

ASSOCIATION OF AMERICAN MEDICAL COLLEGES



Economic Hardship Deferment Frequently Asked Questions

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Will the MEDLOANS ELP

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The AAMC sponsored MEDLOANS Program, along with our partners USA Funds, Bank One, and Sallie Mae, are pleased to offer Economic Hardship Deferment Frequently Asked Questions. This guide is intended to help borrowers in residency, as well as the financial aid professionals who counsel them, gain a better understanding of the Economic Hardship Deferment. Borrowers are encouraged to use this information to help supplement information received at their Senior Loan Exit Interview from their financial aid office.

In reading this guide, you should be familiar with the following terms:

Federal Family Education Loan Program (FFELP) - Stafford Loans borrowed from traditional lenders such as banks, through programs like the AAMC sponsored MEDLOANS Program.

Federal Direct Student Loan Program (FDSLP or Direct Loans) - Stafford Loans borrowed "directly" from the federal government, and not through a bank. These loans are often referred to as "Direct Loans".

"New" Borrower - For purposes of the Economic Hardship Deferment, a "new" borrower is someone who began borrowing in the Stafford Loan Program on or after July 1, 1993 (or who borrowed prior to that date but who paid off their entire Stafford Loan balance prior to taking out another Stafford Loan on or after July 1, 1993).

The MEDLOANS Program welcomes your feedback on this publication. Please send your comments on this publication to MEDLOANS at www.aamc.org/MEDLOANS.

Thank you.

For additional information, please contact your loan servicer.
MEDLOANS borrowers may contact
Sallie Mae at 1-888-272-5543 (1-888-2Sallie).

Economic Hardship Deferment Frequently Asked Questions

1. What are the current eligibility requirements and where are they cited in the regulations?

Federal regulations regarding the economic hardship deferment for FFEL program loans (including MEDLOANS Staffords) can be found in 34 CFR 682.210(s)(6). Economic hardship deferments may be granted under any of the following conditions:

- (1) The borrower has been granted an economic hardship deferment under either the Direct Loan or Federal Perkins Loan Programs.
- (2) The borrower is receiving payment under a Federal or State public assistance program.
- (3) The borrower is working full-time and has a monthly income that does not exceed the greater of (as calculated on a monthly basis)— (A) The minimum wage rate; or (B) An amount equal to 100 percent of the poverty line for a family of two.
- (4) The borrower meets a debt-to-income test in which (A) The borrower is working full-time; (B) The borrower's Federal education debt burden is equal to or greater than 20 percent of the borrower's monthly income; AND (C) The borrower's income minus the borrower's Federal education debt burden is less than 220 percent of the amount described in item #3.
- (5) The borrower meets a debt-to-income test in which (A) The borrower is not working full-time; (B) The borrower's monthly income is equal to or less than 2 times the amount described in item #3; AND (C) The borrower's monthly income minus the borrower's Federal education debt burden is less than or equal to the amount described in item #3.
- (6) The borrower is serving as a volunteer in the Peace Corps.

MEDLOANS (and other FFELP) borrowers who are applying for economic hardship deferments during their residency programs will most likely apply for the deferment based on the criteria described in item #4 above, which correlates to condition (6) on the current economic hardship deferment form.

2. Has the form been recently updated, and if so, what is the date of the appropriate form? Where can borrowers get the form? Do lenders usually mail a form to “new” borrowers toward the expiration of their grace period or do borrowers have to request a form? What happens if a borrower submits an out of date form?

The most recent version of the Economic Hardship Deferment Request form was distributed by the Department of Education in May, 2001, for use on and after July 1, 2001. However, the form does not have a revision date printed on it. The form contains the same OMB clearance date as was provided on the previous version: OMB No. 1845-0005 and Exp. Date 06/30/2002.

Economic hardship deferment forms are not automatically sent to borrowers. Borrowers may request a form by contacting their servicer, lender, or guarantor to request a form to be mailed, or by accessing Web sites providing forms that can be downloaded.

