Perkins Repayment, Forbearance & Deferment

CHAPTER 4

Repayment terms vary substantially among Perkins Loans, National Direct Student Loans, and National Defense Student Loans. Schools may obtain software from third-party vendors that have automated many of the following requirements and calculations. The Federal Perkins Loan Program offers borrowers a variety of forbearance and deferment options. These options do not allow for capitalization of interest at the end of any forbearance or deferment period.

GRACE PERIODS

A "grace period" is the period of time before the borrower must begin or resume repaying a loan. There are two kinds of grace periods for Perkins loans:

- *Initial grace period*—a 9-month grace period that immediately follows a period of enrollment and immediately precedes the date repayment is required to begin *for the first time*. A borrower is only entitled to one initial grace period.
- *Postdeferment grace period*—a 6-month grace period that follows any subsequent period of deferment.

Initial Grace Periods

A Perkins borrower is entitled to an initial grace period of 9 consecutive months after dropping below ½-time enrollment. If the borrower who returns to school on at least a ½-time basis before the 9 months have elapsed, the initial grace period has not been used. The borrower will be is entitled to a full initial grace period (9 consecutive months) from the date that he or she graduates, withdraws, or drops below ½-enrollment again.

Post-deferment grace periods

A "post-deferment grace period" is the period of 6 consecutive months that immediately follows the end of a period of deferment and precedes the date on which the borrower must resume repayment on the loan. Neither the deferment nor the grace period is counted as part of the 10-year repayment period.

Except for hardship deferments on loans made before July 1, 1993, all deferments for all loans made under the Federal Perkins Loan Program have post-deferment grace periods of 6 consecutive months.

Chapter 4 Highlights

Grace Period

Definitions
34 CFR 674.2
Length of initial grace period;
Grace period delayed during active duty;
Prepayment
34 CFR 674.31(b)
Less-than-1/2-time grace periods
34 CFR 674.32

Grace periods for NDSLs

Note that repayment of an NDSL made on or after October 1, 1980, begins **6 months** after the date that the borrower drops below at least 1/2-time enrollment.

NDSL on or after 10/1/80
• Initial grace period is 6 months
• Post-deferment period is 6 months

NDSL before 10/1/80
• Initial grace period is 9 months
• Post-deferment period is 6 months

Approved leaves of absence
34 CFR 668.22 (c)(1)(v) and (vi);
34 CFR 668.22 (d)

Deferment during initial grace period

If a borrower requests a deferment to begin during the initial grace period, the borrower must waive (in writing) his or her rights to the initial grace period. The request for a deferment alone is not sufficient documentation for a school to waive the initial grace period; the borrower must also acknowledge in writing that he or she wants the waiver.

Applicable grace period when student is attending less than 1/2-time

A borrower who is attending less than ½-time and who has no outstanding Perkin/NDSL Loan must begin repaying a new loan 9 months from the date the loan is made or 9 months from the date the student enrolled less than 1/2-time, whichever is earlier. (This 9-month period includes the date the loan was made.)

A borrower who is attending less than 1/2-time and who has an outstanding Perkins Loan or NDSL must begin repayment on an additional loan when the next scheduled installment of the outstanding loan is due; there is no formal grace period or in-school deferment on the new loan.

Calculating the grace period

A grace period is always day specific—an initial grace period begins the day after the day the borrower drops below 1/2-time enrollment. Similarly, a post-deferment grace period begins on the day immediately following the day on which an authorized period of deferment ends.

If a borrower has received loans with different grace periods (and different deferment provisions), the borrower must repay each loan according to the terms of its promissory note; the borrower must pay the minimum monthly payment amount that applies to each loan that is not in a grace or deferment period.

Grace period when student doesn't return from leave of absence

Students granted approved leaves of absence retain their in-school status for FSA loans. However, if a student does not return from an approved leave of absence, the student's grace period begins the date the student began the leave of absence. (If the school is required to take attendance, the grace period begins on the last date of academic attendance.)

For a student who does not return from an approved leave of absence, this withdrawal date might result in the exhaustion of some or all of the student's grace period.

Leaves of absence no longer qualify as approved leaves of absence for FSA purposes unless the school explains the effects that the student's failure to return from an approved leave of absence might have on the student's loan repayment terms, including the exhaustion of some or all of the student's grace period.

Use of initial grace period

Example: student returns before initial grace period elapses

Fenriz takes out a Perkins Loan in the fall quarter at Sims School of Botany but drops out of school for the winter quarter. He reenrolls as a 1/2-time student in the summer session, before the 9-month grace period has expired. Therefore, Fenriz is entitled to a full initial grace period once he again leaves school or drops below half-time status.

Example: different grace period for earlier loans

Steve took out several Perkins Loans while attending New Frontier Community College, and began repaying them 9 months after graduating. Later, he enrolled in a Bachelors degree program at Old Ivy College, and was able to defer his older Perkins Loans. He took out two additional Perkins Loans at Old Ivy.

When Steve graduates from Old Ivy, he is entitled to an initial grace period (9 months) for his Perkins Loans at Old Ivy, but must resume repaying his older Perkins loans (from New Frontier CC) at the end of the 6-month postdeferment period.

Exclusion for reservists on active duty

For a borrower who is a member of the Armed Forces Reserve, the initial grace period does not include any period up to 3 years during which the borrower is ordered to active duty for more than 30 days, including the period necessary for the borrower to resume enrollment at the next available enrollment period. The period necessary for the borrower to resume enrollment at the next available enrollment period may not exceed 12 months.

