Confessions of a Profligate Borrower

[Editor's Note: This is a guest post I requested after a reader made a comment on the blog. You'll soon see why. It's a little long, but if you only read one guest post on WCI this year, make it this one. This doc wishes to remain anonymous and we have no financial relationship.]

I started medical school in 2002 with no debt (but no savings) thanks to public university and working part time. The cost of living in Boston is high and tuition at my med school was just under $50k per year with fees. Working part time while in medical school seemed like a bad idea to me (at the time). Without family help, I flirted with the idea of a military scholarship, but opted instead for loans. In for a penny, in for a pound, I maxed out subsidized, unsubsidized, and private loans – I even borrowed extra during MS-4 on a special loan for residency interviews. I also bought a vehicle on a note. So did my now wife. Between tuition and living expenses, she accrued about $60k from a masters in education that she earned while I was getting the MD. I do remember signing for the loans the first year and wondering if I was crazy. Tuition plus living expenses was about $65k per year. It was really more money than I could comprehend in my early 20s and it was compounded by the three subsequent years of school. It felt like funny money and it was remarkably easy to spend. What was an $80 restaurant tab in the land of a quarter million dollars in the hole? Another factor was that even though my soon-to-be wife worked as a teacher for most of the time, I borrowed the max partly because we had been splitting the bills and I wanted to keep up my end of things.

But We Live Modestly!

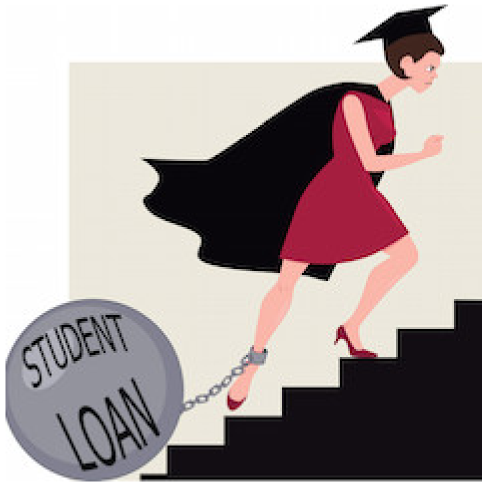
Please forgive me if you run the math on the numbers in my story and they don't add up. I was in some serious denial and I truly don't remember all the exact figures. Occasionally I do remember a nauseating feeling gripping me when I thought about the debt, but I shoved it deep, deep down. I paid no interest. I shredded the statements. Once a year I signed papers to re-up. I think I occasionally told myself I was living the life of a starving medical student or at least a modest lifestyle, but we ate out all the time, traveled a bit, and didn't save at all. When I matched in the Southeast, my Yankee butt figured I needed a car with A/C so I traded up for a new one with a new higher balance auto note. My justification was that I would drive it into the ground. We rented a house intern year for $1,200 per month. Since I was already matched into 5 more years there, and we were now lawfully wed, we thought buying a house would be a good investment rather than throwing money away to a landlord. Our parents thought it was smart. So did our friends. This was 2007 – top of the bubble. We paid $350k with zero down at 6 point something percent interest, which came to about $2,400 a month with PMI and insurance. Well, we spent a lot of money above and beyond the mortgage over those five years. Ate out all the time. Horseback riding lessons. Paris. Dogs (get a cat instead). Water heater. Provence. Switzerland. Furnace. Germany. Coach for her. Filson for me. Spain. Leaking roof repair. Denmark. Well pump. On and on.

I also put the loans into forbearance every year of training. For whatever reason, the statements came separately for each originating year and sometimes for each semester of borrowing, even from the same company. If I wanted to know the total balance, it was up to me to add it together. I never did. I knew it was pretty high though. I learned a new financial term: capitalization of interest. Allowing myself to feel helpless, I kept my head deep in the sand.

On the flip side, I was quite cheap in other very unimportant ways. We heated the house with wood I cut. We enjoyed fresh produce from our garden we planted each spring. I saved money by not carrying life insurance. No disability coverage either. I came up with extra money to spend by putting zero into the 403b offered at my residency (that even had a match). Oh, and I did our taxes myself to save money. The spring of my PGY-6 year we W2'd $144,000 between her salary, mine, and a lot of moonlighting at VAs and a psych hospital. Hmmm… That seemed like a lot of money. Yet I was pretty sure we were broke. Somehow the absurdity of these juxtaposed realities really sunk in with us at that point. We didn't do much big picture financial thinking before, but there it was added up for us by TurboTax. It finally seemed undeniably stupid and even a little shameful.