If a borrower submits an outdated form, the lender is not required to automatically deny the deferment. Instead, lenders are permitted to process it, if possible, in accordance with current regulatory requirements. However, if the borrower has not provided all of the required information as a result of the outdated form, the lender will generally deny the request and may send the borrower a new deferment form to be completed and returned for processing.

3. What is the latest on the issue of “gross income versus adjusted gross income” for purposes of determining a borrower’s eligibility? Is spousal income ever included in the determination of a borrower’s eligibility?

A borrower’s monthly income, for purposes of determining eligibility for the economic hardship deferment, is calculated as EITHER (A) The monthly gross amount of the borrower’s income from all sources;

OR (B) One-twelfth of the borrower's adjusted gross income (AGI) as recorded on the borrower's most recent tax return.

A borrower is not required to report his or her spouse's income for use in determining deferment eligibility. However, it should be noted that, in the case of a borrower applying for the deferment on the basis of adjusted gross income, the AGI on the tax return is the figure that must be used, regardless of whether that income is solely the borrower's income or whether that figure represents income from both the borrower and spouse. Consequently, borrowers who file joint tax returns and whose spouses have significant income may need to apply for the economic hardship deferment using recent monthly gross income documentation rather than supplying the AGI from last year's tax return to prevent the spouse's income from being considered in the deferment eligibility calculation.

4. In follow up to question number 3, will a borrower be automatically denied eligibility because he or she did not file a tax return?

No, a borrower should not be denied eligibility for an economic hardship deferment solely because he or she did not file a tax return. However, because the borrower will be unable to provide documentation of adjusted gross income, the borrower will instead need to apply for the deferment based on evidence of his or her most recent monthly gross income.

5. What kind of income documentation is required when determining a borrower's eligibility?

The following documents are commonly used to substantiate a borrower's income: copy of most recently filed tax return, letter from the borrower's employer verifying income, W-2, or copies of paychecks substantiating income for one full month.

6. Some residents receive a "signing bonus" when they start residency. How is such income treated for purposes of determining eligibility?

If the borrower applies for an economic hardship deferment based on adjusted gross income (AGI), the "signing bonus" will be reflected in the borrower's AGI for the year in which the bonus is paid. Note that

this will likely cause the bonus to affect the borrower's deferment eligibility the year after the bonus was paid.

If, however, the borrower applies for the economic hardship deferment based on current monthly gross income, the borrower must provide evidence of the signing bonus along with any other monthly income the borrower receives. [The borrower should document that the signing bonus was a "one-time" amount, assuming that is the case, to ensure that the income is not misinterpreted as part of his or her regular monthly income.] Typically, the lender or servicer will divide the bonus amount by 12 and add it to the borrower's regular monthly income to calculate the total monthly income for deferment eligibility purposes.

7. What kind of documentation does a lender need regarding federal loans that are not serviced by that lender (for example, Perkins, PCL, other Staffords) but that may need to be included when determining a borrower's eligibility?

The borrower can document his or her federal education loan debt by sending copies of the repayment schedule applicable to the loans that should be included in the eligibility determination. If a borrower did not retain the repayment schedule, he/she may request a copy from the school, lender, or agency that services those other loans. Most lenders will also accept other correspondence from the holder or servicer of those other loans provided the correspondence shows the monthly payment amount, repayment term and, if the loan was not scheduled for a 120-month term, the outstanding balance at the time the loan went into repayment.

8. How accurate is the MEDLOANS Electronic Loan Portfolio (ELP) debt management software in determining a borrower's potential eligibility for the hardship deferment?

The MEDLOANS Electronic Loan Portfolio debt management software provides a good estimate of a borrower's potential eligibility for the deferment, assuming complete and accurate information is entered by the borrower.

9. Do lenders use the current interest rate(s) for borrowers' Stafford Loans when determining their eligibility (i.e., when determining the monthly payment over the Standard (Level) Repayment)?

