially unable to make monthly payments and is usually a last resort when borrowers have used all deferment options. As in deferment, you must apply and meet the minimum requirements before receiving forbearance status. Also, the interest that accrues while in forbearance must still be paid off.

One of the largest points to consider when taking out or consolidating medical school loans is the interest rates on the loan. This interest rate will determine just how much extra money you will pay in addition of the principal of the loan. All loans including Stafford, PLUS, Perkins, private or consolidated loans have some type of interest rate attached to them.

Plus Loans

PLUS loans also changed to a fixed interest rate on July 1, 2006. However, the PLUS loan rate is higher, currently at 8.5%. PLUS loaning institutions are also offering lower rates and incentives attempting to beat the competition.

Perkins Loans

Need-based loans extended from schools to students are known as Perkins Loans. These loans carry the lowest current interest rate of all new loans, a fixed rate of 5%. The loans have a ten year repayment period and a 9 month grace period. Also, since they are subsidized by the federal government, interest does not begin to accrue until repayment begins.

Consolidated Loans

Federal Consolidated loans have a fixed interest rate based on the weighted average interest rate of all the loans being consolidated by the individual borrower. Not only does a consolidated loan have a fixed interest rate, but the monthly payment is also lowered as the loan may be extended to thirty years. Federal consolidations also help borrowers save money through borrower benefits. Medical School Loans currently allows you to reduce your interest rate by 0.25% if you enroll in our automated debit program. Also, if you consolidate $20,000 or more in eligible medical school student loans and make thirty-six consistent on-time payments, you will receive an additional 1% interest rate reduction.

MEDICAL SCHOOL LOANS

Private Loans

Another form of funding for your medical school education is a private loan. One of the regulating points on interest rates for private medical school student loans is the Prime Interest Rate. The Prime Interest Rate is usually 3% higher than the Federal Funds Rate. The Federal Funds Rate is the interest rate that lending institutions charge each other for immediate loans meant to complete reserve funding requirements. The most openly accepted Prime Interest Rate is the Wall Street Journal Prime Rate provided by the daily published Wall Street Journal. The Wall Street Journal characterizes the Prime Rate as "the base rate on corporate loans posted by at least 75% of the nation's 30 largest banks." This means that when 23 out of 30 of the largest US banks change their independent Prime Interest Rate, the Wall Street Journal updates the Prime Rate. Right now the WSJ Prime Rate is sitting at 8.50%.

The interest rate on most private medical school loans is directly tied to one of the major financial indexes, mainly the Wall Street Journal Prime Rate, the federal Prime Interest Rate, or the London Interbank Offered Rate (LIBOR) Index, plus an added overhead charge. This overhead charge is based upon the credit history of the borrower so it will vary depending on their credit score.

An applicant can fall into 6 different credit tiers based on his credit standir Excellent credit might land him in the top tier while average credit cou land him in the third. This, together with the degree he has earned, w determine the final margin. For instance, if he lands in the top tier and h earned a Bachelor's degree, the margin of interest will be 3.00%. However, a lower tier, say tier B, will result in a slightly higher margin, 3.25%. The same formula is used to determine any loan fees that may apply. In the case of Medical School Private Consolidation Loan, an origination fees is added to the principal balance. The origination fee is a percentage of the principal balance based on credit tier and highest level of education achieved. Lastly, the credit tier an applicant falls into will determine the maximum amount she can borrower. Essentially, the higher the credit tier, the more she can borrower. The maximum for all borrowers is $150,000.

Controlling Your Financial Future

Depending on a borrower's situation, student debt consolidation's long- and short-term effects can be beneficial.

Life is good. After years of hard work and taking out loans, you've graduated, and you have a great job. The money is coming in, you're building a good credit history, and you have had no problems making your student loan payments. You're on the way to having everything you've been working for, both professionally and financially. So why should you bother with consolidating your student loans? Because you still need to protect your financial future.

The federal student loan consolidation program is intended to help borrowers better manage their loans, regardless of income. Let's face it. Grad school of any kind, least of all medical school, is not cheap. Many medical students will have taken out $100,000 or more in loans by the time they graduate, and the interest doesn't make things any easier.