The borrower must notify you of the beginning and end dates of his or her service, and the date he or she resumes enrollment. A borrower who enrolls in a different educational program after returning from active duty is entitled to the same grace period benefits. A borrower who is in a grace period when called or ordered to active duty is entitled to a new grace period upon conclusion of the excluded period.

Grace periods & less than 1/2-time enrollment

Example: Perkins received while enrolled less than 1/2-time

Paula starts school full-time in September. She does not have an outstanding Perkins Loan or NDSL. In January, Paula drops to 1/4-time and in March, she receives a Perkins Loan.

Since Paula dropped below 1/2-time enrollment ***before*** the Perkins Loan was made, Paula must begin repayment 9 months after the date she dropped below 1/2-time enrollment—her first payment will be due in October.

Example: Second Perkins Loan received while first loan is in repayment

Jason has been making monthly payments on Perkins Loan #1, which went into repayment 9 months after he completed a one-year program at a career school.

He subsequently enrolls in a new program at a community college and takes out Perkins Loan #2 in September. He is only enrolled 1/4-time at the community college, so he is not eligible for in-school deferment. His next payment on Loan #1 is due October 15. Jason will begin repaying Loan #2 at the same time. *Remember that the repayment status of the outstanding loan determines the repayment status of the second loan*.

Calculating payment amount example

Bernadine received a $2,500 Perkins Loan to attend Jordan College, which requires quarterly payments. To calculate Bernadine's quarterly payment, Jordan College multiplies the original principal by the constant multiplier for a quarterly payment frequency:
$2,500 X .0319214 = $79.80

Incentive repayment program cite

34 CFR 674.33(f)

Interest rate on older Perkins, NDSLs, etc.

National Defense Student Loans (Defense Loans), NDSLs, and older Perkins Loans have different interest rates. The interest rate is stated in the borrower's promissory note. The annual interest rate for loans made before July 1, 1981, was 3%; between July 1, 1981, and September 30, 1981, was 4%; on or after October 1, 1981, is 5%.

ESTABLISHING A REPAYMENT PLAN

A borrower must repay his or her loan, plus interest, in 10 years. This repayment period never includes authorized periods of deferment, forbearance, or cancellation.

The repayment plan must be established and disclosed to the student before the student ceases to be enrolled at least half-time.

If a borrower wants to repay the loan in graduated installments, he or she must request permission to do so from the school; if the school agrees to this type of repayment, a graduated installment schedule is prepared and submitted to the Department for approval. If the Department approves the school's request, the borrower may use the graduated method of repayment.

If a student receives loans from more than one school, the repayment of each loan is made to (or default is attributed to) the school where the student received the loan.

Calculating the payment amount

Schools may require the borrower to make payments on a monthly, bimonthly, or quarterly basis. Each of the borrower's payments must sufficiently cover the interest accruing between payments to ensure that the loan is repaid in 10 years. Schools calculate the correct payment amount by multiplying the principal by the appropriate constant multiplier (see table). Schools using the minimum monthly payment plan option, introduced in the next section, may require the borrower to pay a minimum monthly amount of $40 instead.

If the installment for all loans a school made to a borrower is not a multiple of $5, the school may round the installment payments to the next highest dollar amount that is a multiple of $5.

If the last scheduled payment is $25 or less, the school may combine it with the next-to-last payment.

10-year repayment table of constant multipliers

Annual Rate	Payment Frequency	Payments per year	Total Payments	Constant Multiplier
5%	Monthly	12	120	**.0106065**
5%	Bimonthly	6	60	**.0212470**
5%	Quarterly	4	40	**.0319214**

Principal X Constant Multiplier = Payment Amount

Interest accrual

Interest on a Perkins Loan must be computed at the rate of 5% per annum simple interest on the unpaid principal balance. Although interest accrues on a Perkins Loan, *your school may not capitalize it.* This means that your school may not add unpaid interest to the principal balance to increase the principal balance of the Perkins Loan. Instead, your school must track principal and interest as separate figures, adding accrued interest to the interest balance, *not* the principal balance.

Generally, interest is computed from the date a payment is received rather than from the due date. However, there are exceptions. Interest charges may be computed to the nearest first-of-the-month, or they may be computed in accordance with the borrower's established schedule of payments of principal and interest if the borrower is making payments on a regular basis according to that schedule. For example, if a grace period expires in the middle of a month, interest may be computed to the beginning of the next month. Also, if a past-due payment is received before the next regularly scheduled payment, the interest may be computed according to the established payment schedule—no adjustments are necessary.

Incentive repayment program

To encourage repayment, a school may:

- reduce a loan's interest rate by up to 1% if the borrower makes 48 consecutive monthly payments;
- discount by up to 5% the balance a borrower owes on a loan if he or she pays the loan in full before the end of the repayment period; or
- with the Secretary's approval, establish any other repayment incentive options that reduce default and replenish student loan funds.

A school may not use federal funds or school funds from the Perkins Loan revolving fund to absorb the costs associated with repayment incentives. On at least a quarterly basis, schools must reimburse the Perkins Loan Fund for income lost as a result of the discounts offered through the Incentive Repayment Program.

Prepayment

If the borrower repays more than the amount due for any repayment period after the initial grace period has ended, the school must use the excess to prepay principal, unless the borrower designates the excess as an advance payment on the next regular installment. If the borrower designates the excess as an advance payment on the next installment and that advance payment exceeds the amount of the next regularly scheduled installment, the school must use the excess to prepay principal.

The borrower may prepay all or part of the loan at any time without penalty. Amounts repaid during the academic year the loan was made and before the initial grace period has ended are not considered prepayments but must be used to reduce the original loan amount.

Payment made during initial grace period example

Shannon applies her yearly birthday check of $400 to her $1,000 Perkins Loan before the initial grace period ends. The principal advanced to Shannon becomes $600. This is not considered a prepayment because payment was made before the end of the initial grace period.

