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### **Dental Residency Deferment** *(last updated 8-11-2004)*

#### **Recommendations:**

- 1) In statute, stipulate that dentists engaged in advanced dental residency training at dental schools (and training sites formally affiliated with dental schools), qualify for in-school deferment on qualified student loans.
- 2) In statute, stipulate that those qualifying for either in-school or economic hardship deferment may defer for the duration of their residency training or internship.
- 3) In statute, stipulate that qualifying loans include Stafford Loans (Direct and FFELP), Perkins Loans, Primary Care Loans, Health Professions Student Loans, Institutional Aid, and private education loans.
- 4) In statute, eliminate the 220% rule to qualify for economic hardship. If elimination of the 220% rule is not possible then increase the 220% threshold, which would allow more borrowers to qualify for economic hardship deferment.

The present economic hardship equation states that a borrower is considered to have an economic hardship if the borrower is working full-time and has a Federal education debt burden that equals or exceeds 20% of the borrower's adjusted gross income (AGI), and the difference between the AGI minus such burden is less than 220% of the greater of: (1) the annual earnings of an individual earning the minimum wage or (2) the income official poverty line applicable to a family of two.

- 5) In statute, clarify that lenders may use the maximum interest rate in the calculation to determine eligibility for the economic hardship deferment. This will improve parity and consistency within and between the FFEL and DL programs.

#### **Background Information Contents:**

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#### **Summary of Accredited Dental Residency Training Programs and Stipends**

There are 731 dental residency training programs in the U.S., 358 are dental school-based and 373 are hospital-based programs. Of the 2,715 first-year postdoctoral dental residency positions, 1,395 are school-based positions, while 1,320 are hospital-based.

Whether or not a dental resident receives a stipend during residency training does not influence their eligibility for deferment.

Accredited Dental Residency Programs	Average Length (months)	1 <sup>st</sup> year Average Tuition	1 <sup>st</sup> year Average Stipend	Total Number Residents
Dental Public Health	16	\$5,296	\$18,361	35
Endodontics	25	\$14,696	\$7,075	406
General Dentistry AEGD	12	\$265	\$26,947	614
General Practice Residency	12	\$196	\$34,040	1,063
Oral and Maxillofacial Surgery	52	\$3,538	\$32,869	848
Oral and Maxillofacial Pathology and Oral and Maxillofacial Radiology	37	\$4,394	\$14,224	35
Orthodontics & Dentofacial Orthopedics	29	\$13,603	\$6,167	714
Pediatric Dentistry	25	\$7,666	\$25,811	442
Periodontics	36	\$13,243	\$9,546	476
Prosthodontics Prosthodontics Combined Maxillofacial Prosthodontics Maxillofacial Combined Specialty	31	\$8,600	\$15,478	426
Source: 2000/2001 Survey of Advanced Dental Education, American Dental Association				

**Terminology: Student vs. Dental Resident**

ADEA has urged ED to accept the use of term, “dental resident” and “student”. ED verbally agreed to accept either “student” or “dental resident” saying that this is something the school can work out at their institutions.

**About Deferment**

Deferments allow borrowers to postpone regular loan payments for a period of time. Deferment privileges vary by loan program and are granted to borrowers in certain situations, including enrollment in dental residency training programs. Financial aid officers will assist dental residents in determining their deferment privileges. Lenders may grant deferment to a borrower who has not completed the proper deferment form, however, the deferment cannot be granted until the lender receives the required documentation from the borrower. Processing a deferment request can take several weeks so it is important that dental residents are informed of their eligibility to apply as soon as possible.

Dental residents may be required to complete and submit separate deferment forms for different types of loans. With FFEL loans, one deferment form is usually all that is necessary. Lenders are encouraged to be flexible in accepting information that supports a borrower’s deferment entitlement. A lender may use a combination of verbal requests and documentation that supplies sufficient information to ensure the borrower meets all deferment eligibility criteria. Dental residents should be reminded to keep copies of all forms and correspondence related to their deferment and they should request to receive written confirmation of deferment. If they have requested deferment they must continue to make payments until it is granted.

Deferments generally are borrower specific—not loan specific. This means that time limits should be enforced for each borrower, rather than for a borrower’s individual loans or groups of loans. However, if all the borrower’s loans are paid in full (except through consolidation) and the borrower subsequently obtains a new loan, the borrower is eligible for all deferments applicable to that loan despite any previous periods of deferment. If they have used up the maximum amount of time allowed for a particular type of deferment, they will not be eligible for additional deferments of that type.