Monopoly Money Comes Due

Nearing the end of training, I knew the cards would be getting called soon – I knew I was on the hook for a few thousand a month for our student loans. I could not have quoted you the balance at the time. It was some nebulous, yet enormous, and seemingly meaningless sum (but it was in fact $445k after all that interest accruing and capitalizing). We still carried debt on two cars at $12k and $10k a piece. We also discovered our house was now worth maybe $300k at this point. Down $50k and we paid only $25k in principal over those 5 years. We paid $120K in interest to the bank though – glad we didn't throw away $70k to a landlord. And the constant maintenance likely negated any tax deductions. It also needed about $10k of final fixing up for selling, which I had to borrow from a family member because my credit card was maxed out at $10k and my wife's at $7k. When we finally got an offer on the house, it was so low that we couldn't write a check for the difference so we had to rent it out at $1,000 a month for a year. Such was the market in 2012. Maybe it would rebound – that was our hope.



That Critical First Year Out

Several job opportunities were available to me at the end of fellowship, but two really stuck out. One was a job in an awesome town we had friends in. Lots of outdoor activities, wineries, skiing, fancy things to do and see. Great balance clinically and good guys in the group. Ample time off and very reasonable call. The problem was the salary was $180k to start with gradual increases on a 4-year partnership track finally up to $400K (OK, it's good to have a specialty in demand). The other job was damn near the Arctic ocean drainage; call was 24-7 every other week with 5 weeks off. Also, the clinical work was fairly narrow. Have you seen Fargo? This job was in a more remote and colder part of the upper Midwest. Flat as a pancake and we didn't know a soul. However, the salary was stellar: $540k to start.

We finally surmised we were in a bit of a mess financially and felt willing to make a few adjustments. I began to face my finances and start thinking about it again. But is was just a start at that point. We wanted to not be in debt till retirement; we also didn't want to "be poor". The starting salary near the North Pole was three times that of Happy Valley. But, just having removed my head from my…, erh, the sand, I realized the divide was wider than that. We were living on roughly $100k per year after taxes. At a 30% effective rate and $180k per year, that would leave only $26k after taxes and bills to put at the debt. But $540k, even after a 40% effective tax rate, was $324k – and after bills that left nearly a quarter of a million dollars. The 3x higher salary would actually put us ahead an order of magnitude faster.

The Bad Decisions Continue

We got excited about this. We would be able to get a nice house, upgrade vehicles, travel, pay off debt faster, and "not have to worry about money." Essentially our plan was to out-earn our lifestyle and debt. So we moved to the tundra. I was very anxious for that first pay check because we really were broke and we finally began to think at least carrying the credit card debt was silly. A local bank was willing to lend us $460k with a couple of thousand down to buy a very nice house with a horse barn pretty close to the hospital. Trouble was, the driveway was fairly long and it snows a lot there. Solution? A small, reasonable, brand new, tractor with a snow blower and a heated cab. $30k. We were still shopping around for the new vehicles. Didn't want to make any hasty decisions with big purchases…

Saved by Ramsey

My new commute was 15 minutes. While driving, I've always listened to talk radio, from NPR to AM, a habit I picked up as a kid when my dad drove me to school on his way to work in the the next town over (so no bus). My new choices on the way in to the hospital were the farm report, religious radio, and this Southern guy I hadn't heard of before named Ramsey (don't worry, I am not a crazy Ramsey acolyte, just a big fan). There were some very compelling stories of people getting out of debt fast and they seemed pretty stoked about it. Getting out of debt completely and as quickly as possible became an enticing fixation in my mind after hearing the exhilaration and joy in the voices of callers doing their "debt free screams" every day with Mel Gibson from *Braveheart* screaming 'FREEDOMMM!' in the background.

We now wanted to rip off the Band-Aid quickly to get to financial freedom ASAP, which I define loosely as no debt other than a reasonable mortgage plus a year of savings in the bank (whereas financial independence is not having to work). The other key element was realizing we had a behavioral problem and not a math problem (and we had a math problem). Our spending outmatched our savings. Ramsey's solution is to list debts smallest to largest regardless of interest rates and attack them as fast as you can in order. The advice was sage for us as we knocked off the small ones quickly and felt like we were winning for a change. I made a spreadsheet of all the debts that I updated by the month. This helped me maintain enthusiasm. At this point, our total debt excluding mortgages was $526k (car 10k, car 12k, credit card 10k, credit card 7k, personal loan 10k, tractor 30k, student loans 445k). Throw on the two mortgages and you get $1.3M of debt that had our names on it. We were astounded.