Simple interest accrual example

Fred has been granted a hardship forbearance for a year. At the beginning of his forbearance period, Fred's loan balance is $1,000:

Principal: **$1,000**
Interest: **$0**

Interest accrues throughout the forbearance period at a simple rate of 5% per annum. At the end of the year-long forbearance period, Fred's loan balance is $1,050:

Principal: **$1,000**
Interest: **$50**

When Fred makes his first payment after the end of the forbearance, his payment is applied to interest first, then principal. Fred makes a payment of $25, reducing his balance to $1,025:

Principal: **$1,000**
Interest: **$25**

Minimum monthly repayment cite
34 CFR 674.33(b)

Minimum monthly repayment amount for older loans
The minimum monthly repayment amount is **$30** for NDSLs, Perkins Loans made before October 1, 1992, and Perkins Loans made after October 1, 1992, to borrowers who have an outstanding balance on a Perkins Loan, NDSL, or Defense Loan made before October 1, 1992, that included a $30 minimum monthly repayment provision. The minimum monthly repayment amount is **$15** for Defense Loans.

If a borrower has both Defense and NDSL or Perkins Loan from one or more schools and the total monthly repayment is less than $30 and the monthly repayment on a Defense Loan is less than $15, the amount applied to the Defense Loan may not exceed $15.

Hardship payment reduction
A school may reduce a borrower's scheduled payments for up to one year at a time if the borrower is scheduled to pay the $40 minimum monthly payment and the school determines that the borrower is unable to make the scheduled payments due to hardship, such as prolonged illness or unemployment.

MINIMUM MONTHLY REPAYMENT AMOUNTS

Schools may choose to include a minimum monthly repayment requirement in the Perkins Loan promissory note. The minimum monthly repayment amount is $40, unless the borrower on the date the new loan is made has an outstanding balance on a Perkins Loan, NDSL, or Defense Loan made before October 1, 1992, that included a $30 minimum monthly repayment provision. (See sidebar.)

To determine the minimum repayment for bimonthly and quarterly payment schedules, schools should multiply $40 by 2 (months) and 3 (months), respectively.

Conditions for minimum monthly repayment

A school may require a borrower to pay a minimum monthly payment amount of $40 on a Perkins Loan if:

- the promissory note includes a provision specifying a minimum monthly repayment of $40 and the monthly repayment of principal and interest for a 10-year repayment period (as calculated using a constant multiplier) would be less than $40; or
- the borrower has received Perkins Loans with different interest rates at the same school and the total monthly payment would otherwise be less than $40 (provided any of the promissory notes includes the minimum monthly repayment provision).

Under no circumstances may a school require a minimum monthly repayment of more than $40.

Multiple loans at same school

If a borrower has multiple Perkins Loans from the same school, any of which include the minimum monthly payment provision, the school may require the borrower to make a minimum monthly payment if the borrower's total monthly payment on all the loans totals less than $40. (A student's monthly payment amount may need to be higher than $40, of course, so that his or her debt is repaid by the end of 10 years.)

If the school exercises this option, the school must divide each monthly payment among all the loans proportionate to the amount of principal advanced under each loan. If the borrower's total monthly payment equals or exceeds $40 for all of the loans made at that school, the school may not exercise the minimum monthly payment on any loan. The school determines the minimum monthly repayment in this manner even if the Perkins Loans have different interest rates.

If the borrower has received Perkins Loans with different grace periods and deferments, the school must treat each note separately. The school still divides the minimum monthly payment proportionately among the loans. However, the borrower must pay each loan's portion when it is due.

Loans from multiple schools

A borrower may have received Perkins Loans from more than one school. If the borrower wants your school to coordinate minimum monthly payments with another school, he or she must request such coordination.

If the total of the monthly payments is

- *at least equal to $40,* none of the lending schools may exercise the minimum monthly repayment requirement.
- *less than $40, but only one school exercises the minimum monthly payment option,* that school receives the difference between $40 and the repayment owed to the second school.
- *less than $40 and each school exercises the minimum repayment option,* the $40 minimum repayment is divided among the schools in proportion to the total amount of principal each has advanced.

If the borrower requests that your school coordinate minimum monthly payment amounts with another school, you should ask the borrower for

- the names of all other schools to which the borrower owes funds under the Federal Perkins Loan Program,
- the approximate amount borrowed from, and the current indebtedness to, each school, and
- any information that would help identify the loans—for example, the loan number and the dates of loan advances.

Using this information, the schools should contact each other and negotiate the amount each should receive from the borrower.

Two schools/minimum monthly payment amount example

Betsy has Perkins Loans from Heinz College and Elise University. Heinz does not exercise the minimum monthly payment option and receives from Betsy $25 a month (the amount due under its established 10-year repayment plan). Elise exercises the $40 option and receives from Betsy $15, the difference between $40 and the amount of principal and interest paid to Heinz.

Minimum monthly payment for multiple loans (same school)

Harv has Perkins Loans of $1,500 and $1,000 (for a total debt of $2,500) and has a promissory note that includes the minimum monthly payment provision. Using the constant multiplier table, the total monthly payment on the two loans would be less than $40:

Monthly payment on loan #1	
$1,500 X .0106065 =	$15.91
+ Monthly payment on loan #2	
$1,000 X .0106065 =	$10.61
= Total payment per month	$26.52

Because the monthly payment on the two loans is less than $40, Moore University may decide to exercise the minimum $40 payment option. If the school does so, it calculates the monthly payment for each loan by dividing the original principal of the loan by the total original principal of all loans:

Monthly payment on loan #1	
$1,500 ÷ $2,500 =	.600000
	X $40
	$24
Monthly payment on loan #2	
$1,000 ÷ $2,500 =	.400000
	X $40
	$16

Monthly payment on loan #1	$24
+ Monthly payment on loan #2	$16
= Total payment per month	$40

Use of fixed repayment dates

For collection and bookkeeping purposes, a fixed repayment date is preferred. Otherwise, if the borrower is entitled to a deferment, the school may have problems computing payments due.

