



# Managing Vet School Debt: Best Practices

**Doug Richey**  
**Harvard Business School '04**



1. How Consolidation Works
2. Timing of your Consolidation
3. Management and Payback of Loans
4. Plan of Action

### ***Key Takeaways:***

- Timing and Lender Selection will affect your payback significantly
- Regulatory climate will add further complexity to consolidation

## What is Student Loan Consolidation?

- A Government program set by the Higher Education Act to lower defaults

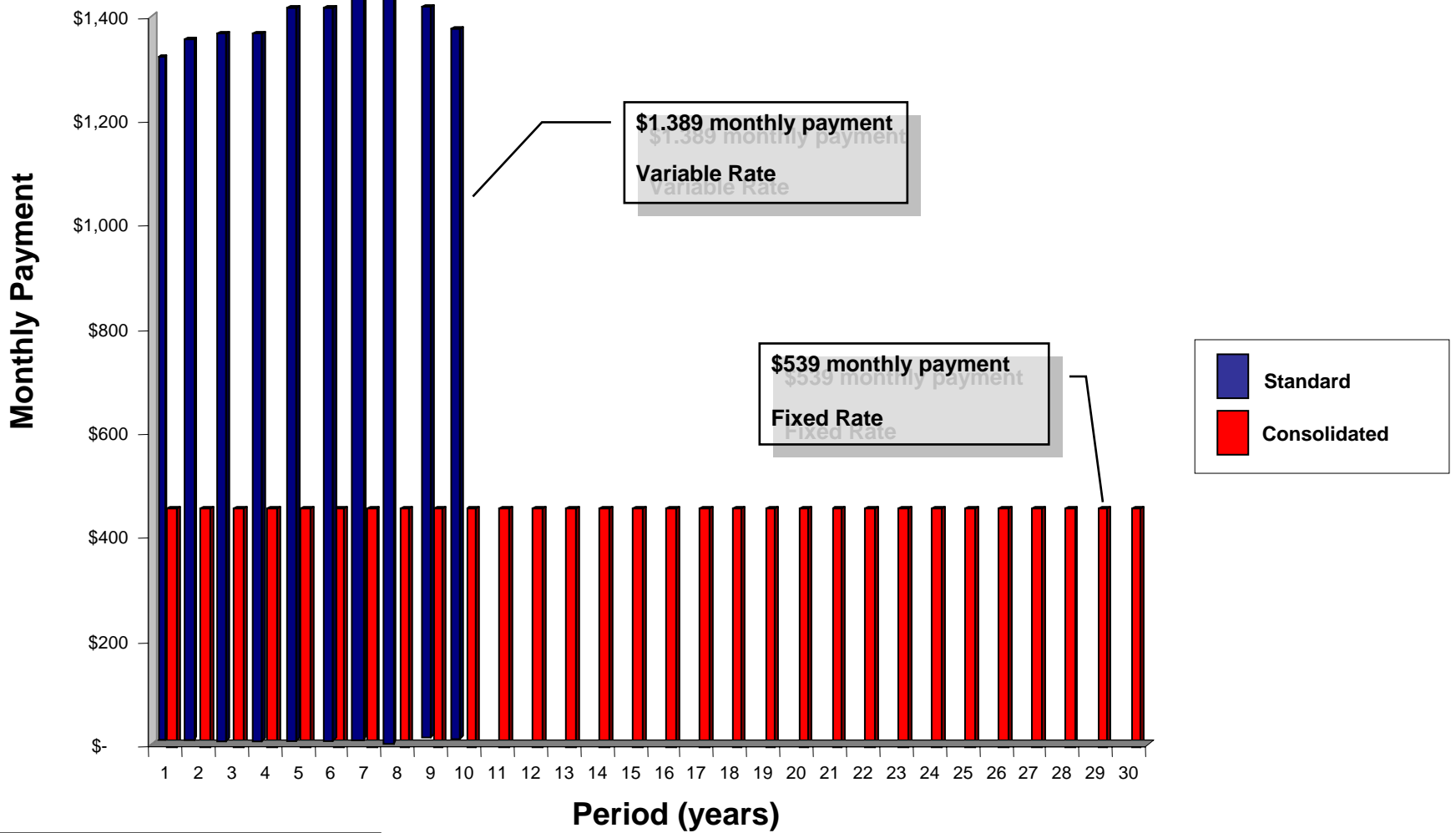
## How does it work?

