Perkins Repayment Plans, Forbearance, Deferment, Cancellation, and Discharge

Repayment terms vary substantially among Perkins Loans, National Direct Student Loans, and National Defense Student Loans. In addition, the Federal Perkins Loan Program offers borrowers a variety of forbearance, deferment, and cancellation options. Finally, there are a number of situations that allow a Perkins, NDSL, or Defense Loan to be discharged. All of these topics are addressed in this chapter.

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 nine-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.

- **Post-deferment grace period**—a six-month grace period that follows any subsequent period of deferment.

**Initial grace periods**

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

**Post-deferment grace periods**

A “post-deferment grace period” is the period of six 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 six consecutive months.
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.

Approved leaves of absence

34 CFR 668.22 (c)(1)(v) and (vi); 34 CFR 668.22 (d)

Applicable grace period when student is attending less than half time

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

A borrower who is attending less than half 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 half-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 half-time student in the summer session before the nine-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 (NFCC) and began repaying them nine months after graduating. Later, he enrolled in a bachelor’s 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 (nine months) for his Perkins Loans at Old Ivy but must resume repaying his older Perkins loans (from NFCC) at the end of the six-month postdeferral period.

Exclusion for reservists on active duty

If a borrower is a member of the Armed Forces Reserve, the initial grace period does not include any period (up to three 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 and Less than Half-time Enrollment

Example: Perkins received while enrolled less than half time
Paula starts school full-time in September. She does not have an outstanding Perkins Loan or NDSL. In January, Paula drops to one-quarter-time and in March, she receives a Perkins Loan.

Since Paula dropped below half-time enrollment before the Perkins Loan was made, Paula must begin repayment nine months after the date she dropped below half-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 nine 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 one-quarter-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.

Contacts with borrower during Perkins grace period
If the borrower’s Perkins loans have a six-month grace period, you must contact that borrower at the 90-day and 150-day points in the grace period. If the borrower’s Perkins loans have a nine-month grace period, you must also contact the borrower at the 240-day point.

First contact: 90 days after the grace period begins
The school or servicer must —
- remind the borrower of the responsibility to comply with the terms of the loan,
- inform the borrower of the total outstanding amount on the loan account, including the principal and interest accruing over the remaining life of the loan, and
- notify the borrower of the date and amount of the first requested payment.

Second contact: 150 days after the grace period begins
The school or servicer must remind the borrower of the date and amount of the first requested payment.

Third contact (nine-month grace periods only): 240 days after the grace period begins
The school or servicer must remind the borrower of the date and amount of the first requested payment.
Prepayment

A borrower may prepay all or part of a Perkins Loan at any time without penalty.

If a borrower makes a payment during the academic year in which a loan was made, the school must use any amount repaid to reduce the original loan amount and not consider these amounts to be prepayments.

If a borrower makes a payment during the academic year in which the loan was made and the initial grace period ended, only those amounts in excess of the amount due for any repayment period shall be treated as prepayments.

If a borrower makes a payment in any academic year, other than the one in which the loan was made, that exceeds the amount due for any repayment period, the school must use the excess to prepay the principal unless the borrower designates it as an advance payment of the next regular installment. 34 CFR 674.31(b)(4)

Pre-collection activities during the grace period

Effective collection procedures on the part of a school or its servicer begin on the day a student ceases to be enrolled at least half time. By performing certain pre-collection activities, a school or its servicer can increase the likelihood that a student will begin satisfactory repayment on his or her Federal Perkins Loan.

The school must perform and maintain documentation substantiating that it has contacted the borrower.

1. For Federal Perkins Loans, the school shall contact the borrower three times within the initial grace period.

2. For loans with a six-month initial or post-deferment grace period, the school shall contact the borrower twice during the grace period.

3. The school or its servicer shall contact the borrower for the first time 90 days after the commencement of any grace period. The school shall, at this time, remind the borrower of his or her responsibility to comply with the terms of the loan and shall send the borrower the following information:
   - the total amount remaining outstanding on the loan account, including principal and interest accruing over the remaining life of the loan; and
   - the date and amount of the first required payment.

4. The school shall contact the borrower the second time 150 days after the commencement of any grace period. The school shall, at this time, notify the borrower of the date and amount of the first required payment.

5. The school shall contact a borrower with a nine-month initial grace period a third time 240 days after the commencement of the grace period and shall inform him or her of the date and amount of the first required payment.

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.
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 repayment 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 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.