My wife and I agreed to this plan. We thought it would take us about three years to get out of debt other than the mortgage for our primary home. Incidentally, this was faster than the partnership tract at the Happy Valley job I passed up. We agreed to sell the old house soon to get it off the books, so to speak, and lower our risk exposure, despite losing some money by not waiting for the market to come back. We stopped eating out. No vacations for three years. Really. No new cars. Instead of getting more horses, my wife boarded horses on the property for some extra cash and tax advantages. No toys (but I did keep the tractor because it really did snow a lot). No cable/dish. No new books. No premium beers. No new clothes. You get the picture. Frankly, there were times when this seemed hard, but we kept each other grounded. Some of our friends and docs I worked with thought we were nuts. What were we trying to prove? Although I do believe that our austerity, such as it was, was easier to accomplish in the upper Midwest than on the coasts. This is because things are cheaper, luxuries are less available, and extravagances are encountered less frequently on a social level. We were living on less than what we were living on during training. Meanwhile, the job was great. People were gems. My partner was gold. Best staff ever. Even the administration was not terrible. Medicine was much more advanced than I thought there and the other docs, mostly originally from the region, were trained at fantastic and well-known programs.

I listened to Ramsey every day and found online sources for encouragement and guidance too, like Mr. Money Mustache and the White Coat Investor. I began to get excited not only about financial freedom, but also about the amazing wealth we would amass in the future. One anti-debt mentor I met along the way put it this way: “you have to pass through zero before you get rich.” We read the WCI, the Millionaire Next-door, and other popular personal finance books. We picked the low fruit with relish. I became a little obsessed. I picked up a million in term life insurance. This was easy. I bought great own occupation, non-cancelable disability insurance. Also easy. I maxed out my 403b and a 457b (which goes against Ramsey's advice, but for a high earner, I think this is an obvious exception to make at 50% marginal taxation. The other Ramsey rule we broke was to keep $10k in savings rather than $1,000). I started a backdoor Roth IRA for my wife and me. The day our new baby's SSN came in the mail, I opened and funded a Utah 529 plan. And we still drive the same cars with a combined 263,000 miles on them.

Financial Freedom Provides an Opportunity

After just 30 months, another job came along for less money, but in a better part of the country for us. Actually, this was a near ideal location for us and with good time off. If this opportunity had come while we were still mired in debt, I think we would have passed it up. So we sold the house and the tractor and moved into a rental in the new town. The salary now is about half what I made previously. When the check cleared on the house in the tundra, we were officially 100% debt free, just a month after our first born. Not only that, but we had a positive net worth. Our two cars were paid for and were worth about $10k a piece. My wife's 403b was worth about $60k. Our backdoor Roths (at $5,500 x 2 x 3 years) were at $33k. And my new retirement funds were over $90k from maxing them out plus the matched contributions. Plus our $10k emergency fund. That equals $213k!!! Since then the money keeps coming in and piling up. We're now getting close to halfway to millionaire status.

We've learned a lot about personal finance over the past four years and picked much of the low fruit (eliminate debt fast, get term life & disability insurance, max out retirement and other tax advantaged savings, don't buy stuff you can't afford). However, we're still not great with the finer points and we continue to learn. For instance, I don't truly know how bonds work; we may be a bit underinsured; our savings are in cash since we are looking to buy a house within a year or two. So we have yet a math problem, but I think we've fixed the big behavioral issues. The security of no debt has had a profound positive impact on our happiness, our marriage and growing family, and even my career. I have a new sense of control and freedom.

Life With No Payments

Now, with a year of savings in the bank and no payments to make, I can turn down shifts, quickly take another job if need be, or more comfortably go out on my own. This new confidence helps me negotiate at work and I put up with a little less BS (or maybe it just bothers me less). This past year brought us a cancer scare, three surgeries, a new baby, and numerous other unexpected expenditures. Because we had insurance, cash on hand, and did not need to take on debt to tackle these issues, the emotional and numerical impact of the financial hit was low. I knew my family now had significant savings in the bank, no payments, and adequate insurance to make it without my salary should I die or become permanently disabled. I'm not arguing against arbitraging the difference between student loans and the market, leveraging debt to invest, or getting a more expensive house soon after residency. But for low discipline, finance-challenged people like us, I think I make the case for the advantages of getting out of debt and fixing your financial house quickly. I know we feel like we made it just in time.

Pretty awesome story huh! What do you think? What impressed you most in this story? Would you take a job in nowheresville to get to a positive net worth shortly out of residency? How common do you think that level of denial is among med students and residents? What did you do to overcome the denial? Comment below!