- Locking in rates: Changes loan from variable to fixed rate
- Lower Payments: Extends term of loans (e.g. from 10 years to 30 years)
- Simplifying Bill: Combines all federal loans into one consolidated loan

**There is no cost associated with consolidating your loan**

# How Does Consolidation Work?

## Consolidated vs. Standard Loan



\*\$130,000 Loan Balance

**Changes from variable to fixed and extends loan terms**

## Which Loans are Eligible?

- **Stafford Loans Subsidized and Unsubsidized**
- Direct & FFELP PLUS Loans
- Direct & FFELP Consolidation Loans
- Guaranteed Student Loans
- Federal Insured Student Loans
- Federal Supplemental Loans for Students
- Auxiliary Loans to Assist Students
- **Federal Perkins Loans**
- National Direct Student Loans
- National Defense Student Loans
- Health Education Assistance Loans
- Health Professions Student Loans
- Loans for Disadvantaged Students
- Nursing Student Loans

- **Private student loans cannot be included in consolidation**
- **Can only consolidate once under current regulations**
- **Can combine previously consolidated loans with new loans**

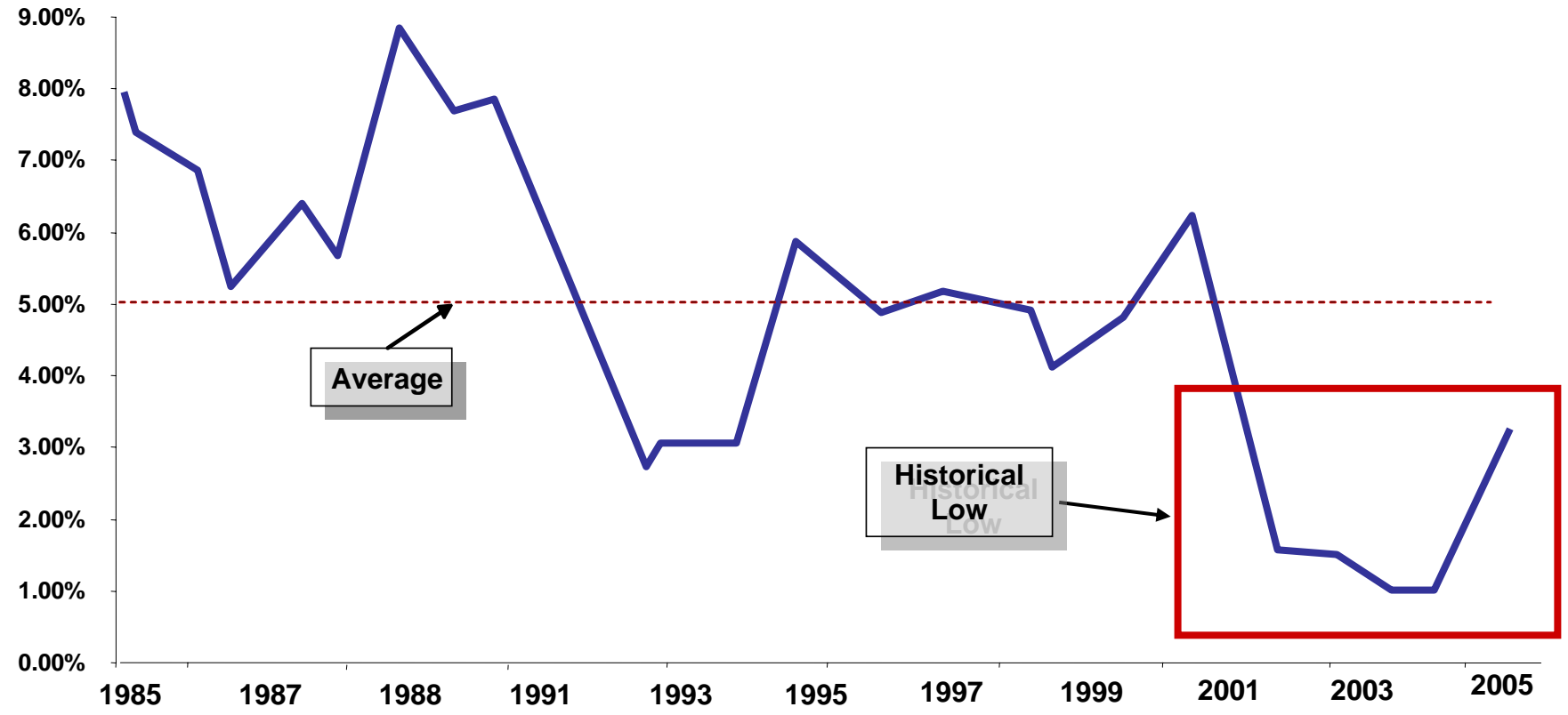
## **Federal Direct Student Loan Program – Direct Loans:**