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:

\[ 2,500 \times 0.0319214 = 79.80 \]

10-year repayment table of constant multipliers

<table>
<thead>
<tr>
<th>Annual Rate</th>
<th>Payment Frequency</th>
<th>Payments per year</th>
<th>Total Payments</th>
<th>Constant Multiplier</th>
</tr>
</thead>
<tbody>
<tr>
<td>5%</td>
<td>Monthly</td>
<td>12</td>
<td>120</td>
<td>0.0106065</td>
</tr>
<tr>
<td>5%</td>
<td>Bimonthly</td>
<td>6</td>
<td>60</td>
<td>0.0212470</td>
</tr>
<tr>
<td>5%</td>
<td>Quarterly</td>
<td>4</td>
<td>40</td>
<td>0.0319214</td>
</tr>
</tbody>
</table>

\[ \text{Principal} \times \text{Constant Multiplier} = \text{Payment Amount} \]
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.

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%.

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:

<table>
<thead>
<tr>
<th>Principal</th>
<th>Interest</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1,000</td>
<td>$0</td>
</tr>
</tbody>
</table>

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:

<table>
<thead>
<tr>
<th>Principal</th>
<th>Interest</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1,000</td>
<td>$50</td>
</tr>
</tbody>
</table>

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:

<table>
<thead>
<tr>
<th>Principal</th>
<th>Interest</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1,000</td>
<td>$25</td>
</tr>
</tbody>
</table>
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 two (months) and three (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.

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**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.
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 above.)

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.

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**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.

**Perkins Loan Quarterly Billing Example**

(with four standard repayment dates)

<table>
<thead>
<tr>
<th>Borrower’s Termination Date</th>
<th>Initial 9-Month Grace Period Ends</th>
<th>Installment Due</th>
</tr>
</thead>
<tbody>
<tr>
<td>January 1</td>
<td>September 30</td>
<td>January 1</td>
</tr>
<tr>
<td>February 1</td>
<td>October 31</td>
<td>“</td>
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<tr>
<td>March 1</td>
<td>November 30</td>
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<tr>
<td>April 1</td>
<td>December 31</td>
<td>April 1</td>
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<tr>
<td>May 1</td>
<td>January 31</td>
<td>“</td>
</tr>
<tr>
<td>June 1</td>
<td>February 28</td>
<td>“</td>
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<tr>
<td>July 1</td>
<td>March 31</td>
<td>July 1</td>
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<tr>
<td>August 1</td>
<td>April 30</td>
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</table>

**Perkins Loan Quarterly Billing Example**

<table>
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<tr>
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<td>December 31</td>
<td>April 1</td>
</tr>
<tr>
<td>May 1</td>
<td>January 31</td>
<td>“</td>
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<tr>
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<tr>
<td>July 1</td>
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<tr>
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<tr>
<td>September 1</td>
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<td>October 1</td>
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<tr>
<td>November 1</td>
<td>July 31</td>
<td>“</td>
</tr>
<tr>
<td>December 1</td>
<td>August 31</td>
<td>“</td>
</tr>
</tbody>
</table>
**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 a borrower to pay a reduced amount for a limited time and then later increase the payment amount so 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:

- collection costs;
- late charges (or penalty charges);
- accrued interest; and
- 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.

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**Repayment period extension**

34 CFR 674.33(c)

**Low-income individual**

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

Based on the most recent Income Protection Allowance tables (May 2011, applicable for 2012-2013)—

- 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: $23,630
  - Family of 3: $29,420
  - Family of 4: $36,330
  - Family of 5: $42,870
  - Family of 6: $50,130

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

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 three (because the payment covers three months) to determine the equivalent monthly payment amount.
DEFERMENT

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 six 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 a guaranty agency.) 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 six 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 six months after the cessation 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.

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 undo the loan acceleration before granting the deferment.

A borrower must file for deferment by a deadline the school sets and provide satisfactory documentation that he 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 reenrolls at another school before the initial grace period expires, he or she retains “in-school” enrollment status and does not “use up” the nine-month initial grace period. A 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 leaves 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 next page). Keep in mind that the grace period after a deferment is only six months.

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 ten-year repayment period.
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 for a Perkins Loan, 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 the 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).

34 CFR 674.34(f)
Deferments for All Perkins Loans (continued)

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 is 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 three 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.

34 CFR 674.34(g)

Economic hardship

A borrower is entitled to an economic hardship deferment for periods of up to one year at a time, not to exceed three 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 Supplemental Nutrition Assistance Program (SNAP).
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) on the previous page 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) on the previous page.

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 ten years or less, use the actual monthly payment amount. If the repayment schedule for the loan is more than ten years, use a monthly payment amount that would have been due for a ten-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 one year at a time, but these periods must not collectively exceed three years.

Note that the deferment provision for borrowers whose debt burden exceeds 20% of total monthly gross income has been eliminated.

* a borrower is considered to be working full-time if he or she is expected to be employed for at least three 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 than one year after the end of the deferment described in option three or four, the borrower must submit a copy of his or her federal income tax return if the borrower filed a tax return within the eight months preceding the date the deferment is requested.

34 CFR 674.34(e)
Deferments for All Perkins Loans (continued)

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

Monthly gross income 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, and then divide this amount by 12 months.

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 three-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 three-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.

