



**Nov. 1, 2007 Update**  
**Higher Education Act-Economic Hardship Deferment**  
**“20/220 Pathway” Temporarily Restored**

**Economic Hardship Deferment**

Economic hardship deferment is an option that allows qualified borrowers to defer payment on their federal student loans for up to 3 years if they meet certain eligibility requirements. During the deferment period, the federal government continues to pay the interest on the subsidized portion of the borrower’s loan portfolio. Interest on the unsubsidized portion of the borrower’s portfolio continues to accrue during this time.

On September 7, 2007, the House and Senate approved the Conference Report (110-317) for H.R. 2669, the “College Cost Reduction and Access Act (Act).” The President signed the Act on Sept. 27, 2007. The Act eliminates the economic hardship deferment qualification criterion, “20/220 criterion,” that is described below.

On November 1, 2007, the Department of Education issued the final rule on Federal Loan Programs that keeps the 20/220 pathway intact. Through this rule, the Department of Education specifically revised sections of Title 34 of the Code of Federal Regulations in a manner which does not alter the language regarding the 20/220 pathway, but incorporates some of the other changes issued in the College Cost Reduction and Access Act. Thus, the current 20/220 pathway to economic hardship deferment remains in place, until a negotiated rule-making process can occur which will not be completed until fall of 2008.

**Restored Qualification Criteria-“20/220 Pathway”**

A borrower (medical student/resident) can be eligible for the economic hardship deferment if he/she is employed full-time and his/her federal education debt burden is equal to or greater than 20 percent of his/her monthly income, and his/her income minus the education debt burden is less than 220 percent of the greater of the minimum wage rate or the federal poverty line for a family of two.

**Additional Qualification Criteria Effective On Oct. 1, 2007**

Under the new rule, another way to qualify for the economic hardship deferment is if a borrower’s income does not exceed the greater of either the minimum wage rate or 150 percent of the poverty line applicable to the borrower’s family size.

The economic hardship deferment would still be limited to 3 years for borrowers who qualify under the new criterion.

During the economic hardship deferment period, the federal government pays the interest on the subsidized portion of the loan, but interest continues to accrue on the unsubsidized portion. For the 2007/2008 academic year, a graduate or professional degree student can borrow up to \$20,500 in Stafford Loans (Federal Family Education Loan (FFEL) and Federal Direct Loan (FDL)). No more than \$8,500 of this amount may be in subsidized loans.

**New Income-Based Repayment Program Effective On July 1, 2009**

The Act creates an income-based repayment program that becomes effective on July 1, 2009. All graduate and professional federal loans will qualify for income-based repayment. This program will be applicable to all medical residents with federal loans.

The repayment of federally backed loans will be capped at 15 percent of the amount of the borrower's income that is greater than 150 percent of the poverty line applicable to the borrower's family size.

Similar to the economic hardship deferment, the federal government will continue to pay interest on the subsidized portion of the loan during the first 3 years of income-based repayment. Interest will continue to accumulate on the unsubsidized portions. After 3 years, interest will begin to accrue on the subsidized portion of the loan as well.

### **Please Refer To The Attached Reference Table For Repayment Scenarios**

#### **Repayment Plan Under New Income-Based Repayment Plan Effective On July 1, 2009**

A medical resident will be required to make monthly payments of \$349 for the first 3 years of his/her residency, as calculated below:

$$[\$43,266 - (\$10,210 \times 1.5)] * 0.15/12 = \$349 \text{ (income-based repayment)}$$

After residency, he/she will be required to make monthly payments of \$1,684.

**Loan Forgiveness For Public Service Employees** After a borrower has made 120 monthly payments of income-based repayment and the borrower has served in a public service job for the duration of those payments, the remainder of his/her FDLs or Federal Direct Consolidation Loans (FDCLs) will be forgiven.

