REPAYING YOUR STUDENT LOANS 101

Repaying student loans is a concern for nearly every graduate of veterinary medical college. Some veterinarians may be interested and may qualify for participation in a federal or state loan repayment program. The Veterinary Medicine Loan Repayment Program is the only federal program exclusively established for veterinarians; however, other programs for which a veterinarian may qualify including the Public Service Loan Forgiveness Program, the military has a program. Not every veterinarian will qualify for participating in these programs. Options available to repay student loans are summarized below:

Loan Repayment & Scholarship Programs

- **Veterinary Medicine Loan Repayment Program** was established by the National Veterinary Medical Services Act on December 6, 2003. Veterinarians selected for the program practice for three years in a designated shortage situation in exchange for $25,000 in loan repayment for each year of service.
- **Public Service Loan Forgiveness Program** was established by the College Cost Reduction and Access Act of 2007. The program discharges the remaining debt after 10 years of full-time employment in public service. The borrower must have made 120 payments as part of the Direct Loan program in order to obtain this benefit. Only payments made on or after October 1, 2007 count toward the required 120 monthly payments. (Borrowers may consolidate into Direct Lending in order to qualify for this loan forgiveness program starting July 1, 2008. Public service jobs include teachers, first responders, public librarians, social workers, public defenders and prosecutors, and people who work for tax-exempt charitable organizations. It also includes people who work for the government and the military. To learn more about how to qualify for the program call 1-800-433-3243. If your job doesn't qualify for public service loan forgiveness, you can still have the remaining debt forgiven after 25 years in the IBR plan. The Public Service Loan Forgiveness is not taxable under section 108(f) of the Internal Revenue Code because the forgiveness is restricted to borrowers who work in specific occupations.
- **Army Active Duty Health Professions Loan Repayment Program (ADHPLRP)** repays up to $120,000 over three years to repay veterinary school loans.
- **Army Specialty Pay** Veterinarians may qualify for up to $2,000 to $5,000 annually through the Diplomate Board Certified Pay program. The Diplomate award in a specialty must be recognized by AVMA.
- **Armed Forces F. Edward Hébert Armed Forces Health Professions Scholarship Program (HPSP)**. Qualifying students receive full tuition at any accredited veterinary, medical, dental, psychology or optometry program, plus a generous monthly stipend of more than $2,000. There is an active duty service obligation to the U.S. Army is one year of service for every year you receive the scholarship.
- **Federal Faculty Loan Repayment Program** (administered by the U.S. Department of Health and Human Services) will repay up to $40,000 in student loans for eligible health professions faculty from disadvantaged backgrounds including veterinary medical college faculty. Individuals selected to participate in the program agree to serve on the faculty of an accredited health professions college or university for 2 years. Participants should also receive matching funds from their employing educational institution.
- **State-funded Loan Repayment Programs.** A number of states have passed legislation establishing their own loan repayment programs for veterinarians. Check out the AVMA website at http://www.avma.org/advocacy/state/loan_repayment_programs/default.asp.

Options for Paying Student Loans Yourself

- **Standard and Extended Repayment** plans assume that the loan will be repaid in equal monthly installments through standard loan amortization (i.e., 10-years or up to 25-years repayment). The Standard and Extended plans calculate Federal education loans (Stafford, Perkins and PLUS) and most private student loans. This loan calculator assumes that the interest rate remains constant throughout the life of the loan. The Federal Stafford Loan has a fixed interest rate of 6.8% and the Federal PLUS loan has a fixed rate of 7.9%. (Perkins loans have a fixed interest rate of 5%).
- **Income Based Repayment (IBR)** has two options, 15% and 10%. The 15% option was established by the College Cost Reduction and Access Act of 2007 and became available on July 1, 2009. The monthly loan payments are capped at 15% of discretionary income with forgiveness of any remaining debt (including accrued but unpaid interest) after 25 years. Discretionary income is defined as the amount by which adjusted gross income exceeds the poverty line. The 10% option was established by the Health Care and Education Reconciliation Act of 2010 established an improved version of the income-based repayment plan for new borrowers of new loans made on or after July 1, 2014. The improved IBR plan cuts the monthly loan payments by one third from 15% of discretionary income to 10% of discretionary income and accelerates loan forgiveness from 25 years to 20 years. However, loan forgiveness for borrowers who don't work in public service careers face a taxable event under current law.
- **Income Contingent Repayment (ICR)** makes repaying education loans easier for students who intend to pursue jobs with lower salaries, such as careers in public service. It does this by pegging the monthly payments to the borrower's income, family size, and total amount borrowed. The monthly payment amount is adjusted annually, based on changes in annual income and family size. ICR is currently available only from the U.S. Department of Education, not from banks or other private institutions making government-guaranteed loans through the Federal Family Education Loan (FFEL) Program.
  - NOTE: Both IBR and ICR base the monthly payment on a percentage of discretionary income, but IBR uses a smaller percentage and a smaller definition of discretionary income. For most borrowers IBR will yield a smaller monthly payment than ICR.
- **Income Sensitive Repayment (ISR)** is an alternative to ICR for loans serviced by lenders in the FFEL Program. It is designed to make it easier for borrowers with lower paying jobs to make their monthly loan payments. The monthly loan payment is pegged to a fixed percentage of gross monthly income, between 4% and 25%. The percentage is determined by the borrower and the resulting monthly payment must be greater than or equal to the interest that accrues. Some lenders set a minimum threshold on the percentage of income based on your debt-to-income ratio.
- **Graduated Repayment** starts the payments at a low level (usually interest only) and gradually increases the payments until the balance is paid. The loan term is 12 to 30 years, depending on the total amount borrowed.