34 CFR 674.34(h)
Deferments for All Perkins Loans (continued)

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 six 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 reenrolls.

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.

34 CFR 674.34(i)

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 September 14, 2001, or subsequent national emergencies declared by the President by reason of terrorist attacks.
Deferments for Loans Made Before July 1, 1993

(34 CFR 674.35, 674.36, & 674.37)

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 and 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 one 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 six 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.
Chapter 4—Perkins Repayment Plans Forbearance, Deferment, Cancellation, and Discharge

Deferments for Loans Made Before July 1, 1993 (continued)

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:

- 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;
- 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;
- 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;
- 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
- The borrower has agreed to serve on a full-time basis for a term of at least one 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 three 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 two 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.

Auditing Classes and Deferments

A Perkins borrower must be a “regular student” enrolled at least half time at an eligible school in order to qualify for an in-school deferment on a Perkins Loan.

Note that a FFEL or DL borrower who is not enrolled in an eligible program can still get an in-school deferment as long as he or she is enrolled at least half time at an eligible school.

Classes that a student is auditing may not be counted toward the student’s enrollment status in determining whether the student is enrolled half time. For example, at a school where six credits is considered half time, a student who is enrolled in three credits for a grade and three credits as an audit would not be considered a half-time student for the purpose of an in-school deferment.
GENERAL CANCELLATION PROVISIONS

Application for cancellation

The following cancellation application procedures apply to any loan under this program.

The borrower applies for cancellation of his or her loan by obtaining the appropriate cancellation form from the business or student loan office of the school that made the loan (or from the school’s billing service if it uses one). The borrower submits the form to the school, along with any supporting documentation the school requests, by the deadline the school establishes.

A school must determine, based on the borrower’s documentation, whether the borrower is entitled to have any portion of his or her loans cancelled. This responsibility cannot be delegated. For information on documentation, see the appropriate cancellation category in this section.

Concurrent deferment

Schools must automatically defer loans during periods of service for which schools also grant loan cancellation. Borrowers do not need to apply for these automatic deferments.

ED reimbursement to school

If funds are appropriated, the Department will reimburse each school every award year for the principal and interest cancelled from its Perkins Loan Fund for all of the cancellation provisions except for death, total and permanent disability, bankruptcy, and closed school discharge. Note that no funds were appropriated this year for reimbursements for the 2010-12 award year (see the Electronic Announcement dated April 30, 2012).

If it receives reimbursement, a school must deposit the amount reimbursed in its Perkins Loan Fund. For more information and a full Q&A on reimbursing amounts cancelled, see Dear Colleague Letter CB-05-08.

Note that interest does not accrue on any loan during the period that a borrower is performing service to qualify for cancellation benefits.
CANCELLATION RESTRICTIONS

Prior service and payments prior to cancellation

Schools may not cancel any portion of a loan for services the borrower performed either before the date the loan was disbursed or during the enrollment period covered by the loan.

Schools may not refund payments made during a period for which the borrower qualified for a cancellation, unless the borrower made the payment because of the school’s error. To reduce the chance of error, a school should keep the borrower informed of any new cancellation benefits.

Defaulted loans

A school may cancel a defaulted loan if the only reason for the default was the borrower’s failure to file a cancellation request on time. If the loan has already been accelerated, only eligible service performed prior to the date of acceleration can be considered for cancellation. A borrower is not entitled to cancellation for any eligible service performed after the date of acceleration.

AmeriCorps recipients

Schools may not grant cancellation of a Perkins Loan or National Direct Student Loan (NDSL) to a borrower who has received a national service education award for volunteer service with AmeriCorps (Subtitle D of Title I of the National and Community Service Act of 1990).

Cancellation Rates for Military, Teachers/Public Servants

With the exception of the early childhood education and volunteer service cancellations, the cancellation rate per completed year of qualifying full-time service is:

- First and second years: 15% of the original principal loan amount, plus the interest that accrued during the year.
- Third and fourth years: 20% of the original principal loan amount, plus the interest that accrued during the year.
- Fifth year: 30% of the original principal loan amount, plus any interest that accrued during the year.

A “year of service” consists of 12 consecutive months of service, except for teaching service, where the borrower must teach full-time for a full academic year or its equivalent. For cancellation rates for early childhood education and volunteer service, please see the corresponding sections in this chapter.
ELEMENTARY AND SECONDARY TEACHER CANCELLATION

Schools must cancel up to 100% of a Perkins Loan if the borrower has served full-time in a public or nonprofit elementary or secondary school system as:

- A teacher in a low-income school or a low-income educational service agency.
- A teacher in a teacher shortage field, including mathematics, science, foreign languages, or bilingual education or any other field of expertise that is determined by a state education agency to have a shortage of qualified teachers in that state.
- A special-education teacher, including teachers of infants, toddlers, children, or youth with disabilities.