Federal regulations do not specifically define the interest rate to be used when it is necessary to recalculate the borrower's monthly payment amount (i.e., to determine the payment amount under a 120-month schedule). However, many lenders do use the current interest rate(s) when recalculating the borrower's current monthly payment amount.

10. Do lenders include a borrower's Federal Perkins Loans in their determination of a borrower's eligibility for the hardship deferment?

Yes. [See examples of eligible loans in Section 5 of the current economic hardship deferment form.]

The definition of federal education debts is not limited to loans made under Title IV, part B, but rather includes any postsecondary loans administered by a federal program. Perkins loans are made under a federal program and, as such, are eligible for inclusion in the calculation of the borrower's federal education loan debt.

11. Do lenders include a borrower's Primary Care Loans in their determination of a borrower's eligibility for the hardship deferment?

Yes. [See examples of eligible loans in Section 5 of the current economic hardship deferment form.]

The definition of federal education debts is not limited to loans made under Title IV administered by the Department of Education, but rather includes any postsecondary loans administered by a federal program. Loans made under the Primary Care Loan program funded by the Department of Health and Human Services are federal education loans and, as such, are eligible for inclusion in the calculation of the borrower's Federal education loan debt.

Any loans made under a program which is not administered by a federal agency (i.e., private loans and institutional loans) cannot be considered in the calculation of federal education loan debt.

12. Can customer service representatives give borrowers an educated guess as to whether or not they will qualify for the hardship deferment if borrowers call and ask this?

Yes, many lenders' customer service representatives can provide borrowers with an "educated guess" as to their eligibility for the hardship deferment. However, the information provided the borrower over the telephone is usually not intended to pre-qualify a borrower for the deferment. In general, lenders cannot make a determination of a borrower's actual deferment eligibility until all of the required information and documentation for the deferment has been submitted to lender.

13. How do lenders handle situations in which an "old" borrower submits a deferment form for the hardship deferment?

Many lenders have system edits which will prevent an "old" borrower (that is, a borrower who received his or her first FFELP loan prior to July 1, 1993 and did not pay off the balance IN FULL prior to taking out a new Stafford on or after that date) from being sent an economic hardship deferment form if the borrower requests a form from a customer service representative. However, if the borrower receives a form from some other means (e.g., by downloading the form from a Web site) and submits the form, the lender will deny the deferment request, usually with a notice to the borrower advising that he/she is not eligible for that deferment type.

14. If a borrower is denied the hardship deferment, what kind of notice is sent to the borrower? Is it sent by regular mail, by email, or both?

If a hardship deferment cannot be granted, lenders will notify the borrower of the deferment denial. At this time, many lenders send deferment denial notices via regular mail.

15. If a borrower has all their loans held and serviced by one lender, and they have used up part of their three year potential eligibility, and then they consolidate with that same lender, how much more hardship eligibility do they retain, assuming they qualify?

Specifically, if a borrower has used up 8 months of eligibility, then consolidates, are they eligible for up to 2 years and 4 months, or just 2 years?

A borrower who uses a portion of his economic hardship deferment eligibility prior to consolidating is eligible for the remainder of the deferment eligibility on the consolidation loan. In the given example, the borrower is eligible for up to 2 years and 4 months of economic hardship deferment on the consolidation loan.

16. Do lenders use a borrower’s current outstanding balance, including any accrued, unpaid, and (if appropriate) capitalized interest, when determining their eligibility for the EHD?

In determining the borrower’s federal education debt burden, lenders generally use the monthly payment amount that the borrower is currently required to pay. In most cases, at the time that payment amount was calculated, the payment would have been calculated based on all outstanding principal, capitalized interest, and accrued interest.

However, according to federal regulations, the monthly debt burden must be based on repaying the federal loan over a 10-year period. If the borrower’s current monthly payment amount was not based on a 10-year repayment schedule such that the lender is required to recalculate the payment amount, many lenders will recalculate the payment using the outstanding balance at the time the loan entered repayment, consistent with the economic hardship deferment worksheets.