ESTABLISHING REPAYMENT DATES

Depending on the repayment schedule (monthly, bimonthly, or quarterly), the borrower's first payment is due one, two, or three months from the date the grace period expires. Repayment schedules must be adjusted (preferably on the first installment) so that the loan will be repaid within the normal 10-year period or as prescribed in the terms of the promissory note.

For convenience, a school may establish standard repayment dates for borrowers who are on quarterly repayment schedules. The first repayment date may be the first day of the calendar quarter after the grace period has expired. Four standard repayment dates would be used: January 1, April 1, July 1, and October 1. (See the chart below.)

Alternatively, a school may adopt a "rolling" quarterly repayment schedule in which each borrower's first payment is due exactly three months after the date his or her grace period expires. For example, if a borrower's first grace period expires on May 17, the first installment payment is due August 18. Another borrower's grace period expires May 18, so the first installment payment on that loan is due August 19.

Once the payment date is established, the borrower will owe principal and interest for any portion of a scheduled installment period not covered by a deferment. However, if the borrower is in deferment on a due date, any amounts owed are carried over and paid on the first due date on which the borrower is out of deferment.

Perkins Loan Quarterly Billing Example
(with four standard repayment dates)

Borrower's Termination Date	Initial 9-Month Grace Period Ends	Installment Due
January 1	September 30	January 1
February 1	October 31	"
March 1	November 30	"
April 1	December 31	April 1
May 1	January 31	"
June 1	February 28	"
July 1	March 31	July 1
August 1	April 30	"
September 1	May 31	"
October 1	June 30	October 1
November 1	July 31	"
December 1	August 31	"

Extending repayment period for illness, unemployment, or low income

A school may extend a repayment period if the borrower is experiencing a period of prolonged illness or unemployment.

A school may also extend the repayment period for a Perkins Loan if, during the repayment period, the school determines that the borrower qualifies as a *low-income individual* based on total family income (see sidebar).

In the case of low-income individuals, the repayment period may be extended up to 10 additional years. You must review the borrower's income status annually to determine whether he or she still qualifies as a low-income individual.

If you determine that a borrower ceases to qualify for an extended repayment period, you must amend the borrower's repayment schedule. The amended repayment schedule may not exceed the number of months remaining on the original repayment schedule (not including any extensions of the repayment period).

There are two other ways that a school may adjust the repayment schedule for a borrower who qualifies as a low-income individual:

- The school may require the borrower to pay a reduced amount for a limited time and then later increase the payment amount so that the borrower catches up on payments. The repayment period does not have to be extended. For example, a school reduces the payment amount to $10 per month for six months and then increases it to $50 per month until the borrower catches up.
- The school may allow the borrower to pay $10 per month for a year and then resume normal payments. This type of adjustment extends the repayment period.

Interest continues to accrue during an extension of a repayment period for any of these reasons.

PAYMENT PROCESSING

Any payment a school receives must be applied in the following order:

1. collection costs;
2. late charges (or penalty charges);
3. accrued interest; and
4. principal

Past-due payments should be applied in the same order as other payments, except that past-due payments must be applied to the "oldest" past-due dollars first.

Repayment period extension

34 CFR 674.33(c)

Low-income individual

The school must use the Income Protection Allowance (published annually by ED) to determine whether a student is a low-income individual.

Based on the most recent Income Protection Allowance tables (May 27, 2010)—

• an unmarried borrower without dependents qualifies as a *low-income individual* if his or her total income for the preceding calendar year did not exceed $11,237.

• a borrower with a family that includes the borrower and any spouse or legal dependents qualifies as a *low-income individual* if his or her total family income for the preceding calendar year did not exceed the relevant amount below:

Family of 2	$20,288
Family of 3	$25,263
Family of 4	$31,213
Family of 5	$36,825
Family of 6	$43,075

For each additional family member above six, add $4,863.

Forbearance
34 CFR 674.33(d)
The HEOA eliminates the requirement that a forbearance request be in writing.
HEOA 464
HEA 464(e)

Paying interest during forbearance period
Unlike deferment, interest continues to accrue during any period of forbearance. The borrower may request to pay interest as it accrues during periods of forbearance, but the school *may not* require the borrower to do so.

Calculating equivalent monthly payment (hardship forbearance)
If the borrower's loan payments are due less frequently than monthly, a proportional share of the payments is used to determine the equivalent in total monthly payments. For example, if a payment is due quarterly, divide the amount by 3 (because the payment covers 3 months) to determine the equivalent monthly payment amount.

FORBEARANCE

Forbearance is usually a temporary postponement of payments. Forbearance is available for all loans made under the Federal Perkins Loan Program, regardless of when they were made.

The borrower may alternatively request an extension of time allowed for making payments or the acceptance of smaller payments than were previously scheduled.

Schools may grant forbearance to borrowers who are experiencing financial hardship, poor health, or for other acceptable reasons. For example, the Department strongly encourages schools to grant periods of forbearance to borrowers who are serving in AmeriCorps. Also, the Department may authorize periods of forbearance due to a national military mobilization or other national emergency.