The cancellation form that the borrower files must be signed by an official in the school system or agency to certify the borrower’s service. Eligibility for teacher cancellation is based on the duties presented in an official position description, not on the position title. To receive a cancellation, the borrower must be directly employed by the school system.

To qualify for cancellation based on any of these three conditions, a borrower must teach full-time for a complete academic year or its equivalent. See the next page for exceptions covering special cases, such as illness or pregnancy.

Cancellation for teaching in a low-income school or educational service agency

A borrower qualifies for this cancellation by teaching full-time in a low-income public or other nonprofit elementary or secondary school, or by teaching full-time for an educational service agency (ESA) listed in the Teacher Cancellation Low-Income Directory (see sidebar).

For cancellation purposes, a borrower employed by an ESA may be teaching

- at a location operated by the ESA (such as a stand-alone school that serves students from many different school districts), or
- in a conventional elementary and secondary school (such as a vocational education teacher employed by the ESA to teach courses in several different secondary schools).

If a borrower is teaching at a school that is on the list one year but not in subsequent years, the borrower may continue to teach in that school and remain eligible to receive a cancellation for service in that school.
Who is a Teacher?

A teacher is a person who provides students direct classroom teaching, classroom-type teaching in a non-classroom setting, or educational services directly related to classroom teaching (e.g., school librarian, guidance counselor).

It is not necessary for a teacher to be certified or licensed to receive cancellation benefits. However, the employing school must consider the borrower to be a full-time professional for the purposes of salary, tenure, retirement benefits, and so on. In other words, to qualify, the borrower should accrue the same benefits as teachers who are licensed and/or certified.

A supervisor, administrator, researcher, or curriculum specialist is not a teacher unless he or she primarily provides direct and personal educational services to students.

Under certain conditions, a teacher’s aide may be considered eligible for teacher cancellation. The teacher’s aide must meet the definition of a “full-time teacher.” He or she must have a bachelor’s degree and be a professional recognized by the state as a full-time employee rendering direct and personal services in carrying out the instructional program of an elementary or secondary school.

Volunteer teachers are not professionally employed on a full-time basis and, therefore, are not eligible for teacher cancellation benefits.

Teaching full-time for a full academic year

The borrower must teach full-time for a full academic year or its equivalent. There is no requirement that a teacher must teach a given number of hours a day to qualify as a full-time teacher; the employing school is responsible for determining whether or not the individual is considered to be a full-time teacher.

An “academic year or its equivalent” for teacher cancellation purposes is defined as one complete school year. Two half-years count as an academic year if they are complete, consecutive, from different school years (excluding summer session), and generally fall within a 12-month period.

A borrower who cannot complete the academic year because of illness or pregnancy may still qualify for cancellation if he or she has completed the first half of the academic year and has begun teaching the second half, but the borrower’s employer must consider the borrower to have fulfilled his or her contract for the academic year.

Teaching part-time at multiple schools

Schools must grant cancellation to a borrower who is simultaneously teaching part-time in two or more schools if an official at one of the schools where the borrower taught certifies that the borrower taught full-time for a full academic year. For example:

- under a consortium agreement, a borrower may be employed by the consortium and teach at member schools;
- two or more schools, by mutual agreement, could arrange to have one school employ the borrower on a full-time basis and then hire out his or her services to the other school(s) involved in the agreement; or
• a borrower can be considered to have been a full-time teacher for an academic year if he or she can obtain appropriate certifications that he or she has taught in two half-time teaching positions for a complete academic year in two elementary or secondary schools or in two secondary schools.

A school may refuse cancellation for simultaneous teaching in two or more schools if it cannot easily determine that the teaching was full-time.

Teaching in a private school

A borrower may receive teacher cancellation for services performed in a private elementary or secondary school or academy, if the private school or academy has established its nonprofit status with the Internal Revenue Service (IRS) and if the school or academy is providing elementary or secondary education according to state law. The school or academy does not necessarily need to be accredited for a borrower teaching there to qualify for teacher cancellation.

Teaching in a school system

To be eligible for cancellation, a borrower employed in a public or other nonprofit elementary or secondary school system or an educational service agency must be directly employed by the school system.

Teaching in a preschool or prekindergarten program

A borrower may receive teacher cancellation for teaching service performed in a preschool or prekindergarten program if the state considers the program to be a part of its elementary education program. A low-income-school-directory designation that includes pre-kindergarten or kindergarten does not suffice for a state determination of program eligibility. The school must check with the state superintendent of public instruction to determine whether these programs are part of the state elementary education program.

Teaching both children and adults

If the borrower teaches both children and adults, the majority of students must be children for the borrower to qualify for cancellation.

Job Corps teachers

Teaching service performed in a Job Corps Project does not qualify for Perkins cancellation unless the teaching is conducted in an elementary or secondary school or school system.

How are low-income schools and ESAs selected?