Public Service Job is defined in H.R. 2669 as,

- (i) a full-time job in emergency management, government, military service, public safety, law enforcement, public health, public education (including early childhood education), social work in a public child or family service agency, public interest law services (including prosecution or public defense or legal advocacy in low-income communities at a nonprofit organization), public child care, public service for individuals with disabilities, public service for the elderly, public library sciences, school-based library sciences and other school-based services, or at an organization that is described in section 501(c)(3) of the Internal Revenue Code of 1986 and exempt from taxation under section 501(a) of such Code; or
- (ii) teaching as a full-time faculty member at a Tribal College or University as defined in section 316(b) and other faculty teaching in high-needs areas, as determined by the Secretary.

#### **Alternatives**

If a medical resident is not eligible for economic hardship deferment or his/her eligibility for economic hardship deferment has expired (either through no longer qualifying or having used all 3 years), he/she has the option of beginning to repay his/her loans, pursue an income-contingent repayment plan available through the U.S. Department of Education, or go into forbearance.

Forbearance is available for the entire duration of a medical internship or residency, regardless of the length of the program. Laws regarding forbearance are not impacted by the Act.

Under forbearance, no payments are required; however interest continues to accrue and the federal government no longer pays interest on the subsidized portion of a borrower's loans. In addition, interest may be capitalized under forbearance, making this an expensive option for a borrower.

### **Additional Resources**

For more information on federal student aid, please check the following website: <http://studentaid.ed.gov>. Please also consult with your school's Medical Student Assistance Department and your Lender for more details.

### **References**

Higher Education Act: Title IV, Sec. 435(o)

H.R. 2669

Association of American Medical Colleges (AAMC)

Code of Federal Regulations:

34 CFR 682.210 (s)(6) (FFEL)

34 CFR 685.204 (b)(3) (DL)

## Student loan repayment under various repayment scenarios

Total Debt	Residency Income	Monthly Payment, Years 1-3			Monthly Payment, Year 4 and beyond			Total Amount Paid		
		20/220 Pathway	Income-Based Repayment	Forbearance	20/220 Pathway	Income-Based Repayment	Forbearance	20/220 Pathway	Income-Based Repayment	Forbearance
\$50,000	\$43,266	\$575 (not eligible for deferment)	\$349	\$0	\$575 (84 payments)	\$608 (84 payments)	\$693 (120 payments)	\$69,048	\$63,656	\$88,134
\$100,000	\$43,266	\$0	\$349	\$0	\$1,237 (120 payments)	\$1,508 (84 payments)	\$1,386 (120 payments)	\$148,404	\$139,301	\$166,268
\$130,571	\$43,266	\$0	\$349	\$0	\$1,729 (120 payments)	\$1,684 (110 payments)	\$1,809 (120 payments)	\$207,519	\$197,572	\$217,097
\$200,000	43,266	\$0	\$349	\$0	\$2,691 (120 payments)	\$1,684 (241 payments)	\$2,771 (120 payments)	\$322,958	\$418,232	\$332,536

### Assumptions\*

- Debt includes the maximum subsidized amount available over a 4-year period (\$34,000)
- Income constant at \$43,266 during 3-year residency and constant at \$150,000 post-residency
- Interest rate fixed at 6.8%
- Payments applied proportionately to subsidized and unsubsidized loans
- Family size = 1
- For deferment and forbearance, standard repayment schedule is 10 years, beginning when the repayment period begins
- For income-based repayment, standard repayment schedule is 10 years, which includes 3 years of partial deferment. 10-year income-based repayment schedule will be extended if the amount of the monthly payment required to pay down the loan in 84 months exceeds the maximum payment allowable under the income-based repayment legislation

Source: Personal calculations and calculations using loan calculators found at

<http://www.finaid.org/calculators/scripts/loanpayments.cgi> and

[http://www.efunda.com/formulae/finance/loan\\_calculator.cfm?CFID=27058166&CFTOKEN=13000366](http://www.efunda.com/formulae/finance/loan_calculator.cfm?CFID=27058166&CFTOKEN=13000366)

\* Please be advised that the above-mentioned assumptions have been used to calculate the various repayment scenarios. Please also consult with your school's Medical Student Assistance Department and your Lender for more details.