

House, Senate Approve HEA Budget Reconciliation Conference Report

The House and Senate Sept. 6 approved the conference report (H. Rpt. 110-317) for the College Cost Reduction and Access Act (H.R. 2669), the budgetary provisions of the Higher Education Act (HEA) reauthorization. The bill includes a significant revision to the economic hardship deferment (to be adopted in regulation within a year of the bill's signing) and authorizes a new income-based repayment program, effective July 1, 2009. The President is expected to sign the bill.

Economic Hardship Deferment

The conference agreement does not include language contained in the House and Senate (S. 1762) approved bills to extend the economic hardship deferment beyond the current 3-year limit. The AAMC supported the addition of this language in the final conference report. [[see Washington Highlights, July 13](#)]. The economic hardship deferment allows medical residents to postpone repayment of their student loans, avoiding forbearance, while the government continues to pay the interest on the subsidized portion of their loan.

Currently, borrowers qualify for the economic hardship deferment if:

- Their income does not exceed the greater of either the minimum wage rate or 100 percent of the poverty line for a family of 2; or
- Their debt-to-income ratio is under 220 percent of the poverty line for a family of 2.

The final conference agreement includes a change in the criteria to qualify for the economic hardship deferment that eliminates the debt-to-income pathway, which is the most common means by which medical residents obtain eligibility. The mandatory medical residency/internship deferment and forbearance will not be affected.

While the final bill increases the maximum qualifying income for the first pathway, it is unlikely that residents will continue to qualify for the economic hardship deferment. Under the new definition, a borrower's income cannot exceed the greater of either the minimum wage rate or 150 percent of the poverty line applicable to the borrower's family size. For an independent single student the maximum qualifying monthly income will be \$1,276. The following chart outlines the complete qualifying incomes by family size.

New Qualifying Income for Economic Hardship Deferment			
Family Size	Poverty Line	150%	Maximum Qualifying Monthly Income
1	\$10,210	\$15,315	\$1,276
2	13,690	\$20,535	\$1,711
3	17,170	\$25,755	\$2,146
4	20,650	\$30,975	\$2,581
5	24,130	\$36,195	\$3,016
6	27,610	\$41,415	\$3,451
7	31,090	\$46,635	\$3,886
8	34,570	\$51,855	\$4,321

*Average first-year resident stipend is \$43,266 (\$3606 monthly)

Income-Based Repayment

The final bill also creates a new program of income-based repayment that would cap participating borrowers' loan payments at 15 percent of their income that is over 150 percent of the poverty line applicable to the borrower's family size. For example, a medical resident with the average first year stipend (\$43,266) would only be required to make monthly payments of \$349, as calculated below:

$$\frac{[\$43,266 - (\$10,210 \times 1.5)] \times 0.15}{12}$$

The holder of such a loan shall apply the borrower's monthly payment under the income-based repayment program first toward interest due on the loan, next toward any fees due on the loan, and then toward the principal of the loan.

All federal (Direct and FFEL) loans are eligible for income-based repayment, except PLUS loans (for dependent undergraduates) and consolidation loans with such PLUS loans. Grad PLUS loans are eligible. Private loans are not eligible. There is no minimum qualifying debt and no maximum disqualifying income.

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 accrue on the unsubsidized portions. After 3 years, interest will begin to accrue on the subsidized portion of the loan as well.

Once a borrower has made income-based repayments for a period of 25 years, the remainder of the borrower's federal debt is forgiven.

A participant can elect to leave the income-based repayment program at any time. After leaving the program, the borrower's monthly payment can not exceed the monthly repayment schedule the borrower held immediately before entering the income-based repayment program (as calculated for a 10-year repayment period).

Interest on the loans is capitalized at the time the participant elects to leave the income-based repayment program, most likely at the end of a physician's residency.

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