The Department selects elementary/secondary schools and educational service agencies (ESAs) for inclusion in the Teacher Cancellation Low-Income Directory, in consultation with each state’s educational agency, based on these criteria:

• the school or ESA is in a school district that qualifies for “Title I” federal funding based on the large number of low-income families in the district; and

• more than 30% of the school’s or ESA’s enrollment is made up of children from low-income families.
Cancellation for teaching in a teacher shortage field

A school must cancel up to 100% of the outstanding balance on a borrower’s Perkins loan for a full-time teacher in a field of expertise that is determined by a state education agency to have a shortage of qualified teachers in that state. A borrower who is teaching in science, mathematics, foreign language, or bilingual education qualifies for cancellation even if the state has not designated the subject area in which he or she is teaching as a shortage area.

For a borrower to be considered as teaching in a field of expertise that has a shortage of teachers, the majority of classes taught must be in that field of expertise.

Cancellation for teaching in special education

A school must cancel up to 100% of the outstanding balance on a borrower’s Perkins loan for a full-time special education teacher of infants, toddlers, children, or youth with disabilities. The teaching service must be performed in a public or other nonprofit elementary or secondary school system.

A person performing one of the following services is considered a teacher if the service is part of the educational curriculum for handicapped children:

- speech and language pathology and audiology;
- physical therapy;
- occupational therapy;
- psychological and counseling services; or
- recreational therapy

To qualify for cancellation, the borrower must be licensed, certified, or registered by the appropriate state education agency for that area in which he or she is providing related special educational services.
PUBLIC SERVICE CANCELLATIONS

Nurse or medical technician cancellation

Schools must cancel up to 100% of a Perkins Loan if the borrower has served full-time as a nurse or medical technician providing health care services. The borrower must provide health care services directly to patients.

For purposes of this cancellation—

- a nurse is a licensed practical nurse, a registered nurse, or other individual who is licensed by the appropriate state agency to provide nursing services.
- a medical technician is an allied health professional (working in fields such as therapy, dental hygiene, medical technology, or nutrition) who is certified, registered, or licensed by the appropriate state agency in the state in which he or she provides health care services; an allied health professional is someone who assists, facilitates, or complements the work of physicians and other specialists in the health care system. (See Dear Colleague Letter CB-08-14 for a more detailed discussion of the eligibility requirements for the medical technician cancellation.)

A school may refuse a request for cancellation based on a claim of simultaneous employment as a nurse or medical technician in two or more facilities if it cannot determine easily from the documentation supplied by the borrower that the combined employment is full-time. However, it shall grant the cancellation if one facility official certifies that a nurse or medical technician worked full-time for a full year.

Firefighter cancellation

A school must cancel up to 100% of the outstanding balance on a borrower’s Perkins loan for service that includes August 14, 2008, or begins on or after that date, as a full-time firefighter.

A firefighter is an individual who is employed by a federal, state, or local fire fighting agency to extinguish destructive fires or provide fire fighting related services such as conducting search and rescue, providing hazardous materials (HAZMAT) mitigation, or providing community disaster support and, as a first responder, providing emergency medical services.
Early Intervention Definitions

Infants and toddlers with disabilities

An individual under three years of age who needs early intervention services because the individual (1) is experiencing developmental delays, as measured by appropriate diagnostic instruments and procedures, in one or more of the areas of cognitive development, physical development, communication development, social or emotional development, and adaptive development; or (2) has a diagnosed physical or mental condition which has a high probability of resulting in developmental delay.

The term may also include, at a state's discretion, individuals under age three, who are at risk of having substantial developmental delays if early intervention services are not provided. (Section 632(5)(A) of the Individuals with Disabilities Education Act.)

Qualified professional provider of early intervention services

A provider of services, as defined in Section 632 of the Individuals with Disabilities Education Act. Section 632 of that act defines early intervention services as developmental services that:

• are provided under public supervision;
• are provided at no cost except where federal or state law provides for a system of payments by families, including a schedule of sliding fees;
• are designed to meet the developmental needs of an infant or toddler with a disability in one or more of the following areas: physical development, cognitive development, communication development, social or emotional development, or adaptive development;
• meet the standards of the state in which they are provided;
• are provided by qualified personnel, including—special educators; speech and language pathologists and audiologists; occupational therapists; physical therapists; psychologists; social workers; nurses; nutritionists; family therapists; orientation and mobility specialists; and pediatricians and other physicians;
• to the maximum extent appropriate, are provided in natural environments, including the home, and community settings in which children without disabilities participate; and
• are provided in conformity with an individualized family service plan adopted in accordance with Section 636 of the Individuals with Disabilities Education Act.