Borrowers must request forbearance and provide supporting documentation of the reason for forbearance. (Schools may now process forbearance requests based on a verbal request from a borrower.) The school and borrower must agree to the terms of the forbearance. The school confirms this agreement by notice to the borrower, and by recording the terms in the borrower's file.

Schools may grant the borrower forbearance for a period of up to 1 year at a time. The forbearance may be renewed, but the periods of forbearance collectively may not exceed a total of 3 years. A school may apply an authorized period of forbearance to begin retroactively (that is, to begin on an earlier date than the date of the borrower's request) if the borrower requests that the school do so and if he or she provides adequate documentation to support the request.

Schools may not include periods of forbearance in determining the 10-year repayment period.

Hardship

A school must grant forbearance if the total amount the borrower is obligated to pay monthly on all FSA loans is equal to or greater than 20% of the borrower's total monthly gross income. Total monthly gross income is the gross amount of income received by the borrower from employment (either full-time or part-time) and from other sources.

To receive forbearance for hardship, the borrower must submit at least the following documentation:

- evidence of the amount of the borrower's most recent total monthly gross income; and
- evidence of the amount of the monthly payments the borrower owes for the most recent month on his or her FSA loans.

DEFERMENT PROCEDURES

Under certain circumstances, a borrower is entitled to have the repayment of a loan deferred. During deferment, the borrower is not required to pay loan principal and interest does not accrue. After each deferment, the borrower is entitled to a post-deferment grace period of 6 consecutive months.

In most cases, the borrower must request deferment *unless* the borrower is engaged in service that may qualify for loan cancellation or the school can determine that the borrower is enrolled at least half-time at an eligible school. Borrowers are no longer required to request deferments in writing. However, a borrower who requests deferment must provide the school with all the information and documents the school requires by the school's deadline. Borrowers must immediately report any change in their deferment status to lending schools.

You may grant a deferment, at the borrower's request, based on information from the holder of an FSA loan that a borrower has been granted a deferment for the same reason and the same time period on the borrower's Perkins, Direct, or FFEL Stafford or PLUS Loan. (Holders of FSA loans include another Perkins school, an FFEL lender, the Department of Education, or the National Student Loan Data System.) This simplified deferment granting process is optional, and only applies to in-school deferments, graduate fellowship deferments, rehabilitation training program deferments, unemployment deferments, economic hardship deferments, military service deferments, and active duty student deferments.

If a borrower is currently in deferment, the school must reaffirm continued eligibility for deferment on at least an annual basis (except for Peace Corps service—see sidebar). Schools may not include periods of deferment in the 10-year repayment period.

Concurrent deferment/cancellation

Schools must automatically defer loans during periods when the borrower is performing service that will qualify him or her for loan cancellation. Borrowers do not need to apply for concurrent deferment. Schools may grant concurrent deferment for up to 12 months at a time. Concurrent deferment is available to all loans made under the Federal Perkins Loan Program, regardless of disbursement date and contrary provisions on the promissory note.

A borrower who receives concurrent deferment is also entitled to a post-deferment grace period of 6 consecutive months. Therefore, regardless of the length of time that the eligible service is performed, repayment is deferred during that period of service and does not resume until 6 months after the cessation of service.

Schools exercising the minimum monthly payment provision listed in the promissory note must cease doing so and grant a deferment to cover any period of qualifying service. The amount to be deferred and subsequently canceled must be calculated using the 10-year repayment period.

Deferments–Perkins regulations

§ 674.34 Deferment of repayment—Federal Perkins loans, NDSLs and Defense loans.
§ 674.35 Deferment of repayment—Federal Perkins loans made before July 1, 1993.
§ 674.36 Deferment of repayment—NDSLs made on or after October 1, 1980, but before July 1, 1993.
§ 674.37 Deferment of repayment—NDSLs made before October 1, 1980 and Defense loans.
§ 674.38 Deferment procedures.

Deferment forms

The Department does not approve or supply deferment forms, with the exception of the military deferment form.
The most recent request form for Military Service Deferment/Post-Active Duty Student Deferment form was disseminated in November 2010 with OMB Control Number 1845-0080 and an expiration date of 07/31/2013
GEN-10-17 (CB-10-01)

Postponement for loans made Prior to October 7, 1998

Prior to October 7, 1998, a borrower of a Perkins Loan, National Direct Student Loan (NDSL), or National Defense Student Loan (Defense Loan) made before July 1, 1993, could not receive a deferment during a period while he or she was performing a service that would subsequently qualify him or her for cancellation of all or a portion of the loan; rather, he or she could qualify for loan postponement. For information on postponement, see Chapter 6 of the *Federal Student Financial Aid Handbook, 1998–99*.

Concurrent deferment cites

34 CFR 674.34(c)
34 CFR 674.52(d)

Peace Corps deferment

If the borrower is currently in economic hardship deferment for service in the Peace Corps, the school may grant deferment for the full term of the borrower's service, not to exceed 3 years, or for the remaining period of economic hardship deferment eligibility, if it is less than the remaining period of service.

Deferments on defaulted loans

The policy permitting deferments on defaulted loans applies to all requests for deferment received after February 3, 1988, regardless of the date the loan was made.

Acceleration

Loan acceleration is one of the penalties a school may impose on a defaulted loan. A loan that has been accelerated becomes due and payable immediately in one lump sum. See Chapter 6 of this Volume.

Approval for graduate fellowship and rehabilitation training programs

The Department bases its approval of graduate fellowship and rehabilitation training programs on the requirements for the Federal Family Education Loan Program— see 34 CFR 682.210(d) and 34 CFR 682.210(e).

Deferment and default

A borrower is not entitled to a deferment on a defaulted loan. If the borrower signs a new repayment agreement, however, a school may grant a deferment even if the school has "accelerated"* the loan. The school would have to de-accelerate the loan before granting the deferment.

