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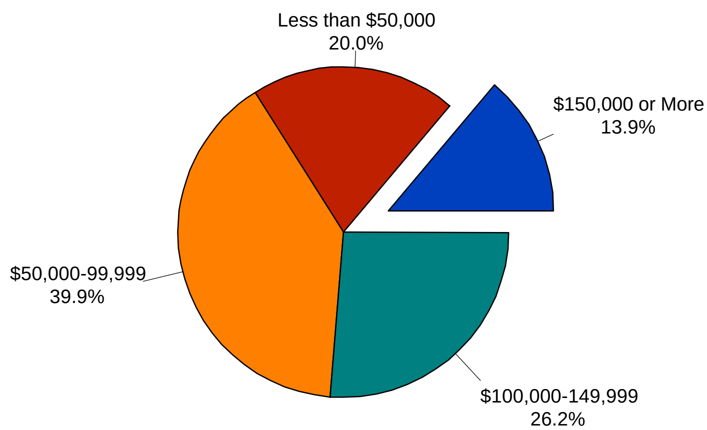
Rising Medical Student Indebtedness

The average educational indebtedness of medical school graduates continues to climb five to seven percent each year, with the recent increase in median as high as ten percent for indebted graduates of private medical schools.[1] This trend is slightly higher than tuition increases of four to six percent per year and outpaces the low rate of inflation seen in recent years.[2]

According to data from AAMC's Graduation Questionnaire (GQ), 1999 medical school graduates, who were indebted, owed an average of $90,745. This is up from $85,170 in 1998. Indebted graduates that attended private schools owed an average of $109,264, reflecting a similar jump from last year. Perhaps the area of greatest change is the increase in the percentage of those with an educational loan principal of $150,000 or more (see Figure 1). In 1999, 13.9% of indebted students owed $150,000 or more, this figure was 10.7% in 1998 and 8.1% in 1997 (see Figure 2). This is an increase of up to 30% in this level of borrowing per year.

Figure 1: 1999 Student Debt

What Indebted 1999 Graduating Medical Students Owe



AAMC Medical School Graduation Questionnaire

Current Borrowing Environment

Medical students, and the financial aid officers (FAOs) who work with them, face a borrowing environment that has seen significant changes. Some of these changes are the result of the Higher Education Amendments of 1998 as well as other changes made to both Title IV and Title VII programs as far back as 1993.

The first change worth noting is that today's interest rates on student loans are currently low, resulting in significantly lower repayment dollars. For example, interest rates on new Stafford Loans are currently 6.32% in school, grace, and deferment periods and 6.92% in the repayment period. Although these rates are variable, they can never exceed 8.25%.

The second change is due to the elimination of new Health Education Assistance Loan (HEAL) borrowers in 1995 and the subsequent phase out of the HEAL program. To compensate, the U.S. Department of Education has increased the amount that medical students may borrow in the Unsubsidized Stafford Loan program by $20,000.

Students who once borrowed the annual maximum of $18,500 in the Federal Stafford Loan program ($8,500 subsidized and $10,000 unsubsidized) and sought additional supplemental funding with private or HEAL loans, now may apply for up to $38,500 in Stafford Loans ($8,500 subsidized and $30,000 unsubsidized) each year. Although students must demonstrate financial need for the Subsidized Stafford, the Unsubsidized Stafford Loan is based on a borrower's cost of school attendance, and no collateral or credit check is required for borrowing. On the one hand, students can borrow more from the relatively inexpensive Stafford Loan program in lieu of private loans. On the other hand, the unsubsidized loans accrue interest during medical school. Thus, four years of maximum Stafford Loan borrowing would result in a debt of over $150,000, plus interest on the unsubsidized loans and any other debt incurred prior to and during medical school.

- 28.6% of indebted private medical school graduates have educational debt of $150,000 or more.
- 3.2% of indebted public medical school graduates have educational debt of $150,000 or more.
- 13.9% of all indebted medical school graduates have educational debt of $150,000 or more.

