



Michael D. Maves, MD, MBA, Executive Vice President, CEO

October 24, 2007

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

Dear Madam Secretary:

On behalf of our physicians and medical student members, the American Medical Association (AMA) would like to address our concerns and recommend changes relating to the revised economic hardship deferment eligibility criterion outlined in the recently enacted "College Cost Reduction and Access Act of 2007" (P.L. 110-84).

The AMA recommends the following actions to enable impacted medical residents to transition to an affordable repayment plan until the new income-based loan repayment program becomes effective on July 1, 2009: (1) extending of the "20/220 pathway" of the economic hardship deferment until the new income-based loan repayment program takes effect in July 2009; and (2) allowing current participants in the economic hardship deferment to finish out their remaining years of eligibility.

This new law eliminates the economic hardship deferment qualification criterion that most medical residents rely upon to defer burdensome student loan debts while completing residency training.

Prior to the enactment of this law, a medical resident could qualify for the economic hardship deferment if he/she was employed full-time and his/her federal education debt burden was equal to or greater than 20 percent of his/her monthly income, and his/her income minus the education debt burden was less than 220 percent of the greater of the minimum wage rate or the federal poverty line for a family of two ("20/220 pathway").

This new law eliminates the "20/220 pathway" for economic hardship deferment. The elimination of this deferment option forces the majority of medical residents, who would have otherwise been able to defer repayment for a period of time during their residency, to begin repayment immediately after the conclusion of their medical school training.

Moreover, with an unrealistic effective date of October 1, 2007, medical residents may not have adequate time to arrange for an immediate loan repayment plan. With this immediate effective date, the rules are being changed midstream, which does not provide residents enough time to restructure their repayment plans.

The average debt burden for medical school graduates is \$130,571 and the average first-year stipend for a medical resident is \$43,266. Such a debt is a significant hardship throughout the loan repayment period, especially during the three to seven years of training in residency programs. The average first-year stipend for medical residents is limited, especially if residents pursue their training in urban areas where the cost of living is high. The high debt burden that many medical graduates face often influences their career choices. Borrowers with high loan debt are often deterred from practicing medicine in underserved areas, starting a career in medical education or research, or practicing primary care medicine.

There is a growing consensus that the United States faces a future shortage of physicians. In its last report in 2005, the Council on Graduate Medical Education (COGME) predicted a shortage of 85,000 physicians by the year 2020. Complicating student debt burden repayment would further deter students from pursuing a career in medicine.

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 [sic] 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.”¹ We encourage the Secretary to exercise this authority to ensure that the transition enacted by Congress is realized in a prudent and orderly manner.

It is our understanding that Congress modeled the first three years of the income-based repayment program on the economic hardship deferment. As a result, 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 to go into forbearance. The AMA recommends postponing the elimination of the “20/220 pathway” until the income-based repayment program is implemented on July 1, 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.

The immediate disqualification of borrowers from the economic hardship deferment may result in missed loan repayments and general confusion among borrowers and lenders. Educating current participants in the economic hardship deferment will be a challenge as many have graduated, moved, and ceased 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

¹ 20 U.S.C. 1085(o)

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program. The AMA recommends allowing current participants in the economic hardship deferment to complete their remaining years of eligibility.

The AMA believes a delayed elimination of the economic hardship deferment's "20/220 pathway" and grandfathering eligibility for borrowers who currently participate in the economic hardship deferment will give borrowers and lenders time to prepare for this dramatic 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 "Mike Maves". The signature is written in black ink and is positioned to the left of a vertical red line.

Michael D. Maves, MD, MBA