Under the Individuals with Disabilities Education Act, early intervention services include—family training, counseling, and home visits; special instruction; speech-language pathology and audiology services; occupational therapy; physical therapy; psychological services; service coordination services; medical services only for diagnostic or evaluation purposes; early identification, screening, and assessment services; health services necessary to enable the infant or toddler to benefit from the other early intervention services; social work services; vision services; assistive technology devices and services; and transportation and related costs necessary to enable infants, toddlers, and their families to receive other services identified in Section 632(4).
Early intervention (for disabled infants/toddlers) cancellation

Schools must cancel up to 100% of the outstanding balance on a Perkins Loan if the borrower has been employed full-time as a qualified professional provider of early intervention services in a public or other non-profit program. “Early intervention services” are provided to infants and toddlers with disabilities.

This cancellation applies to Perkins loans made on or after July 23, 1992. Perkins loans made prior to that date are eligible for cancellation for early intervention service that is performed on or after October 7, 1998.

Child or family services cancellation

A school must cancel up to 100% of the outstanding balance on a Perkins Loan made on or after July 23, 1992, for service as a full-time employee in a public or private nonprofit child or family service agency. To qualify for cancellation, the borrower must be providing services directly and exclusively to high-risk children from low-income communities and to the families of these children, or supervising the provision of such services. Any services provided to the children’s families must be secondary to the services provided to the children.

For purposes of this cancellation—

- high-risk children are defined as individuals under the age of 21 who are low-income or at risk of abuse or neglect; have been abused or neglected; have serious emotional, mental, or behavioral disturbances; reside in placements outside their homes; or are involved in the juvenile justice system.

- low-income communities are communities in which there is a high concentration of children eligible to be counted under Title I rules (see sidebar on next page).

The types of services a borrower may provide to qualify for a child or family service cancellation include child care and child development services; health, mental health, and psychological services; and social services. The Department has determined that an elementary or secondary school system, a hospital, or an institution of higher education is not an eligible employing agency. When reviewing child or family service cancellation requests, Perkins schools and their servicers should refer to Dear Colleague Letter GEN-5-15, which provides a more detailed discussion of the eligibility requirements for child or family service cancellations.

Cancellation Rates

With the exception of cancellations for Head Start, military, and volunteer service, the cancellation rate per completed academic year of full-time teaching or for each year of otherwise qualifying full-time service is:

- 15% of the original principal loan amount—plus the interest that accrued during the year—for each of the first and second years;
- 20% of the original principal loan amount—plus the interest that accrued during the year—for each of the third and fourth years; and
- 30% of the original principal loan amount—plus any interest that accrued during the year—for the fifth year.

A year of service consists of 12 consecutive months of service.
Speech pathologist cancellation
34 CFR 674.56(g)

A school must cancel up to 100% of the outstanding balance on a borrower’s Perkins Loan for full-time employment that includes August 14, 2008, or begins on or after that date, as a speech pathologist. A speech pathologist is someone who evaluates or treats disorders that affect a person’s speech; language; cognition; voice; swallowing and the rehabilitative or corrective treatment of physical or cognitive deficits/disorders resulting in difficulty with communication, swallowing or both; and who has obtained a postgraduate academic degree awarded after the completion of an academic program of up to six years in duration (excluding a doctorate or professional degree).

To qualify for cancellation, the speech pathologist must have a master’s degree and be working exclusively with Title I-eligible schools.

Librarian cancellation
34 CFR 674.56(f)

A school must cancel up to 100% of the outstanding Perkins balance for service that includes August 14, 2008, or begins on or after that date, as a full-time librarian.

The librarian must have a master’s degree. A librarian with a master’s degree is defined as an information professional trained in library or information science who has obtained a postgraduate academic degree in library science awarded after the completion of an academic program of up to 6 years in duration (excluding a doctorate or professional degree).

The librarian must be employed
- in an elementary school or secondary school that is eligible for Title I assistance (see sidebar), or
- by a public library that serves a local school district that contains one or more Title I-eligible schools.

Title I schools
Part A of Title I of the Elementary and Secondary Education Act of 1965, as amended, provides funding for schools with high numbers or high percentages of poor children.

Elementary and Secondary Education Act
See 20 U.S.C. 70

Tribal college or university
An institution that —
1. Qualifies for funding under the Tribally Controlled Colleges and Universities Assistance Act of 1978 (25 U.S.C. 1801 et seq.) or the Navajo Community College Assistance Act of 1978 (25 U.S.C. 640a note); or

34 CFR 674.51(bb)

The Department of Education maintains a list of tribal colleges and universities at:
http://www2.ed.gov/about/initis/list/whtc/edlite-tclist.html#list

Law enforcement or corrections officer cancellation
34 CFR 674.56(g)

A school must cancel up to 100% of a Perkins Loan made on or after November 29, 1990, if the borrower performs full-time service for 12 consecutive months as a law enforcement or corrections officer for an eligible employing agency.