The borrower must file for deferment by a deadline that the school establishes and provide satisfactory documentation that he or she qualifies for the deferment.

Before granting a deferment on a defaulted loan, the school may require the borrower to pay immediately late fees, collection costs, and some or all of the amount past due as of the date on which the school determined that the borrower had demonstrated eligibility for a deferment. The Department encourages schools to require the borrower to do so, thus "curing" the default.

A school is not required to grant deferments on loans in default. However, if a school does so, it is expected to calculate past-due accrued interest. If a school believes this is too burdensome, it may deny deferments on defaulted loans.

Maintaining in-school enrollment status vs. in-school deferment

When a student borrower graduates or leaves school, and subsequently reenroll at another school before the initial grace period expires, he or she retains "in-school" enrollment status and does not "use up" the 9-month initial grace period.

The borrower is entitled to a full initial grace period when he or she ceases half-time enrollment in the new program.

The borrower may submit proof at any time—even after a loan has been accelerated—that he or she reenrolled at least half-time before the initial grace period expired. Upon receipt of this proof, *the school must recalculate the first date of repayment.* The school must also deduct from the loan balance any interest accrued and any late charges added before the date the repayment period actually should have begun.

Note that the borrower remains responsible for payments that would have been due under the recalculated repayment period and that the school is not obligated to grant a deferment for any payments past due under that period.

If a Perkins borrower graduates or leave school, and reenrolls at least half-time in an eligible postsecondary school *after* the initial grace period has expired, the student is no longer in in-school enrollment status. However, the student may be eligible for an in-school *deferment* (see box on next page). Keep in mind that the grace period after a *deferment* is only 6 months.

Deferments for all Perkins Loans

The deferments that follow are available to all loans made under the Federal Perkins Loan Program, regardless of disbursement date or contrary provisions in the promissory note.

In-school deferment

A borrower may defer repayment of a Perkins Loan if he or she is enrolled at least half-time in an eligible school.

To receive an in-school deferment, the borrower must be enrolled as a regular student in an eligible institution of higher education or a comparable institution outside the United States approved by the Department for deferment purposes. A regular student is one who is enrolled for the purpose of obtaining a degree or certificate. (The eligible institution need not participate in the Federal Perkins Loan Program.)

If the borrower is attending at least half-time as a regular student for a full academic year and intends to do so in the next academic year, he or she is entitled to a deferment for **12 months**. This means that a school must continue to apply the in-school deferment through the summer session, even if the borrower does not attend classes during the summer session. In-school deferment ends on the day the borrower graduates or drops below half-time enrollment.

Schools may grant in-school deferments to borrowers based on student enrollment information provided by third-party servicers or other schools. The enrollment information must establish that the borrower is enrolled as a regular student on at least a half-time basis. If a school grants deferment based on this information, the school must notify the borrower of the deferment and offer the option to cancel deferment and continue repayment of the loan.

If a borrower is attending a school that ceases to qualify as an institution of higher education, the borrower's deferment ends on the date the school ceases to qualify.

Except for a program in dentistry, an in-school deferment may not be granted to a borrower who is serving in a medical internship or residency program.

Graduate fellowship

A borrower may defer repayment if he or she is enrolled and in attendance as a regular student in a course of study that is part of a graduate fellowship program approved by the Department, including graduate or postgraduate fellowship-supported study (such as a Fulbright grant) outside the United States. To receive deferment for enrollment in a graduate fellowship program, the borrower must provide certification that he or she is engaged in full-time study in an approved graduate fellowship program (or has been accepted by the program).

Rehabilitation training

A borrower may defer repayment if he or she is enrolled in a course of study that is part of a Department-approved rehabilitation training program for disabled individuals.

To receive this deferment, the borrower must provide the school with certification that:

- the borrower is receiving, or scheduled to receive, rehabilitation training from the agency;
- the agency is licensed, approved, certified, or otherwise recognized by a state agency responsible for programs in vocational rehabilitation, drug abuse treatment, mental health services, or alcohol abuse treatment; or by the Department of Veterans Affairs; and
- the agency provides or will provide the borrower rehabilitation services under a written plan that (1) is individualized to meet the borrower's needs; (2) specifies the date that services will end; and (3) is structured in a way that requires substantial commitment from the borrower.

A substantial commitment from the borrower is a commitment of time and effort that would normally prevent the borrower from holding a full-time job either because of the number of hours that must be devoted to rehabilitation or because of the nature of the rehabilitation.

Seeking full-time employment

A borrower may defer repayment on a Perkins Loan for up to 3 years, regardless of disbursement date and contrary provisions on the promissory note, if the borrower is seeking and unable to find full-time employment. Schools may determine the documents the borrower must provide to apply for this deferment.

Economic hardship

A borrower is entitled to an economic hardship deferment for periods of up to 1 year at a time, not to exceed 3 years cumulatively, if the borrower provides the school with satisfactory documentation showing that:

1. The borrower has been granted an economic hardship deferment for either a Stafford or PLUS Loan for the same period of time for which the Perkins Loan deferment has been requested.
2. The borrower is receiving federal or state general public assistance, such as Temporary Assistance to Needy Families, Supplemental Security Income, or Food Stamps.
3. The borrower is working full-time* and is earning a total monthly gross income that does not exceed (1) the monthly earnings of someone earning the minimum wage, or (2) 150% of the poverty line** for the borrower's family size.***
4. The borrower is not receiving total monthly gross income that is more than twice the amount in (3) above and that income minus an amount equal to the borrower's monthly payments on federal postsecondary education loans does not exceed the amount specified in (3) above.