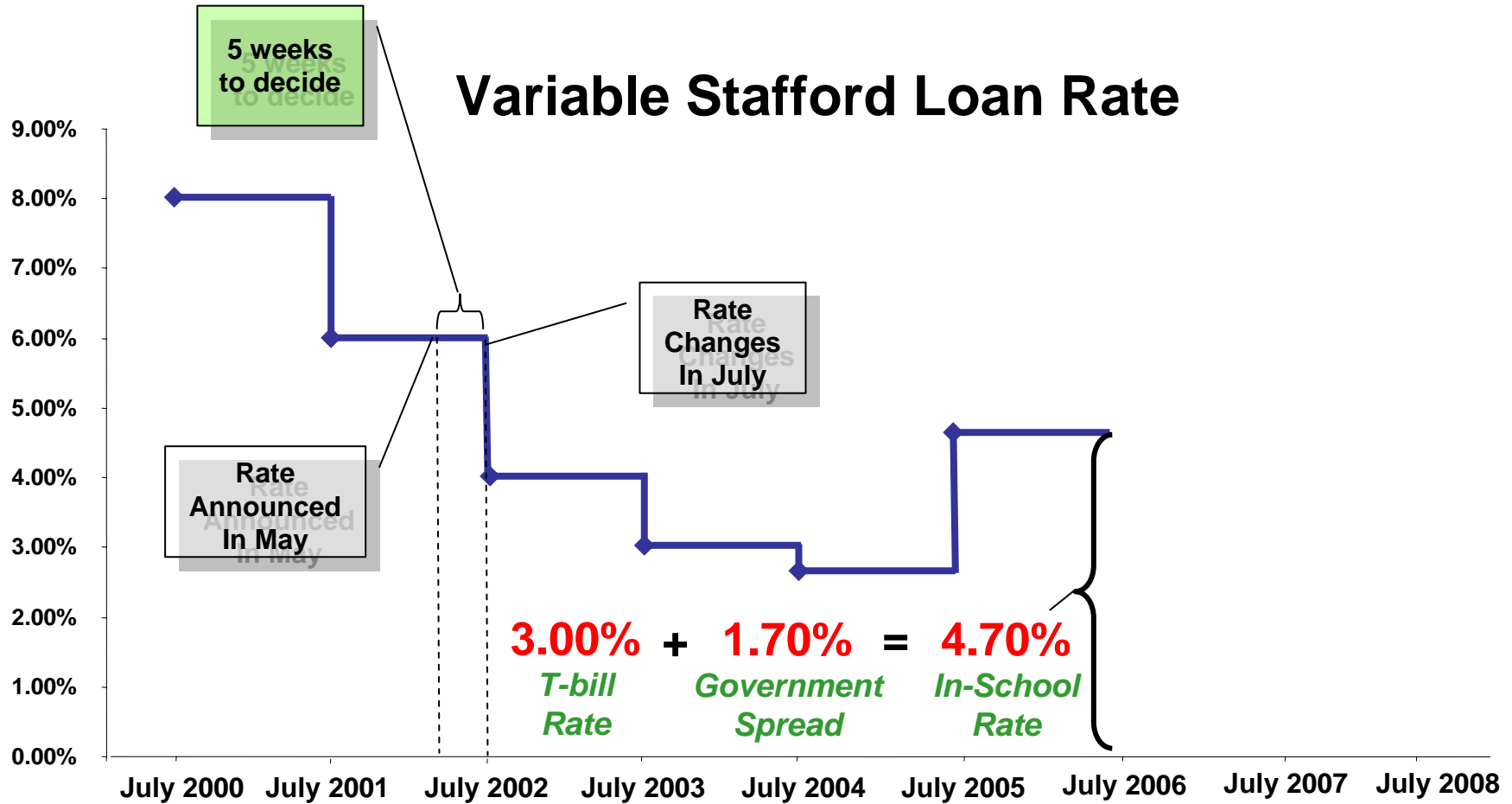
- In-school consolidation – retain grace period
- Fee rebate for timely payments

## **Federal Family Education Loan Program (FFELP):**

- Interest rate reduction for timely payments
- Customer service issues
- Single lender rule – all loans through one FFELP lender