To establish the eligibility of a borrower for the law enforcement or corrections officer cancellation provision, the school must determine that (1) the borrower’s employing agency is eligible and that (2) the borrower’s position is essential to the agency’s primary mission.
A local, state, or federal agency is an eligible employing agency if it is publicly funded and its activities pertain to crime prevention, control, or reduction, or to the enforcement of the criminal law. Such activities include, but are not limited to—

- police efforts to prevent, control, or reduce crime or to apprehend criminals;
- activities of courts and related agencies having criminal jurisdiction;
- activities of corrections, probation, or parole authorities; and
- the prevention, control, or reduction of juvenile delinquency or narcotic addiction.

Agencies that are primarily responsible for enforcement of civil, regulatory, or administrative laws are ineligible. However, because the activities of many divisions and bureaus within local, state, and federal agencies pertain to crime prevention, control, or reduction, or to the enforcement of criminal law, a sub-unit within a larger, non-law enforcement agency may qualify as a law enforcement agency for purposes of a law enforcement cancellation.

For the borrower’s position to be considered essential to the agency’s primary mission, he or she must be a full-time employee of an eligible agency and a sworn law enforcement or corrections officer or person whose principal responsibilities are unique to the criminal justice system and are essential in the performance of the agency’s primary mission. The agency must be able to document the employee’s functions. Examples of positions that are considered essential to a law enforcement agency’s primary mission and that are unique to the criminal justice system include prosecuting attorneys whose primary responsibilities are to prosecute criminal cases on behalf of law enforcement agencies, forensic scientists, and latent fingerprint examiners.”

Individuals whose official responsibilities are supportive, such as those that involve typing; filing; accounting; office procedures; purchasing; stock control; food service; transportation; or building, equipment, or grounds maintenance are not eligible for the law enforcement or correction officer loan cancellation, regardless of where these functions are performed.

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**Law enforcement/corrections cancellation**

34 CFR 674.57(a)

**Law enforcement cancellation for loans prior to November 29, 1990**

A school must cancel up to 100% of the outstanding loan balance on a Perkins (or NDSL or Defense loan) made prior to November 29, 1990, for law enforcement or correction officer service performed on or after October 7, 1998, if the cancellation benefits provided under this section are not included in the terms of the borrower’s promissory note. The service must be full-time, and be performed over 12 consecutive months.
Public defender cancellation
34 CFR 674.57(b)

Eligible public/community defender organizations
34 CFR 674.51(e)
Section 3006A(g)(2) of Title 18, U.S.C.

Military service cancellation
34 CFR 674.59

Change to military service cancellation limitation
Effective for a full year of qualifying service that includes August 14, 2008, or begins after that date, borrowers may now receive military service cancellation of up to 100% of the loan.

Military cancellations for earlier loans
• A school must cancel up to 50% of a Defense loan made after April 13, 1970, for the borrower’s full-time active service starting after June 30, 1970, in the U.S. armed forces.
• A school must cancel up to 50% of the outstanding balance on a Perkins/NDSL Loan for active duty service that ended before August 14, 2008, as a member of the U.S. armed forces in an area of hostilities that qualifies for special pay under section 310 of title 37 of the United States Code (see below).

The cancellation rate is 12.5% of the original loan principal, plus the interest on the unpaid balance accruing during the year of qualifying service, for each complete year of qualifying service.

Special pay in areas of hostilities/imminent danger
The Department of Defense maintains an updated listing of hostile fire/imminent danger pay areas at the following URL: http://comptroller.defense.gov/fmr/07a/07a_10.pdf

Prior to Dec. 31, 2011, members eligible for IDP were paid the full monthly rate for any complete or partial month they served in a qualifying area. The 2012 National Defense Authorization Act modified IDP payments, limiting eligibility to only the actual days served in a qualifying area. The monthly rate is paid to members who serve an entire calendar month in an IDP area regardless of the number of individual days in that month. See the Defense Finance and Accounting website at: http://www.dfas.mil/militarymembers/payentitlements/specialpay/hfp_idp.html.

Public defender cancellation

Full-time attorneys employed in federal public defender organizations or community defender organizations (see sidebar), are eligible for public defender cancellations.

For purposes of this cancellation

• a community defender organization is a defender organization established in accordance with section 3006A(g)(2)(B) of Title 18, United States Code.
• a federal public defender organization is a defender organization established in accordance with section 3006A(g)(2)(A) of Title 18, United States Code.

Cancellations are for eligible service that includes August 14, 2008, or begins on or after that date, regardless of whether information on the expansion of this cancellation category appears on the borrower’s promissory note.

MILITARY SERVICE CANCELLATION

A school must cancel up to 100% of the outstanding balance of a Perkins loan for a full year of active duty service in the U.S. armed forces in an area of hostilities or an area of imminent danger that qualifies for special pay (see sidebar). The “U.S. armed forces” are the United States Army, Navy, Air Force, Marine Corps, or Coast Guard.

The borrower’s commanding officer must certify the borrower’s service dates. Active duty service for less than a complete year or a fraction of a year beyond a complete year does not qualify. A complete year of service is 12 consecutive months.