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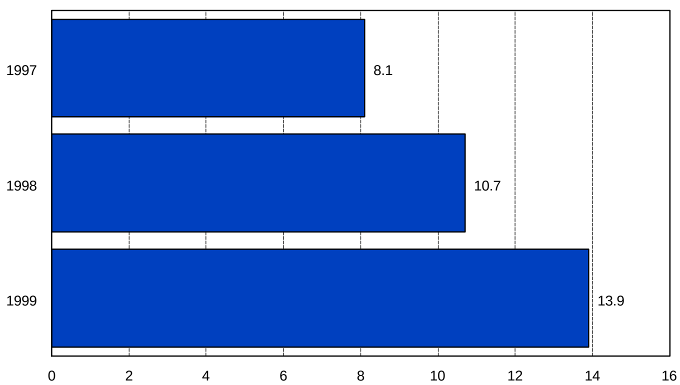
The third change is the recently approved Master Promissory Note (MPN) for Stafford Loans. The MPN allows borrowers to sign once for their Stafford Loans in lieu of completing an application and promissory note each year. This has eliminated paperwork and simplified borrowing for students.

Figure 2: Student Debt Trends

Percentages of Indebted Graduating Medical Students that Owe $150,000 or More



AAMC Medical School Graduation Questionnaire

The fourth change is that technology has also simplified the process for students to borrow by streamlining the application, approval, and disbursement process. Lenders often offer students Web-based application procedures as well as almost instant pre-approval on private loans.

Finally, changes to both student loan deferments and loan consolidation are now affecting borrowers in their residencies. Residents who do not have access to deferments based solely on their residency status must now prove economic hardship in order to defer many of their student loans. In addition, changes in loan consolidation programs, though overwhelmingly positive, have proven difficult for both residents and FAOs to navigate.

Today's Borrowers

Historical data has indicated that a borrower's choice of specialty is not driven by his or her level of educational debt. Arguably however, at a $150,000 level of borrowing, a borrower's career decisions such as whether or not to pursue a fellowship program, to subspecialize, to practice in an underserved area, and other practice location decisions, may be adversely impacted by their level of educational debt (see Figure 3).[3]

Residents have shown an eagerness to begin repaying their student loans as soon as possible. Indeed, they often ask FAOs which loans to prepay. Today's residents may be better educated regarding their student loans based on the counseling received during medical school. However, in many ways they are also more dependent on others for advice during residency since that is when many of their repayment decisions occur.

The current situation has spurred the AAMC to offer educational debt management services, which provides current information on managing student loans to residents, medical school FAOs, and GME staff. In addition, the AAMC sponsored MEDLOANS Debt Management Program provides medical students and FAOs debt management help based on eight strategies for managing student loans.[4]

Figure 3: Sample Amortization Schedule for Medical School Debt of $150,000

Repayment Option	Monthly Payment	Total Interest	Total Repayment
Standard*	$2,180	$111,690	$261,690
Graduated**	$1,477	$127,113	$277,113
	$1,931		
	$2,525		
	$3,301		
Income-based ▼	$1,086	$176,907	$326,907
	$2,180		
Consolidation#	$1,254	$301,448	$451,448

* 120 monthly payments
** 30 monthly payments at each of the four levels
▼ Assumes interest only payments for the first 60 monthly payments ($1,086) and 120 monthly payments for the remaining balance ($2,180)
360 monthly payments

Conclusion

As student borrowing increases there is good news. The borrowing process has been streamlined, some loans have been made more available, and interest rates are low. The high level of borrowing may however create concerns about unmanageable debt loads and the impact on career paths.

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References

[1] AAMC Data Book: Statistical Information Related to Medical Schools and Teaching Hospitals, forthcoming January 2000.

[2] See AAMC's "Information on Financial Aid" webpage at the URL: http://www.aamc.org/stuapps/finaid/start.htm.

[3] Assumptions: 1) $34,000 Subsidized Stafford Loan, remainder in Unsubsidized Stafford Loan, 2) 4 years of medical school, 3 year residency, 3) 6.32% interest in school, grace, and deferment; 6.92% interest rate in repayment, 4) Interest on Unsubsidized Stafford capitalized once following deferment, and 5) 6 month grace, 2.5 years economic hardship deferment.

[4] See AAMC's MEDLOANS webpage at the URL: http://www.aamc.org/medloans and also see www.aamc.org/debtmanagement.