**In-School and Economic Hardship Deferment**

<b>Eligibility for Dentists to Qualify for deferment</b>	
<b>In-School Deferment</b>	<b>Economic Hardship Deferment</b>
A dental resident that attends a dental residency program at an institution of higher education or at a hospital program affiliated with an institution of higher education	A dental resident participating in a hospital-based residency program that is not affiliated with an institution of higher education and/or a dental school is ineligible for an in-school deferment because the resident cannot be considered an enrolled student/resident at an eligible institution.
Institution must consider the dental resident to be a student enrolled on at least a half-time basis	Non-affiliated programs are institutions that do not qualify for federally guaranteed student financial aid.
Enrollment status must be reflected through registration records and/or tuition charges.	Economic hardship deferment and forbearance are options available for dental residents participating in hospital-based residency programs that are not affiliated with an institution of higher education and/or a dental school.
In-school deferment covers only the period of time during which the institution considers the resident enrolled at least a half-time student.	

**1992 Congressional Changes to Deferment**

Congress made several changes to student loan deferment provisions and the treatment of medical and dental residents during the reauthorization of the Higher Education Act in 1992 (HEA92). While dental residents are entitled to in-school deferment, medical residents are not (they may apply for economic hardship deferment, forbearance or enter repayment). Changes to student loan deferment made during the 1992 reauthorization of the Higher Education Act resulted in confusion for lenders, loan holders, servicers, dental residents, and residency program directors.

The 1992 changes eliminated all deferment categories, including the medical residency deferment, and replaced them with three new categories: (1) in-school; (2) unemployment for up to 3 years; and (3) economic hardship for up to 3 years. The 1992 changes made borrowers who became medical residents after July 1, 1993 ineligible for medical residency deferment although they could be eligible for economic hardship deferment or forbearance during residency training. The 1992 changes were never intended to change deferment eligibility for dental residents. However, dental residents have faced difficulty in applying and receiving in-school deferment while in dental residency training.

In general, deferments are granted for: enrollment in school, study in a graduate fellowship program and dental residency training, rehabilitation training program for disabled individuals, unemployment, and economic hardship. Interest is subsidized during deferment for subsidized loans while interest accrues during deferment for unsubsidized loans.

In early January 2000, ADEA requested guidance from the U.S. Department of Education (ED) regarding eligibility for in-school deferment for dental residents and whether in-school deferment lasts the duration of dental residency training. ADEA made the case that although the great majority of dental students complete residency training in two years dental residents, regardless if they are school-based or hospital-based, are essentially postgraduate students who either are required to pay tuition or receive little or no stipend that would allow them to meet their education expenses and begin repayment of their student loans. ADEA sought clarification on whether in-school deferment applies to residents in both hospital-based and school-based programs.

**In-School Deferment**

Dental residents must be proactive in ensuring that they receive an in-school deferment if they are entitled to receive one. Lenders must grant an in-school deferment based on enrollment and in-school status of a borrower as certified by an institution of higher education or an affiliated hospital. It is anticipated that lenders will be able to determine the borrower's eligibility for the deferment based on

either of the following: a newly completed loan application that documents the borrower's eligibility for the deferment, the student status information received by the lender that indicates the borrower is enrolled at least half-time. Again, dental residents must double-check to see if this has occurred. If the lender defers the loan based on a loan application or enrollment status information, the lender must notify the borrower that the deferment was granted and give the borrower the option of continuing to repay the loan.

**Link to PDF file for in-school deferment form: <<http://www.dlssonline.com/tools/show-pdf.asp>>**

### **Non-Affiliated Programs**

A dental resident participating in a hospital-based residency program not affiliated with an institution of higher education is not eligible for an in-school deferment because the resident cannot be considered an enrolled student at an eligible institution. Non-affiliated programs are institutions that do not qualify for federally guaranteed student financial aid. Dental residents attending non-affiliated programs can apply for economic hardship deferment just as medical residents do while in medical residency training programs. We estimate that most dental residents will qualify for economic hardship just as many medical residents qualify for economic hardship. Once in-school and/or economic hardship deferment runs out, dental residents may apply for forbearance. In each instance, residents would not be required to pay student loan bills during dental residency training.