## Interest Rates (3 month T-Bill)





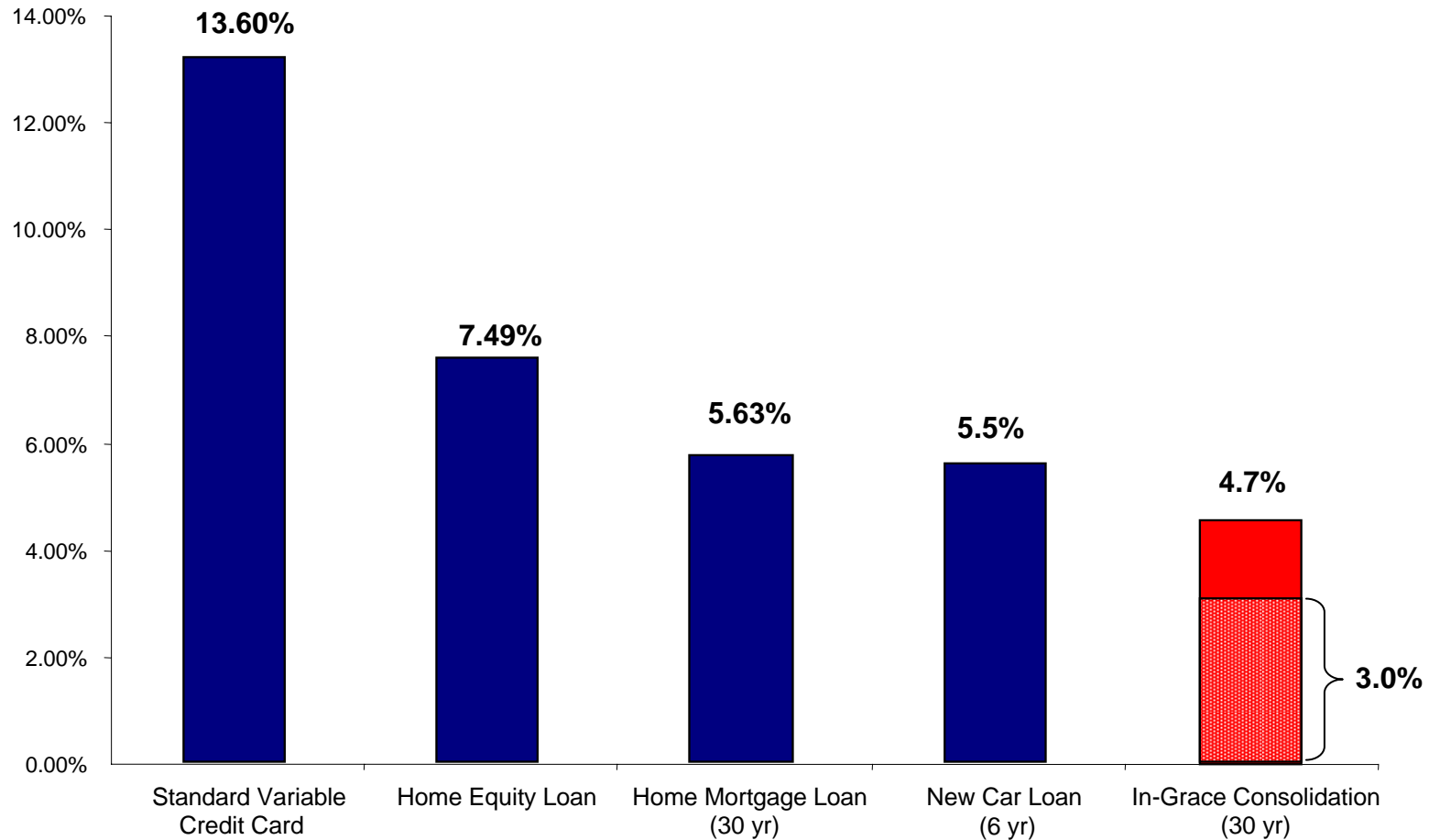
## Budget reconciliation proposal passed House and Senate

### New legislation includes the following changes:

-  In-school consolidation is repealed as of July 1<sup>st</sup> 2006
-  All New Stafford loans fixed at 6.8%
-  Consolidation rate still set as weighted average of outstanding loans
-  Graduate students will now be able to take PLUS loans

**1<sup>st</sup> and 2<sup>nd</sup> years should consolidate by June 30<sup>th</sup> 2006**  
**3<sup>rd</sup> and 4<sup>th</sup> years will base decision on whether rates go up or down**