But you're making payments. You're on top of things. You may even be able to pay the loans off early with your great, new salary. Why should you worry?

Well, why should you keep paying thousands of dollars more on your debts; instead of taking a few minutes and saving a fortune? Your loans were taken out for a specific purpose: to get you through med school. You've gotten what you need out of them. Paying debts is necessary, but it doesn't add anything to your life. With the money you could save every month with consolidation, you could lease and insure an luxury car or to buy a home.

Federal loan consolidation provides many benefits to help you with your debt.

Borrowers who consolidate enjoy a fixed interest rate. Many borrowers do not realize that their federal Stafford loans have a variable interest rate until they consolidate. The interest rate for student loans is adjusted each year on July 1. On Dec. 21, 2005, Congress passed legislation that will cut $12.7 billion in funding out of the federal student loan program. This means that graduates will face higher interest rates and fewer options after July 1, 2006. Consolidating your loans now ensures you will receive a low, fixed interest rate for the life of your loan. Your loan will not be affected by yearly interest rate increases.

The fixed interest rate for a consolidation loan is based on the weighted average of the interest rates of the loans being consolidated, rounded up to the nearest one-eighth of a percentage point, not to exceed 8.25%. For borrowers still in school or in their grace period, the consolidation interest rate would be 4.75%. This is a very good rate, especially when you consider that consolidations were being done at the maximum rate of 8.25% only a few years ago. With interest rates on the rise, it is important to lock in a low fixed interest rate by consolidating now.

Suppose you've got a good interest rate at the moment. What can consolidation do to help you? The federal government, in an effort to make up the crushing national deficit, has recently announced that the interest rates on federal student loans will be rising dramatically in the very near future. Although you may have a low interest rate now, the interest rate on your loans will soon be rising significatly.

Monthly student loan payments are expected to increase by about 30% because the Treasury bill rate, which the government uses to reset annual student interest rates, is predicted to rise an additional 1.7 percent After the hikes in interest rates, financial experts predict that graduates will have to pay an additional $1,000 in interest charges for every $10,000 that is borrowed. That is a large chunk of your paycheck that you'll be forced to hand over, with nothing received in exchange.

Consolidating also helps to lower your monthly payments. The lower your fixed interest rate is, the lower your payments will be. Also, consolidating federal student loans generally extends the loan term, thereby reducing your monthly payments even further. Unconsolidated student loans typically have a loan term of 10 years. When you consolidate, this term is often extended to as long as 30 years, based on your total amount of student debt.

You are not having any trouble with your payments now, but who knows what the future will bring? Lowering your monthly payments helps to protect you in case your financial situation changes. Having that extra money at your disposal opens up options for you in your career and your day-to-day life. If you don't like the idea of extending your loan term, keep in mind that there is no prepayment penalty on federal consolidations. You can always pay more than your scheduled payment and pay off your loan early without risk of being assessed a fee.

Another great benefit of federal consolidation loans is that they remain guaranteed by the government. Therefore, they are very attractive for private lenders making these loans. Because of this, lenders often offer responsible borrowers further reductions in interest rates to attract their business. These payment incentives, coupled with a fixed interest rate for the life of the loan, make federal consolidation loans very affordable compared to other types of consumer credit. You can generally borrow tens of thousands of dollars while still maintaining a manageable monthly payment. Also, if you run into a period of financial difficulty, federal consolidation loans generally qualify for periods of deferment or forbearance until your financial situation improves.

You should be proud of yourself for achieving your professional goals. Your future is bright. Consolidate your federal student loans now to begin saving and enjoying the money you are making.

Stay Informed About Aid

Fed up with being bogged down with debt, students across the nation are taking matters into their own hands, campaigning for changes in federal financial aid. Angered by legislation such as the Deficit Reduction Act, which sliced funding for federal aid programs more than ever before, student organizations are preparing for battle.

With the cost of college increasing much faster than family incomes, students today graduate with sizable amounts of debt. This debt then influences job choices, forcing students to settle for the first job that comes their way in order to pay the bills. This often leads to decreased rates of job satisfaction, which leads to lower productivity.