### **Economic Hardship Deferment**

For dental and medical residents to qualify for economic hardship deferment they must be experiencing financial difficulties. Residents ineligible for in-school deferment may apply for economic hardship deferment or forbearance. The present economic hardship equation states that a borrower is considered to have an economic hardship if the borrower is working full-time and has a Federal education debt burden that equals or exceeds 20% of the borrower's adjusted gross income (AGI), and the difference between the AGI minus such burden is less than 220% of the greater of: (1) the annual earnings of an individual earning the minimum wage or (2) the income official poverty line applicable to a family of two.

Unfortunately, under the current "economic hardship" definition, many borrowers do not qualify for loan deferment. With the costs of medical school education rising every year, special provisions should be put in place to ensure that loan deferments are actually obtained by those who need deferment the most. Thus, "economic hardship" should be defined with fewer constrictions so that all individuals who are struggling economically and need deferment are included.

For example, a borrower receiving federal or state public assistance; serving as a Peace Corps volunteer, or the borrower's income falls below the federal poverty guidelines for a family of two. The poverty guidelines for monthly gross income as of 2004 are as follows: Federal minimum wage rate (\$5.15 an hour) or \$892.66, poverty line for a family of two in all states is \$921.33, Alaska, \$1,153.33, Hawaii, \$1,060.83.

**Link to PDF file for economic hardship deferment form: <<http://www.dlssonline.com/tools/show-pdf.asp>>**

### **Grace Periods on Student Loans**

Most student loans have grace periods before repayment begins; borrowers do not have to apply for grace periods. The length of the grace period depends on the terms in the Promisory Note. Most grace periods for Federal Stafford Loans are six months. Interest on subsidized loans does not accrue during grace and deferment periods, but interest on unsubsidized loans does accrue during grace periods and deferment. Grace periods usually commence immediately following graduation.

### **Forbearance and Mandatory Forbearance**

If a borrower is unable to meet a repayment schedule, a lender may reduce or suspend their regular loan payments or lengthen their repayment period because they have a financial hardship but do not qualify for a deferment. For example, borrowers may be granted a forbearance if they are in poor health or encounter other unanticipated personal problems.

Lenders must grant forbearance to a qualified borrower who meets either of the following criteria: The borrower has exhausted his or her eligibility for internship/residency deferment; or the borrower's

promissory note does not provide for an internship/residency deferment. Mandatory forbearance allows dental residents who are unable to obtain in-school deferment to complete residency training. A lender must grant forbearance in 12-month increments unless the actual period during which a borrower is eligible is less than 12 months.

Lenders are required to grant mandatory forbearance, upon receiving a borrower's request and supporting documentation, in any of the following situations: internship and/or residency training, debt exceeds monthly income, national service, or Department of Defense repayment. In all cases, the lender must provide the borrower with a written agreement that explains the terms of forbearance.

Forbearance is not automatic; the borrower must apply. Lenders grant forbearance at their discretion, except for 'mandatory forbearance' as discussed above. In most cases, documentation is required to support the request. Most lenders are willing to help borrowers through tough times as long as they notify the lender early, while they are still making payments, and before they default on their loan(s). Forbearance is always a costly option to the borrower because, unlike deferments, the federal government will not pay the interest that accrues on a borrower's loan during the forbearance period. Forbearance does not adversely affect credit and is usually not counted as part of the student's repayment period. Forbearance options will likely vary by loan type, borrowers should check with their lender for specifics on their loan portfolio.

**Text of the Department of Education's April 7, 2000 letter**

Mr. Richard W. Valachovic, D.M.D.  
Executive Director  
American Association of Dental Schools  
1625 Massachusetts Avenue, NW  
Washington, DC 20202

Dear Dr. Valachovic:

This response is in reference to your letter of January 5, 2000 in which you requested clarification on the eligibility of dental residents for in-school deferments.

An in-school deferment applies only to dental residents if they are doing their dental residency at an institution of higher education or at a hospital affiliated with an institution of higher education that can certify to the enrollment and in-school status of a borrower. The institution at which the residency is performed or with which the hospital is affiliated must consider the dental resident to be a student enrolled on at least a half-time basis. The institution's enrollment records must reflect this status through registration records and/or tuition charges. A dental resident's in-school deferment would cover only the period during which the institution considered the resident enrolled as at least a half-time student.

A dental resident participating in a residency at a non-affiliated hospital is not eligible for an in-school deferment because the resident cannot be considered an enrolled student at an eligible institution.

I trust this response satisfactorily addresses your concerns.

Sincerely  
Jeff Baker, Director  
Program Development Division  
Student Financial Assistance Program  
United States Department of Education