# Consumer Credit Comparison



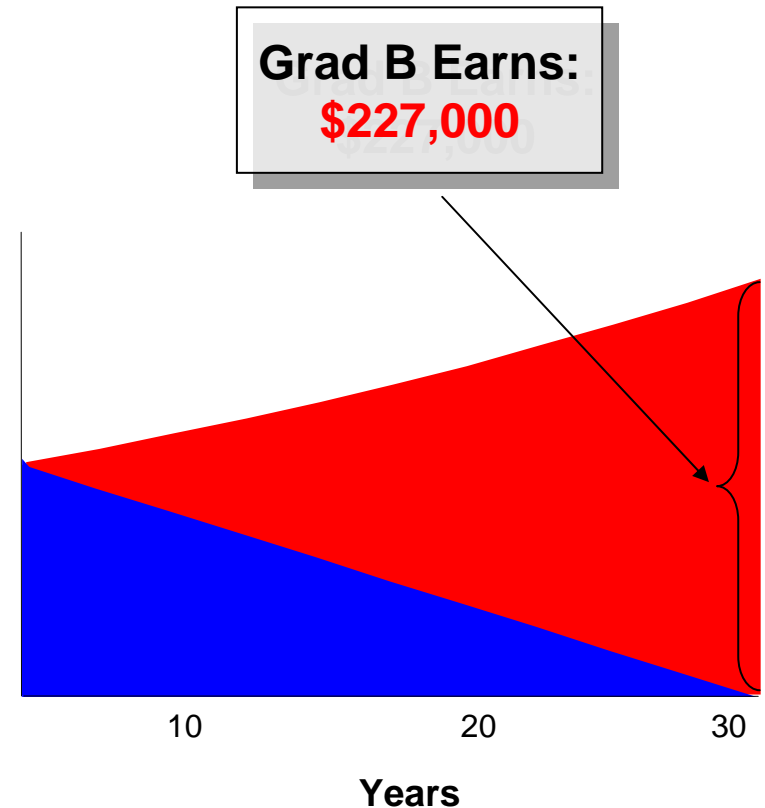
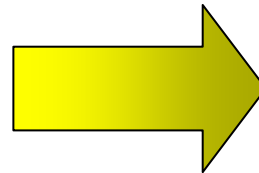
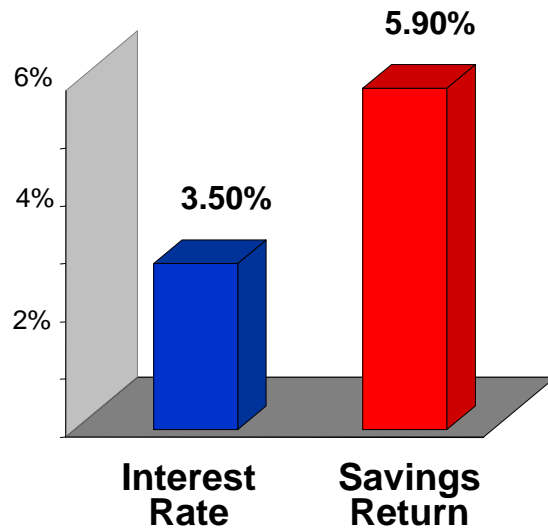
**Real Interest Rate = Nominal Rate – Inflation Rate**

# When to Pay Down Your Student Loan

## A Tale of Two Graduates . . .

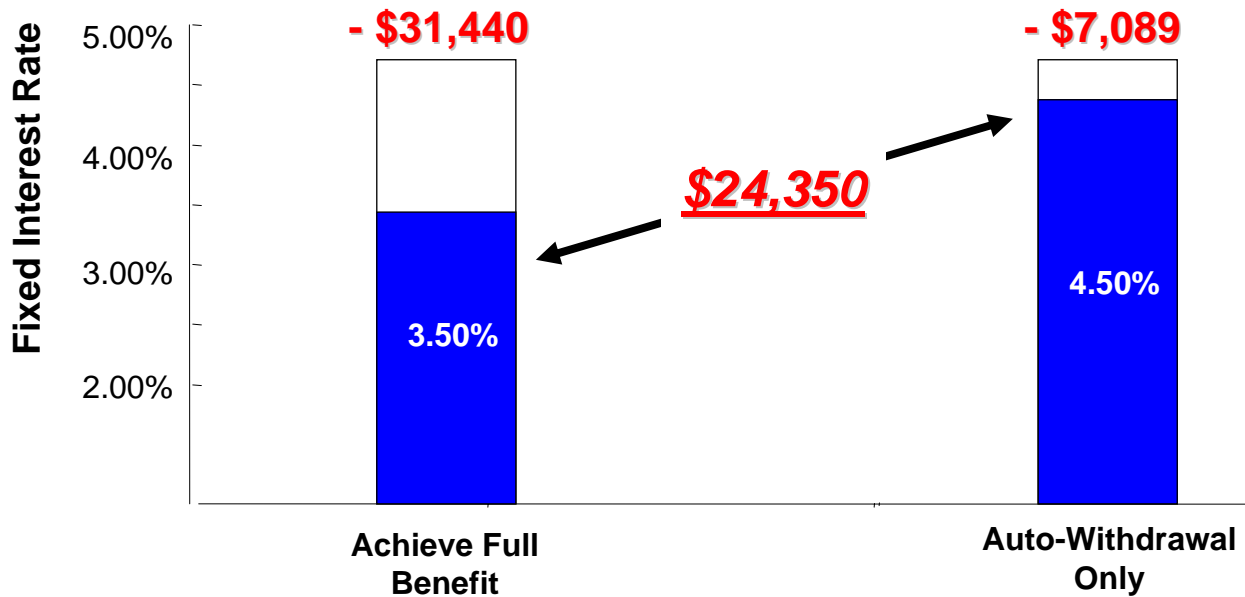
Both Grads have **\$125,000** in Student Debt:

- **Grad A:** Pays off debt after first 10 years
- **Grad B:** Pays down debt over life of loan



**Borrowers are encouraged not to pay down their debt**

## Achieving Borrower Benefits



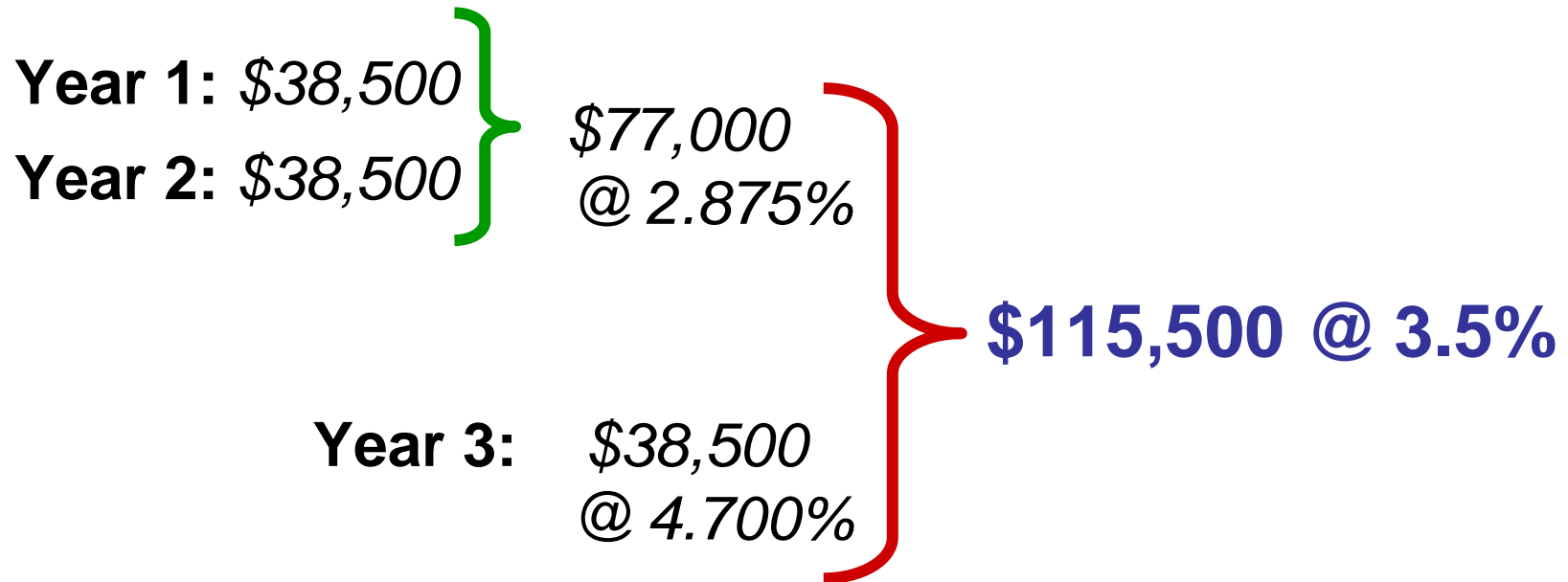
\* \$130,000 Loan

Automatic Withdrawal - .25% interest rate reduction

20 Timely Payments – 1% rate reduction

## 3rd Year Vet Student

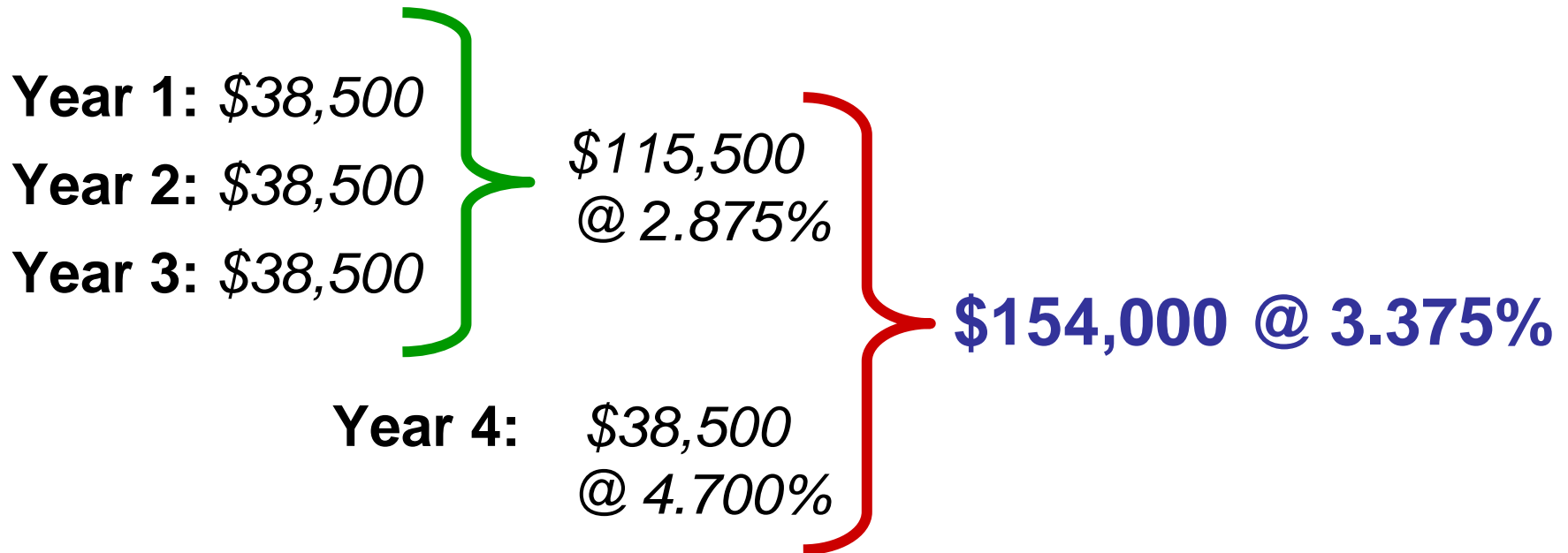
---



