



## AMA-RFS Issue Brief on Economic Hardship Deferment - November 2008

In 2007, Congress developed legislation aimed at dealing with the cost of higher education. This legislation, the College Cost Reduction and Access Act (CCRAA)(P.L. 110-84), will help some students by increasing maximum Pell grant awards, easing Pell grant eligibility requirements, and establishing a loan forgiveness program for public service employees. However, residents and fellows are significantly affected by this bill in two ways:

- **20/220 Pathway will be eliminated on July 1, 2009:** Under the 20/220 pathway as many as two-thirds of first year residents were eligible to defer making repayment on their loans. For residents who qualified under 20/220, the government paid interest on the subsidized portion of the federal loans for three years, and interest accrued only on unsubsidized loans. Thanks to the efforts of the AMA as well as other interested parties, the Department of Education has reinstated the 20/220 pathway through June 30, 2009. Residents who elect and qualify for deferral under the 20/220 pathway before June 30, 2009 can take advantage of the pathway for an additional term.
  - Eligibility for the Economic Hardship Deferment is based on an individual debt-to-income ratio. To qualify, a borrower must be employed full-time, the borrower's federal education debt burden (defined as the required monthly payment) must be equal to or greater than 20 percent of the borrower's monthly income, and the borrower's income minus the education debt burden must be less than 220 percent of the greater of the minimum wage rate or the federal poverty line for a family of two.
- **Income Based Repayment will be available beginning on July 1, 2009:** The CCRAA established a new Income Based Repayment (IBR) program for borrowers which starts on July 1, 2009. Any borrower with any amount of debt (subsidized or unsubsidized) is eligible for the IBR program, in which payments are capped at 15 percent of their income that exceeds 150 percent of the federal poverty level (e.g. the monthly payment for a resident earning \$43,266 annually would be ~\$350).
  - Government payments on subsidized interest still an option: Similar to the 20/220 pathway, the resident using IBR will still have the benefit of the government paying the interest on the subsidized portion of their loans for up to three years, but only if residents make payments on their loans.
  - *Forbearance is still an option:* Under the new law, a resident/fellow who cannot afford to make repayments will be forced to enter forbearance under which interest will accrue on all loans.

**Loan Deferment Options are Needed.** While IBR is an attractive option for many borrowers, there are residents and fellows who simply cannot afford to take advantage of it by making payments. Residency and fellowship are times when borrowers have limited incomes. Requiring repayment during the initial years of residency places a substantial burden on residents and fellows, particularly those who live in areas with a high cost of living or who have families. The AMA will continue to advocate for loan deferment options for residents so that they can defer repayment on their student loans without interest accruing on their subsidized loans.

Your AMA is seeking alternative mechanisms for loan deferment. Currently, there are companion bills in the US House and Senate (H.R. 4344 and S. 2303) which would reinstate the 20/220 pathway for economic hardship deferment. H.R. 4344 is currently under consideration by the House Subcommittee on Higher Education, Lifelong Learning, and Competitiveness; and S. 2303 is in the Senate Committee on Health, Education, Labor, and Pensions; both have bipartisan sponsorship.

### **Tell Congress to pass H.R. 4344 and S. 2303!**

Visit <http://capwiz.com/ama/issues/alert/?alertid=11184256&type=co%3E> to get to the AMA Capwiz website – email your Congressional members and ask them to support and cosponsor H.R. 4344 or S. 2303. Plan to attend AMA MSS and RFS Lobby Day 2009, where we will visit Congress and ask them to preserve economic hardship deferment!

For more information, visit your dedicated RFS page: <http://www.ama-assn.org/go/loandeferment>