

## What Does the “College Cost Reduction and Access Act” Mean for Physicians?

On September 27, 2007, President Bush signed The “College Cost Reduction and Access Act” (CCRAA, P.L. 110-84), part of the ongoing Higher Education Act (HEA) reauthorization. The new law changes the structure of education loan repayment. In particular, a change in the definition of “economic hardship,” a new income-based repayment program, and a new public-service loan forgiveness program will affect medical students and residents.

### Impact of the College Cost Reeducation and Access Act

	<b>Pre-CCRAA</b>	<b>Post-CCRAA</b>
<p><b>Standard 10-year Repayment</b></p> <p>A medical resident begins repayment of his/her student loans immediately after medical school.</p>	<p>Monthly payment = \$1,827</p> <p>Total repayment = \$219,208</p>	<p>Monthly payment = \$1,827</p> <p>Total repayment = \$219,208</p>
<p><b>Economic Hardship Deferment</b></p> <p>A medical residents postpones payment of their federal loans for up to 3 years, during which time the government pays the interest on the subsidized portions of their loans. Interest continues to accrue on the unsubsidized portions.</p>	<p>Previously, 2/3 of new graduates qualified for the economic hardship deferment under the debt-to-income ratio pathway (1/3 were not eligible, typically with debts less than \$100,000). By the 3<sup>rd</sup> residency year, only 1/2 of residents qualified.</p> <p>Starting monthly payment = \$0</p> <p>Total repayment = \$247,356</p>	<p>The new definition of economic hardship deferment only considers a borrower’s income. To qualify an individual must earn less than \$15,315/year (couple = \$20,535). It is unlikely that a medical resident will qualify under the new definition.</p>
<p><b>Forbearance</b></p> <p>The mandatory medical internship and residency forbearance allows medical residents to postpone repayment of their federal loans during medical training. Interest accrues on the entire loan.</p>	<p>All medical residents qualify for forbearance.</p> <p>Starting monthly payment = \$0</p> <p>Total repayment = \$255,338</p>	<p>All medical residents qualify for forbearance.</p> <p>Starting monthly payment = \$0</p> <p>Total repayment = \$255,338</p>
<p><b>Income-Based Repayment</b></p> <p>Income-based repayment will cap all residents’ loan payments at 15 percent of their income that exceeds 150 percent of the poverty line for the borrower's family size.</p>	<p>Did not exist</p>	<p>All medical residents will qualify for income-based repayment regardless of income or debt.</p> <p>Starting monthly payment = \$368</p> <p>Total repayment = \$242,841</p>
<p><b>Public-Service Loan Forgiveness</b></p> <p>The government will repay all remaining federal loans after 10 years of “public service” while in repayment.</p>	<p>Did not exist</p>	<p>“Public Service” will be further defined by the Dept. of Education; 501(c)(3) employers will qualify.</p> <p>Total repayment with income-based repayment = between \$100,000 and \$175,000</p>

Assumptions: The average medical school graduate debt is \$139,517 (~34,000 subsidized) at 6.8% fixed interest rate. The average 1st-year annual resident stipend is \$44,753.

## The “Gap”

The new definition of economic hardship deferment became effective October 1, 2007; however, before the debt-to-income ratio pathway is eliminated from practice, the Secretary of Education must incorporate the change into regulations (rules for the administration of Dept. of Education programs). The Dept. of Education published new regulations on November 1, 2007, that did not make any changes to the debt-to-income ratio. Negotiated rulemaking for another set of regulations will address all remaining provisions of the CCRAA.

The income-based repayment program is not effective until July 1, 2009. Thus, the CCRAA creates a “gap” in coverage for medical residents between the implementation of the new economic hardship definition and July 2009. During that time, medical residents may not be eligible for either the economic hardship deferment or the new income-based repayment program. Medical residents currently participating in the economic hardship deferment and graduates of the class of 2008 could be affected. An Oct. 29 letter from the Department of Education to Representative Howard “Buck” McKeon (R-Calif.) indicates that the Department will continue to offer the economic hardship deferment for borrowers that meet the debt-to-income ratio qualifying criteria. The letter does not indicate any end date for the debt-to-income ratio pathway. The letter also states the Department’s intentions to publish a Dear Colleague Letter on this issue.

## AAMC Regulatory Advocacy

On October 12, 2007, AAMC President Darrel G. Kirch, M.D., sent a letter to Secretary of Education Margaret Spellings commenting on the CCRAA. In the letter, the AAMC recommends:

- Temporarily extending the debt-to-income ratio pathway until the new loan repayment program takes effect in 2009; and
- Allowing current participants in economic hardship deferment to finish out their remaining years of eligibility.

We believe the Secretary is granted authority for these actions under the remaining statutory definition of the economic hardship deferment: “a borrower shall be considered to have an economic hardship if- such borrower meets such other criteria as are established by the Secretary by regulation.” The statute further directs, “in establishing criteria ... the Secretary shall consider the borrower's income and debt-to-income ratio as primary factors.” [20 U.S.C. 1085(o)] The AAMC encourages the Secretary to exercise this authority to ensure that the transition enacted by Congress is realized in a prudent and orderly manner.

The letter is available at: <http://www.aamc.org/advocacy/library/educ/corres/2007/101207.pdf>

## Congressional Advocacy

The AAMC recommended that all advocacy be directed to the Dept. of Education. Congressional contacts were asked to support the AAMC recommendations for the November regulations. Congressional support of these recommendations was directed to Secretary Spellings, House Education and Labor Committee Chair George Miller (D-Calif.), and Senate HELP Committee Chair Edward Kennedy (D-Mass.).

Following the release of the further regulations, the AAMC will re-evaluate the direction and need for regulatory and congressional advocacy.

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