With interest rate reductions, rate can be as low as 2.25%

## 4<sup>th</sup> Year Vet Student

---



With interest rate reductions, rate can be as low as 2.125%

## Both Deferment & Forbearance postpone payments

### Deferment is preferable:

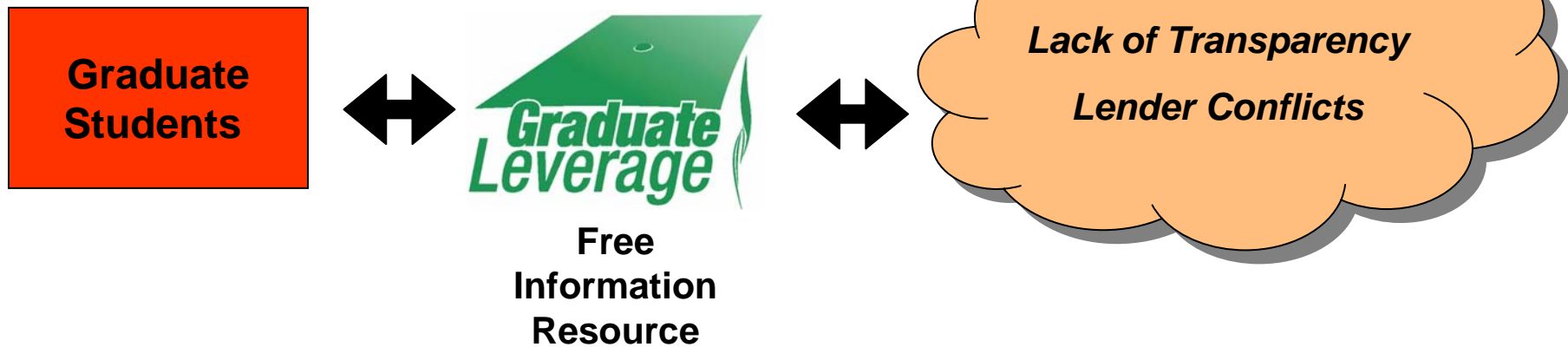
- Subsidized loans do not accrue interest
- Need to qualify (for Economic Hardship Deferment)
- Available for up to 3 years