The average student at a community college graduates with $6,100 in student debt. Graduates from public colleges graduate with $15,500 in debt; and at a private college, student debt averages $19,400.

One of the many student organizations involved in the fight for change is the United States Student Association. USSA prides itself on being the "oldest and largest national student organization" in the country and makes it its mission to mobilize students across the nation, teaching them that it is possible to bring about change at colleges and universities.

"USSA believes education is a right and works on building grassroots power among students to win concrete victories that expand access to education at the federal, state, and campus level," the association's website states.

The association is dedicated to educating and training students to rise up and make a difference on their individual college campuses. It encourages students to write letters, lobby, and participate in hearings; and on its website, USSA provides links to fact sheets, lobbying tips, lists of senators and representatives, and information on legislative issues.

USSA advises its members to write editorials, call their elected officials, and be a part of media events. The organization also hosts LegCon, an annual conference at which students from across the country can gather for discussion and action.

USSA offers two different training programs to educate and mobilize students. They are GrassRoots Organizing Weekends (GROW) and Electoral Action Training (EAT). Both training options are made up of a combination of presentations, discussions, and real-world application.

GROW is almost an overview of USSA's mission, teaching students the basics on how to get involved.

"The USSA Foundation's GrassRoots Organizing Weekends training teaches students successful strategies and skills developed by experienced organizers over the last 50 years," the association's website reads.

EAT is focused more on political movement and effecting change through voting.

"The Electoral Action Training has been developed by the U.S. Student Association Foundation to break the cycle of neglect between students and our elected officials," USSA's website states. "Drawing on the experience of community electoral organizers and student electoral campaigns on campuses across the country, EAT gives students the power to mobilize student votes to win victories on Election Day and beyond."

"Educated, organized, and united, USSA leads the fight to make education a right, not a privilege," USSA's website says.

In response to President Bush's 2007 budget, student organizations such as USSA are rising up and speaking out against decreases in education spending.

USSA stated that the budget "will limit access to higher education for millions of students and families."

The budget will reduce or eliminate 141 federal programs and do away with 42 Department of Education programs, a loss of $3.5 billion in funding. Six major programs will be cut from colleges and universities across the nation, totaling $893.1 million. The six programs are LEAP, Perkins Loans, Talent Search, Upward Bound, GEAR UP, and the Thurgood Marshall Fellowship.

Also, the budget level-funded six important programs, meaning the amount of funding allocated to these programs will be the same as the year before. Level funding is especially hard on students because it does not allow for inflation and tuition increases. Programs that were level- funded are CCAMPIS, SEOG, GAANN, work-study, Pell Grant, and the Javists Fellowships.

The maximum amount a student can receive through a Pell Grant has been stuck at $4,050 for the past four years. Also, the federal work-study program has been losing funding progressively for the past three years, going from $998.5 million in 2004 to $980.4 million in 2006.

The President's budget goes on to encourage a 5-percent overall reduction in educational-program funding.

Student organizations are focusing on bringing back the various programs that the budget eliminated and increasing funding in level-funded programs.

According to USSA's website, the nation's students have $31 billion in financial need that is not being met by federal aid.

"Student aid, as it is constructed, is poorly designed for those who most need it," Dynarski told Newhouse News Service.

More information on USSA and a list of ways to get involved can be found at www.usstudents.org.

"With tuition on the rise and unmet need already being billions of dollars, today's youth cannot bear the burden of another year of level funding for aid programs and early intervention programs that are necessary to make college a reality," USSA's website states.

Most of the debate over federal aid stems from the question of whether or not college is meant to be available to everyone. Students in USSA and other activist groups think it is, and recent statistics show that higher education is certainly beneficial to everyone.

According to the Department of Labor, employment options for people with college degrees increased by 1.8 million over the last 10 years, while people without college educations saw the loss of almost 700,000 jobs. When it comes to dollars, people with college degrees earn 60 percent more than those without degrees, adding up to a difference of $1 million over a lifetime.

Figures like these lead to the conclusion that a college degree is definitely worth the money spent on it. However, students are campaigning for an alternative to loads of student debt and asking the government to recognize the benefits that would come from increased educational spending.