   The borrower must submit at least the following documentation:***

   - evidence showing the amount of the borrower's most recent total monthly gross income from all sources—that is, the gross amount of income the borrower received from employment (either full-time or part-time) and from other sources; and
   - evidence showing the most recent monthly amount due on each of the borrower's federal postsecondary education loans, as determined by the method described below

   If the repayment schedule for the loan is *10 years or less*, use the actual monthly payment amount. If the repayment schedule for the loan is *more than 10 years*, use a monthly payment amount that would have been due for a 10-year repayment schedule. If the borrower's payments are due less frequently than monthly, use the payment amount that is proportional for a month.
5. The borrower is serving as a volunteer in the Peace Corps. Schools may grant deferments for Peace Corps service for periods longer than 1 year at a time, but these periods must not collectively exceed 3 years.

Note that the deferment provision for borrowers whose debt burden exceeds 20% of total monthly gross income has been eliminated. See the *2008–09 FSA Handbook* for details on the 220% limitation for that deferment.

* a borrower is considered to be working full-time if he or she is expected to be employed for at least 3 consecutive months for at least 30 hours per week.

** The poverty guidelines are published annually by the Department of Health and Human Services. If a borrower is not a resident of a State identified in the poverty guidelines, the poverty guideline to be used for the borrower is the poverty guideline (for the relevant family size) used for the 48 contiguous states.

***To qualify for a *subsequent* period of deferment that begins less than1 year after the end of the deferment described in option 3 or 4 above, the borrower must submit a copy of his or her federal income tax return if the borrower filed a tax return within the 8 months preceding the date the deferment is requested.

Determining maximum monthly gross income & 150% of poverty line (#3)

Monthly gross income at minimum at minimum wage

The current hourly minimum wage is available at **www.dol.gov/dol/topic/wages/minimumwage.htm**

To find monthly gross income, multiply the minimum wage by the typical work-hours in a year (2008), and then divide this amount by 12 months.

As of July 24, 2009, the minimum wage is $7.25, making the current monthly gross income of a minimum wage earner $1,213.

Determining 150% of the poverty line for the borrower's family size

Annual poverty line guidelines, as defined by Section 673(2) of the Community Service Block Grant Act, are available at **http://aspe.hhs.gov/poverty/poverty.shtml**

Note that an unborn child may be included if that child will be born during the year the borrower certifies family size or for the period the borrower requests an economic hardship deferment.

Military service deferment

A borrower who is serving on active duty in the U.S. Armed Forces or performing qualifying National Guard duty may defer repayment (principal or interest) on a Perkins Loan, if the duty is in connection with a war, military operation, or national emergency

The overall 3-year limit for this deferment was eliminated in October of 2007, as was the provision that limited the availability of the deferment to loans first disbursed on or after July 1, 2001. A borrower may receive deferment for all eligible outstanding loans in repayment as of October 1, 2007. A borrower whose deferment eligibility had expired due to the prior 3-year limitation and who was still serving on eligible active duty on or after October 1, 2007 may receive the deferment retroactively from the date the prior deferment expired until the end of the borrower's active duty service.

Effective October 1, 2007, the deferment is extended 180 days for qualifying periods of service that include October 1, 2007 or that begin on or after that date. This additional period is available each time a borrower is demobilized at the conclusion of qualifying service. This additional 180-day deferment may not be granted without documentation supporting the borrower's claim of end-of-military-service date.

A borrower may not be reimbursed for any payments made by or on behalf of a borrower during a period for which the borrower qualified for a deferment.

13-month post-active duty deferment

Effective October 1, 2007, borrowers who are members of National Guard or Armed Forces Reserve, and members of the Armed Forces who are in retired status, are eligible for a 13-month period of deferment on repayment of their Perkins loans following the completion of their active duty military service if they were enrolled in a postsecondary school at the time of, or within 6 months prior to, their activation. Reserve or retired members of the Armed Forces may qualify for both the post-active duty deferment and for the military service deferment, and may receive both deferments if eligible. If a student receives both deferments, the overlapping periods of deferment will run concurrently.

A borrower returning from active duty who is in a grace period is not required to waive the grace period to use the 13-month post-active duty student deferment. If the borrower reenrolls in postsecondary school (at least half-time) prior to the expiration of the 13-month period, the deferment ends on the date the student re-enrolls.

Unlike the military service deferment described above, students receiving the active duty student deferment need not be activated in connection with a war, national emergency, or other military operation.

For purposes of the post-active duty student deferment, "active duty" has the same meaning as in Section 101(d)(1) of Title 10, United States Code, but does not include active duty for training or attendance at a service school/academy.

Members of the National Guard may qualify for this deferment for Title 32 full-time National Guard duty under which a Governor is authorized, with the approval of the President or the U.S. Secretary of Defense, to order a member to State active duty and the activities of the National Guard are paid for by federal funds; or for State active duty under which a Governor activates National Guard personnel based on State statute or policy, and the activities of the National Guard are paid for by State funds. Active duty does not include a borrower who is serving full-time in a permanent position with the National Guard, unless the borrower is reassigned as part of a call-up to active duty service.

Definitions for purposes of military service deferments

Active duty means full-time duty in the active military service of the United States, except that it does not include active duty for training or attendance at a service academy.

Military operation means a contingency operation that is designated by the Secretary of Defense as an operation in which members of the Armed Forces are or may become involved in military actions, operations, or hostilities against an enemy of the U.S. or an opposing military force; or results in the call to or retention on active duty of members of the uniformed services.

National Guard duty means training or other duty, other than inactive duty, when called to active service authorized by the President of the United States or Secretary of Defense (and paid for with federal funds) for a period of more than 30 consecutive days in connection with a war, national emergency, or other military operation.