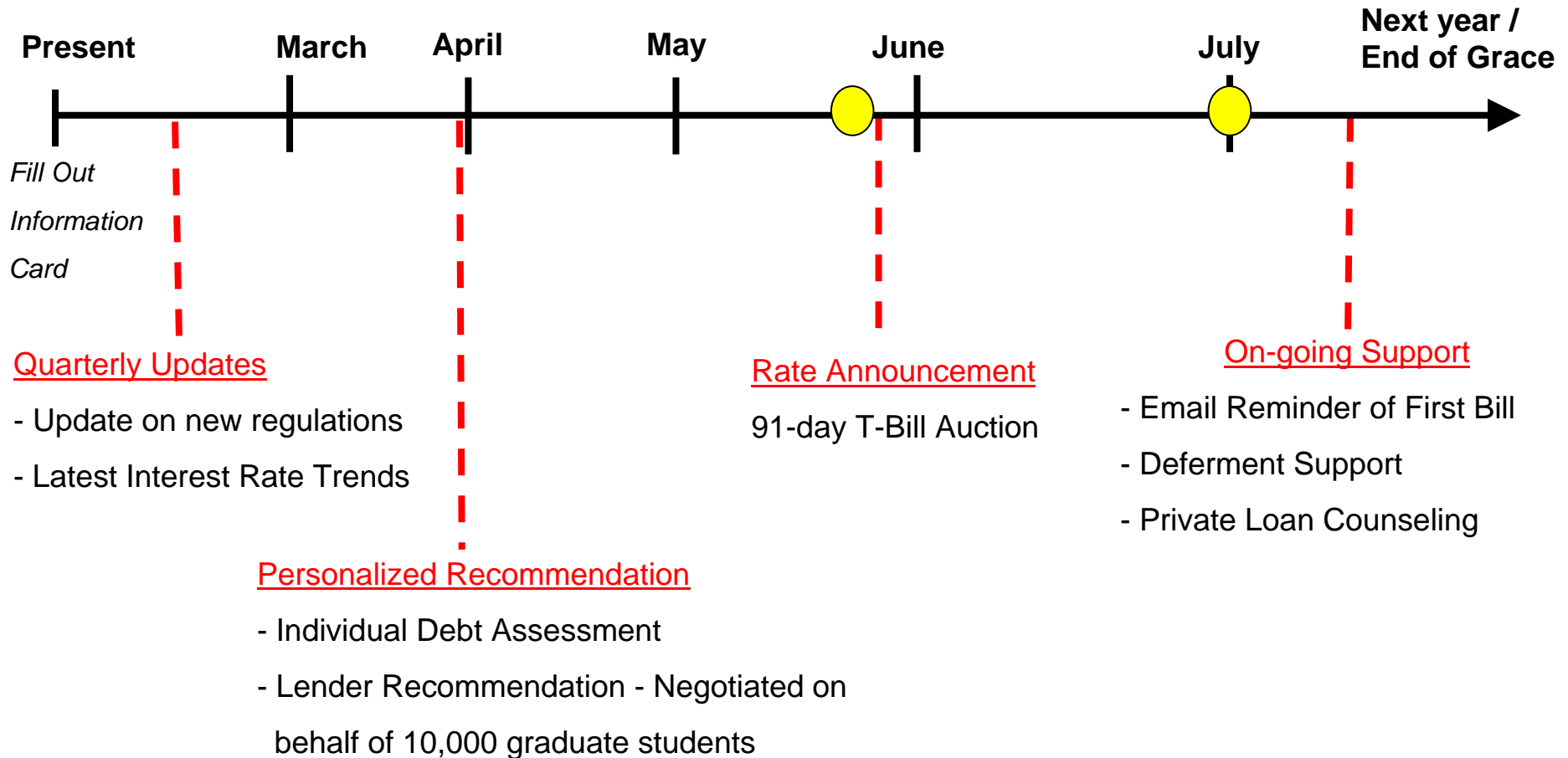
### Forbearance available if cannot qualify for deferment:

- All loans accrue interest
- Available for up to 5 years
- All students qualify



# What Is the Role of Graduate Leverage





**Doug Richey**  
**(612) 802-8039**  
**drichey@post.harvard.edu**

If you have any questions please feel free to call or visit our website

**[www.graduateleverage.com](http://www.graduateleverage.com)**