17. Which loans can be included in the calculation of a borrower’s eligibility for the EHD? Does the status of their loans dictate whether or not they can be included?

A comprehensive list of federal loans which may be included as part of the borrower’s Federal education loan debt may be found in Section 5 of the current economic hardship deferment form, under the definition of “federal education loans”.

Federal loans which are in repayment (defined as any period after the grace period) may be used in the calculation of the borrower’s federal education debt burden, as noted in the sixth bullet of Section 6 of the current economic hardship deferment form. Federal loans on which payments are not yet due (e.g., because the loan is still in a grace period) are not included until such time as the loans enter repayment.

18. How are loans included in the eligibility formula if they are in “active repayment” with a repayment schedule that is not Standard (Level)?

In general, lenders will use the monthly payment amount that the borrower is currently required to pay, provided that payment amount was calculated over a 120-month repayment term. However, in cases where the lender is required to recalculate the borrower’s Federal debt burden using a 120-month repayment term, a Standard (Level) schedule is generally used to determine the payment amount for the eligibility formula.

19. Should financial aid officers reference an “estimated threshold” at which borrowers might qualify for the EHD? For example, “at current rates, a borrower would need federal loans of \$XX,XXX to qualify at a PGY-1 stipend of \$35,000”.

As a very rough approximation, a borrower who receives a \$35,000 stipend and whose loans are at a 5.99% interest rate would need a balance of around \$71,100 to qualify for the economic hardship deferment. However, due to the many factors that must be taken into consideration to determine eligibility for the hardship deferment, referencing an estimated threshold may mislead borrowers to believe they may be eligible for the deferment when in fact they are not, or vice versa. Borrowers should utilize the ELP software or economic hardship deferment worksheet, or consult with their lender/servicer, to obtain a better estimate of their deferment eligibility. Of course, borrowers should also be reminded that actual deferment eligibility can only be determined upon submission of complete deferment documentation.

20. Is it possible for a borrower to pay themselves out of eligibility for the EHD if they make voluntary payments against their loans during grace or deferment?

Although these situations should be rare, theoretically, yes, it is possible to “pay yourself out” of eligibility for an economic hardship deferment. The economic hardship deferment calculation uses the borrower’s monthly payment on federal education debts. A lower monthly payment amount means that the borrower’s income must also be lower to qualify for the deferment.

When a lender schedules a borrower's loan for repayment, the outstanding loan balance at the time of the calculation is generally used to determine the borrower's payment amount. Making a large "pre payment" which reduces the outstanding loan balance prior to the time(s) that the monthly payment amount is calculated or recalculated may therefore affect the resulting monthly payment amount and, consequently, may affect deferment eligibility.

Note, though, that unless the borrower is "right on the edge" of qualifying for the economic hardship deferment, making a few small payments during grace or deferment periods will usually not affect deferment eligibility.

21. If a borrower qualified for the EHD their first year of residency, then took a break in their post-graduate (residency) training, can they still apply for the EHD, and can they apply when they return to their residency training?

The economic hardship deferment is not related to a borrower's residency program. The borrower may reapply for economic hardship deferment during any period in which the borrower meets the debt-to-income requirements (or any of the other eligibility criteria), regardless of whether this period coincides with a residency program or whether this condition occurs because the borrower is not in a residency program (e.g., because he/she is taking some time off).

22. Can "new" Stafford borrowers apply for the EHD at any time? In other words, if they initially did not need the deferment, but then something happened in their family or financial situation, could they apply?

As noted above, the economic hardship deferment is not tied to the borrower's residency program. The borrower may apply or reapply for economic hardship deferment during any period in the life-of-the-loan in which the borrower meets the eligibility criteria.



The AAMC would like to thank the MEDLOANS Technical Advisory Committee and our partner and servicer in the MEDLOANS Program, Sallie Mae, for their valuable assistance with this publication. As referenced earlier, MEDLOANS always encourages borrowers to work closely with their loan servicer(s) on all repayment issues, including applying for the Economic Hardship Deferment.



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