Computing a Veterinarian's Loan Repayment

A veterinarian may compute their expected monthly payments for the full array of repayment plans available to them by using www.FinAid.org. What follows is the two most common types of repayment scenarios – the standard 10-year and the 25-year plans. An estimate has been computed for a veterinarian who graduated in 2011 with the mean average debt for that year of $142,613. Also computed is the annual salary required to manage this level of educational debt without too much financial difficulty.

TABLE 1	
STANDARD 10-YEAR REPAYMENT	
Loan Balance	$142,613.00
Adjusted Loan Balance	$142,613.00
Loan Interest Rate	6.80%
Loan Fees	0.00%
Loan Term	10 years
Minimum Payment	$50.00
Monthly Loan Payment	**$1,641.20**
Number of Payments:	120
Cumulative Payments:	$196,943.16
Total Interest Paid:	$54,330.16

- If you use 10% of your gross monthly income to repay the loan, it is estimated that you will need an annual salary of at least $196,944 to be able to afford to repay this loan. This corresponds to a debt-to-income ratio of 0.7.
- If you use 15% of your gross monthly income to repay the loan, you will need an annual salary of only $131,296, but you may experience some financial difficulty. This corresponds to a debt-to-income ratio of 1.1.
- Table 2 lists the minimum income necessary to repay the debt without encountering a partial economic hardship. Partial economic hardship is defined as having annual education loan payments in excess of 15% of discretionary income, where discretionary income is the amount by which Adjusted Gross Income (AGI) exceeds 150% of the poverty line. This figure is shown in the Minimum AGI (IBR) column. The Minimum AGI (ICR) column uses an alternate definition of economic hardship, based on 20% of discretionary income which is defined as the excess of AGI over 100% of the poverty line.

TABLE 2		
Household Size	**Minimum AGI (IBR)**	**Minimum AGI (ICR)**
1	$147,541.00	$109,302.00
2	$153,151.00	$113,042.00
3	$158,761.00	$116,782.00
4	$164,371.00	$120,522.00
5	$169,981.00	$124,262.00
6	$175,591.00	$128,002.00

- These results assume that the veterinarian is paying the interest charges on any unsubsidized loans and is not capitalizing the interest while in school.
- If the veterinarian is capitalizing the interest, the cumulative payments and total interest charges will be higher than shown here.
- Extended repayment would cut the monthly payment by $711.47 (43.4%) by increasing the loan term to 30 years but would also increase the total interest paid over the life of the loan by $137,795.64 (253.6%), a factor of 3.54 increase.

25-YEAR EXTENDED REPAYMENT

TABLE 3	
EXTENDED 25-YEAR REPAYMENT	
Loan Balance	$142,613.00
Adjusted Loan Balance	$142,613.00
Loan Interest Rate	6.80%
Loan Fees	0.00%
Loan Term	25 years
Minimum Payment	$50.00
Monthly Loan Payment	**$989.84**
Number of Payments:	300
Cumulative Payments:	$296,949.68
Total Interest Paid:	$154,336.69

- If you use 10% of your gross monthly income to repay the loan, it is estimated that you will need an annual salary of at least $118,781 to be able to afford to repay this loan. This corresponds to a debt-to-income ratio of 1.2.
- If you use 15% of your gross monthly income to repay the loan, you will need an annual salary of only $79,187, but you may experience some financial difficulty. This corresponds to a debt-to-income ratio of 1.8.
- Table 4 lists the minimum income necessary to repay the debt without encountering a partial economic hardship. Partial economic hardship is defined as having annual education loan payments in excess of 15% of discretionary income, where discretionary income is the amount by which Adjusted Gross Income (AGI) exceeds 150% of the poverty line. This figure is shown in the Minimum AGI (IBR) column. The Minimum AGI (ICR) column uses an alternate definition of economic hardship, based on 20% of discretionary income which is defined as the excess of AGI over 100% of the poverty line.

TABLE 4		
Household Size	**Minimum AGI (IBR)**	**Minimum AGI (ICR)**
1	$95,432.00	$70,220.00
2	$101,042.00	$73,960.00
3	$106,652.00	$77,700.00
4	$112,262.00	$81,440.00
5	$117,872.00	$85,180.00
6	$123,482.00	$88,920.00

- Using a loan term of 25 years instead of standard 10-year repayment reduces the monthly loan payment by $651.36 (39.7%), but increases the total interest paid by $100,006.27 (184.1%).
- The total interest paid over the life of the loan ($154,336.68) exceeds the original loan balance ($142,613.00).
- These results assume that the veterinarian is paying the interest charges on any unsubsidized loans and is not capitalizing the interest while in school.
- If the veterinarian is capitalizing the interest, the cumulative payments and total interest charges will be higher than shown here.
- There are no prepayment penalties on student loans. If a veterinarian can make extra payments to the principal thus accelerating repayment then the amount of interest owed will lessen the total debt to be repaid.