National emergency means a national emergency by reason of terrorist attacks as declared by the President on September14, 2001, or subsequent national emergencies declared by the President by reason of terrorist attacks.

Deferments for Loans Made Before July 1, 1993

The deferments in this section are only available for Perkins Loans made before July 1, 1993, and NDSLs made between October 1, 1980 and July 1, 1993. For information on deferment provisions exclusive to loans made before October 1, 1980, see the *1994–95 Federal Student Financial Aid Handbook* or 34 CFR 674.37.

Military & related service deferments

A borrower may defer repayment for up to 3 years, and interest will not accrue while he or she is:

- a member of the U.S. Army, Navy, Air Force, Marines, or Coast Guard;
- a member of the National Guard or the Reserves serving a period of full-time active duty in the Armed Forces;
- an officer in the Commissioned Corps of the U.S. Public Health Service;
- (for Perkins Loans made before July 1, 1993, only) on full-time active duty as a member of the National Oceanic and Atmospheric Administration Corps.

Parenting deferments [for Perkins Loans made before July 1, 1993, only]

A borrower may defer repayment (and interest will not accrue) during a period of up to 1 year if the borrower is a mother of a preschool-age child, provided the mother is working (or going back to work) at a salary that is no more than $1.00 above the minimum hourly wage.

A borrower may also defer repayment for up to six months if the borrower is pregnant, or if he or she is taking care of a newborn or newly adopted child. This deferment is called a parental leave deferment. The borrower must be unemployed and not attending school and must apply for deferment within 6 months of leaving school or dropping below half-time status.

Hardship deferments

Loans disbursed before July 1, 1993 are eligible for an additional type of hardship deferment, which is ***separate and different*** from an ***economic*** hardship deferment.

A borrower may defer repayment for hardship, as determined by the school (for example, if the borrower is facing a prolonged period of illness or unemployment). A borrower may qualify for ***unlimited*** deferments due to hardship.

Interest will continue to accrue during the hardship deferment. Also, hardship deferments ***do not*** have post-deferment grace periods.

Service as (or comparable to) Peace Corps/Americorps*VISTA Volunteer

A borrower may defer repayment for up to three years and interest will not accrue while he or she is a Peace Corps or AmeriCorps*VISTA (under Title I, Part A of the Domestic Volunteer Service Act of 1973) volunteer or providing comparable service. A borrower is considered to be providing service comparable to Peace Corps or AmeriCorps*VISTA service if he or she meets ***all*** of the following five criteria:

1. The borrower serves in an organization that is exempt from taxation under the provisions of Section 501(c)(3) of the Internal Revenue Code of 1954;
2. The borrower provides service to low-income persons and their communities to assist them in eliminating poverty and poverty-related human, social, and environmental conditions;
3. The borrower does not receive compensation that exceeds the rate prescribed under Section 6 of the Fair Labor Standards Act of 1938 (the federal minimum wage), except that the tax-exempt organization may provide the volunteer with health, retirement, and other fringe benefits that are substantially equivalent to the benefits offered to other employees of the organization;
4. The borrower, as part of his or her duties, does not give religious instruction, conduct worship service, engage in religious proselytizing, or engage in fund-raising to support religious activities; and
5. The borrower has agreed to serve on a full-time basis for a term of at least 1 year.

Temporary Total Disability Deferment

An affidavit from a qualified physician is required to prove disability. (A qualified physician is a doctor of medicine or osteopathy who is legally authorized to practice medicine.) A borrower is temporarily totally disabled if he or she is, due to illness or injury, unable to attend an eligible school or to be gainfully employed during a reasonable period of recovery.

A borrower may receive deferment for temporary total disability of a spouse or dependent if the spouse or dependent requires continuous nursing or other services from the borrower for a period of at least 3 months due to illness or injury.

The definition of dependent for temporary total disability deferment purposes is the same as the definition used in the *Free Application for Federal Student Aid* (FAFSA) for a member of the independent applicant's household: A borrower's dependent is a child who receives more than half of his or her financial support from the borrower or another person who lives with the borrower and who receives more than half of his or her financial support from the borrower.

Internship/Residency Deferment

A borrower who is serving in a medical internship or residency program is not considered to be in school for deferment purposes and may not receive an in-school deferment on that Perkins Loan for the internship or residency program; however, the borrower is eligible for an ***internship deferment*** for up to 2 years.

While the borrower is serving an eligible internship, he or she may defer repayment for up to 2 years. Interest will not accrue during the internship deferment. An eligible internship is one that requires the borrower to hold at least a bachelor's degree before beginning the program.

The internship must also be ***required by a state licensing agency*** as a prerequisite for certification of the individual for professional practice or service. The borrower must provide the school certification from an official of the appropriate state licensing agency indicating that the successful completion of the internship is required by the state licensing agency as a prerequisite for certification for professional practice or service. The borrower must further provide a statement from the organization where the borrower will be an intern certifying:

- that applicants must hold a bachelor's degree to be admitted into the internship program;
- that the borrower has been accepted into the internship program; and
- the dates when the borrower is expected to begin and complete the program.

Borrowers of Perkins Loans made before July 1, 1993, may alternatively show that the internship or residency program ***leads to a degree or certificate*** awarded by an institution of higher education, a hospital, or a health care facility offering postgraduate training. The borrower must provide the school with a statement from an authorized official of the internship program certifying that:

- an individual must have a bachelor's degree to be admitted into the program;
- the borrower has been accepted into the program; and
- the internship or residency program leads to a degree or certificate awarded by an institution of higher education, a hospital, or a health care facility that offers postgraduate training.