



October 12, 2007

The Honorable Margaret Spellings  
U.S. Secretary of Education  
400 Maryland Avenue, SW  
Washington, D.C. 20202

**Association of  
American Medical Colleges**

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**Darrell G. Kirch, M.D.**  
President

Dear Madam Secretary:

On behalf of the Association of American Medical Colleges, I write in regards to the implementation of the recently enacted “College Cost Reduction and Access Act of 2007” (P.L. 110-84), and the changes to the definition of the economic hardship deferment therein. The AAMC is a nonprofit association representing all 126 accredited U.S. medical schools, nearly 400 major teaching hospitals and health systems, and 94 academic and scientific societies. Through these institutions and organizations, the AAMC represents 109,000 faculty members, 67,000 medical students, and 104,000 resident physicians.

Effective October 1, 2007, P.L. 110-84 changes the definition of economic hardship, eliminating the debt-to-income ratio that allowed most medical residents to qualify. P.L. 110-84 also authorizes a new income-based loan repayment program that is not effective until July 1, 2009. Recent medical school graduates, including the entire class of 2008, will not be covered under either program during this transition. The AAMC recommends:

- (1) Temporarily extending the debt-to-income ratio pathway of the economic hardship deferment until the new income-based repayment program takes effect in 2009; and
- (2) Allowing current participants in the 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.”<sup>1</sup> We encourage the Secretary to exercise this authority to ensure that the transition enacted by Congress is realized in a prudent and orderly manner.

### **The Significance of Medical Education Debt**

In 2006, new medical school graduates reported an average indebtedness of over \$130,000 and 86.6 percent graduated with some debt. Under a typical ten-year repayment schedule at the current fixed 6.8 percent interest rate, the average medical resident can expect to have a \$1,878

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<sup>1</sup> 20 U.S.C. 1085(o)

monthly loan payment. With an average first-year resident stipend of just over \$3,600 a month, these sizeable loan payments pose a substantial burden on young physicians while they complete their medical training.

### **Implications for Medical Residents under the New Law**

#### *The Economic Hardship Deferment*

Prior to October 1, 2007, the economic hardship deferment assisted many physicians during their medical training. The economic hardship deferment allowed medical residents to postpone repayment of their student loans for up to three years. During deferment, the federal government continues to pay the interest on the subsidized portion of the borrower's loan, but interest continues to accrue on the unsubsidized portion. Borrowers previously qualified for the economic hardship deferment if:

- Their income did not exceed the greater of either the minimum wage rate or 100 percent of the poverty line for a family of two; or
- Their debt-to-income ratio was under 220 percent of the poverty line for a family of two.

P.L. 110-84 changes the criteria to qualify for the economic hardship deferment and eliminates the debt-to-income pathway. While the new definition increases the maximum qualifying income for the first pathway, it is unlikely that medical residents will continue to qualify for the economic hardship deferment. Previously, two-thirds of new medical school graduates qualified for the economic hardship deferment under the debt-to-income ratio pathway. At the average 2006 first-year annual resident stipend of \$43,266, this pathway required a debt of over \$100,000.

#### *Income-Based Repayment*

After July 1, 2009, all medical residents will now be eligible for the income-based repayment program authorized by P.L. 110-84. The income-based repayment will cap participating borrowers' loan payments at 15 percent of their income that exceeds 150 percent of the poverty line applicable to the borrower's family size. For example, a single medical resident with the average first year stipend (\$43,266) would not be required to make monthly payments greater than \$349, as calculated below:

150 percent of the annual poverty line for an individual ( $\$10,210 \times 1.5$ ) = \$15,315

annual resident income (\$43,266) – \$15,315 = \$27,951

$\$27,951 \times 15$  percent (.15) = \$4,193

$\$4,193 / 12$  months = \$349

All federal (Direct and FFEL) loans will be eligible for income-based repayment with the exception of PLUS loans for dependent undergraduates and consolidation loans with such PLUS loans. There will be no minimum qualifying debt and no maximum disqualifying income. As was the case under the economic hardship deferment, we understand that the federal government will continue to pay interest on the subsidized portion of loans during the first three years of income-based repayment, but interest will continue to accrue on the unsubsidized portion. After three years, interest will begin to accrue on the subsidized portion of the loan as well.

A borrower's monthly payment under the income-based repayment program will be applied first toward interest due on the loan, next toward any fees due on the loan, and then toward the principal of the loan. Interest on the loans will be capitalized at the time the participant elects to leave the income-based repayment program, most likely at the end of a physician's residency training.

A participant can elect to leave the income-based repayment program at any time. After leaving the program, the borrower's monthly payment need not exceed the monthly repayment schedule the borrower held immediately before entering the income-based repayment program (as calculated for a ten-year repayment period).

#### *Mandatory Medical Internship/Residency Forbearance*

All medical residents are still eligible for a medical residency/internship forbearance, which is mandatory for lenders to provide and is not affected by P.L. 110-84. Forbearance is available for the entire duration of a medical internship or residency. During forbearance, interest accrues on the entire loan, and lenders may reduce, postpone or cancel favorable borrower benefits. In addition, interest is typically capitalized more frequently during forbearance than during the economic hardship deferment.

#### **Negotiated Rulemaking – Student Loans**

In summary, P.L. 110-84 creates a gap between the elimination of the economic hardship deferment debt-to-income ratio and the implementation of the income based-repayment program. In light of this change, the AAMC strongly encourages the Department to implement regulations that temporarily extend the debt-to-income ratio pathway and grandfather eligibility for borrowers who currently participate in the economic hardship deferment.

It is our understanding that Congress modeled the first three years of the income-based repayment program on the economic hardship deferment. In this design, borrowers would continue to receive the interest subsidization and sometimes more favorable capitalization policies offered under the economic hardship deferment. During the period between October 1, 2007, and July 1, 2009, medical residents will not be covered under either program, forcing them to begin making large loan repayments or enter into forbearance. The AAMC recommends postponing the elimination of the debt-to-income ratio pathway until the income-based

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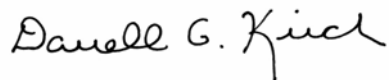
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repayment program is implemented in 2009. This delay will prevent an unnecessary gap in deferment coverage and allow borrowers to avoid forbearance by participating in the income-based repayment program.

Abruptly disqualifying borrowers from the economic hardship deferment will result in missed loan repayments and general confusion among borrowers and loan-servicers. Educating current participants in the economic hardship deferment will be a challenging obstacle as many have graduated, moved, and cease to maintain contact with their school's financial aid office. Grandfathering eligibility for current participants will alleviate this problem and will not necessitate a greater federal financial obligation than the income-based repayment program. The AAMC recommends allowing current participants in the economic hardship deferment to complete their remaining years of eligibility.

The AAMC believes a delayed elimination of the economic hardship deferment's debt-to-income ratio will give borrowers and loan-servicers time to prepare for this extensive change and yield a smoother transition. We look forward to working with the Department of Education in the upcoming negotiated rulemaking process to address these concerns.

Sincerely,

A handwritten signature in cursive script that reads "Darrell G. Kirch".

Darrell G. Kirch, M.D.

cc: Sarah Martinez Tucker, Under Secretary of Education  
Diane Auer Jones, Assistant Secretary for Postsecondary Education  
Lawrence A. Warder, Acting Chief Operating Officer, Federal Student Aid