

DRB Starts Refinancing Student Loans For Residents



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I have a really exciting piece of news for you. But first, I need to get my traditional disclosure out of the way. For a number of years it was basically impossible to refinance your student loans to a lower rate. Then, a couple of years ago, a few small companies starting doing it again. The first of these I came into contact with was [Darren Rowayton Bank](#). I was pretty excited and [ran a post about it](#). Pretty soon I brought them on as an advertiser. Their competitors popped up and I brought them on as advertisers or as affiliate partners. If ever there was a win-win-win situation, this was it. My readers got lower interest rate student loans, saving thousands in interest on their student loan debt burdens. The lenders got some extra business (obviously making some money on it,) and I made some money from the ads and affiliate deals. There was truly no loser in the entire deal. Even the taxpayer did okay since he got his money back years before he expected. At any rate, **I still have a financial relationship with [all of these companies](#)**. If you refinance with them through links on this site, I make some money. However, you

also get a special deal I negotiated for you from most of them- an extra \$300 in addition to your lower rate (which is worth tens of thousands, but \$300 is nice too.) Can't beat that with a stick.

DRB is Refinancing Residents

Now, with that disclosure out of the way, on to the news. None of these companies are very big, and I talk with their marketing people and even their owners from time to time, including the DRB chairman of the board who bought me breakfast at a [dumpy little diner](#) when he was in town for a Park City ski trip. (Sorry Gary, I'll pick a better restaurant next time where the waiter won't steal your straw!) Each time I have urged them to come up with a product where somehow residents can refinance their loans prior to residency graduation. Several of them have promised to look into it and consider it, but I found out this week that DRB is the first to market with such a product.

Issues with Refinancing Residents

There are several issues with refinancing student loans as a resident.

The first is that your debt to income ratio is terrible. You might owe \$300K and only be making \$50K. Under any kind of standard underwriting rules, that's pretty stupid to loan you money.

The second is that residents generally need a lower payment during residency. They literally cannot afford to even pay the interest on their debt. On \$300K of student loans at 7%, under a standard 10 year plan, the monthly payments are nearly \$3600, or about 85% of your salary. It just isn't going to happen, sorry. For this reason docs have been using forbearance, or better yet, the IBR and PAYE programs.

The third issue is that the government has thrown out this [great big moral hazard](#)– the Public Service Loan Forgiveness program. Interns and even senior residents often haven't yet decided whether they will do a fellowship or work at a 501(c)3, so they might delay refinancing until they know for sure. No sense in refinancing a loan that is going to be forgiven anyway.

The DRB Plan

DRB's [new policy](#) (scroll to the bottom then come back and use one of the other links to get your \$300) takes care of two of those three issues. They do your underwriting not based on your resident salary, but based on what the average attending in your specialty makes. Pretty cool huh. Then, in order to somewhat simulate the [IBR/PAYE](#) programs, they will allow you to make payments of just \$100 throughout internship, residency, fellowship, and even six months into attendinghood. One other really cool thing about all this is that your interest isn't going to capitalize while you're making those \$100 payments- no interest on interest compounding. Pretty sweet. Yes, if you read the fine print you have to get approved for this special program, but many of your colleagues have already been approved and you probably can be too.

Of course, DRB isn't going to forgive your loans. So you still probably ought to wait until you are sure you're not going for [PSLF](#) before refinancing with them. Did you get that?

DON'T REFINANCE LOANS THAT WILL BE FORGIVEN!

There, don't say I didn't warn you. But seriously, that is really the only catch. One of the biggest problems all of these refinancing companies run into is that people think it is too big to be true. They think it's a scam or something. It's not a scam! Refinance any loans that aren't eligible for

forgiveness.

Actually, there is one other minor catch for a few people, but that is getting smaller every year. Although there have been no subsidized medical school loans since 2012, there are still some residents out there with subsidized loans. You may not wish to refinance those ones until residency graduation since the government is currently covering the interest on them. But keep in mind it may be worth accumulating some additional interest in residency if you cannot refinance at these low rates when you graduate in a few years.

Some Caveats and Strategies

This announcement comes with a couple of caveats and a few unique angles. First, the caveats. These guys are still in business to make money. If you're going to have \$500K of loans and be a pediatrician, they're not going to refinance you. You're still a terrible bet, just like you will be upon residency completion. They're going to go over all your documents with a fine tooth comb because now they won't even start to get paid back for years. This isn't the government, they're not going to loan as much as you want just because you got into medical school.

So what are the strategies? Well, the first is for someone who knows he isn't going for PSLF as he comes out of medical school. He may now save literally tens of thousands of dollars in interest. Imagine a surgery intern going from \$300K in loans at 7% to \$300K in loans at 2%. Assuming nothing is paid toward those loans for 5 years (which is basically what happens,) and then they're paid back over 10 years, the difference in interest paid is as shown below:

Never Refinanced	\$299,075
Refinanced As Attending	\$168,424
Refinanced As Intern	\$68,740

Now you understand why you're getting another weekend post from WCI? Pretty awesome huh? It's even less interest if you pay it back in 2-5 years instead of 10.

The next strategy is for somebody who might want to be part-time, maybe on the mommy track (or daddy track) for a little bit after completing residency. Since they're refinancing you as a resident based on your average specialty salary, rather than what your salary is actually going to be, you might be able to refinance as a resident where you would not be able to refinance as an attending.

Another strategy is for a two-resident couple. Let's say you've only got a resident salary but your spouse is making a little more. Perhaps your combined income is \$100K. Your IBR/PAYE payments are going to be much higher than your residency classmate with the stay at home spouse. You don't want to file your taxes Married Filing Separately because it costs you more in taxes. But you need those low payments. Well, now your payments are capped at \$100. Cash flow problem solved.



**Got student loans?
Refinance!**

Rates Start at 1.90%

\$300 bonus to WCI readers who
click the image above

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Even better if your spouse is making a little more money and you actually wanted to start paying back your loans during

residency. Now instead of having to sort out co-signer issues, you can qualify based just on future income for a lower rate. With that lower rate, you might even be out of debt by the time you graduate. How cool would that be?

Will the [other lenders](#) like SoFi, CommonBond, and CU Student Loans follow suit? I hope so, but until then, if you're a resident and aren't going for PSLF, [get busy refinancing those loans with DRB.](#)

What do you think? Do you find the idea of refinancing your loans as a resident attractive? Why or why not? Is your IBR/PAYE payment more or less than \$100? Comment below!