Areas that qualify for hostile fire/imminent danger pay are listed on the Web (see sidebar). Note that the borrower does not have to serve the full 12 months of active duty service in such an area to qualify for the cancellation. If a borrower is on active duty in such an area for any part of a month, that month counts towards the borrower’s eligibility for a military cancellation.

The cancellation rate is the standard progression for up to 100% cancellation: 15% for the first and second year of qualifying service, 20% for the third and fourth year of qualifying service, and 30% for the fifth year of qualifying service.
EARLY CHILDHOOD EDUCATION CANCELLATION (PRE-KINDERGARTEN, CHILD CARE, HEAD START)

A school must cancel up to 100% of a Perkins Loan if the borrower has served

- as a full-time staff member in a Head Start program.
- as a full-time staff member of a prekindergarten or child care program that is licensed or regulated by the state.

For purposes of these early education cancellations

- A pre-kindergarten program is a state-funded program that serves children from birth through age six and addresses the children’s cognitive (including language, early literacy, and early mathematics), social, emotional, and physical development.
- A child care program is a program that is licensed or regulated by the state and provides child care services for fewer than 24 hours per day per child, unless care in excess of 24 consecutive hours is needed due to the nature of the parents’ work.
- A full-time staff member is someone who is regularly employed in a full-time professional capacity to carry out the educational part of the early education program.

For the pre-kindergarten and child care program cancellation, the period of service must include August 14, 2008, or begin on or after that date.

In order to qualify for cancellation, the early education program in which the borrower serves must operate for a complete academic year, or its equivalent. The borrower’s salary may not exceed the salary of a comparable employee working in the local educational agency of the area served by the early education program.

The cancellation rate is 15% of the original loan principal, plus the interest on the unpaid balance accruing during the year of qualifying service, for each complete academic year, or its equivalent, of full-time teaching service.

An official of the early education program should sign the borrower’s cancellation form to certify the borrower’s service.
VOLUNTEER SERVICE CANCELLATION

Schools must cancel up to 70% of a Perkins Loan if the borrower has served as a Peace Corps or AmeriCorps*VISTA (under Title I, Part A of the Domestic Volunteer Service Act of 1973) volunteer. An authorized official of the Peace Corps or AmeriCorps*VISTA program must sign the borrower’s cancellation form to certify the borrower’s service.

AmeriCorps volunteers do not qualify for this cancellation unless their volunteer service is with AmeriCorps*VISTA. An AmeriCorps*VISTA volunteer may only qualify for this cancellation if the AmeriCorps*VISTA volunteer elects not to receive a national service education award for his or her volunteer service. The AmeriCorps*VISTA volunteer must provide appropriate documentation showing that the volunteer has declined the AmeriCorps national service education award.

Schools apply cancellation for volunteer service in the following increments:

- 15% of the original principal loan amount—plus any interest that accrued during the year—for each of the first and second 12-month periods of service; and
- 20% of the original principal loan amount—plus any interest that accrued during the year—for each of the third and fourth 12-month periods of service.

For Peace Corps Volunteers, the 12-month periods of service include any pre-enrollment training the Volunteer receives at the Peace Corps Post.
DISCHARGING PERKINS LOANS

Discharge due to death

You must discharge the remaining balance of any Perkins Loan, NDSL, or Defense Loan if the borrower dies. You must base your determination of death of the borrower on an original or certified copy of the death certificate or an accurate and complete photocopy of the death certificate.

In most cases, the school should try to obtain a copy of the death certificate from the borrower’s next of kin. If the school is unable to obtain a copy from the next of kin, it may be able to obtain a copy from the state vital statistics office.

Under exceptional circumstances and on a case-by-case basis, your school’s chief financial officer may approve a discharge based upon other reliable documentation supporting the discharge request.

Discharge for total and permanent disability (nonveterans)

If a borrower becomes totally and permanently disabled, he or she must submit a discharge request application certified by a physician who is a doctor of medicine or osteopathy legally authorized to practice in a state. By signing the discharge application, the physician certifies that the borrower is totally and permanently disabled, as defined in the Perkins Loan Program regulations (see sidebar).

The borrower must submit the application to your school within 90 days of the date the physician signed it. The 90-day submission deadline applies to the initial discharge application. The deadline does not apply to requests that your school may make for additional supporting documentation, based on its evaluation of the initial application.

Upon receiving the borrower’s complete application, the school must suspend collection activity on the loan and inform the borrower that the school will review the application and assign the loan to the Department for an eligibility determination if it determines that the application supports the conditions for discharge. If the school determines that the application does not support the conditions for discharge, it must resume collection on the loan.

The school must inform the borrower of the responsibility to return any disbursement of a previously-awarded FSA loan or TEACH Grant that the student receives after the date the physician certified the application. The full amount of the disbursement must be returned to the Department within 120 days of the disbursement date. Failure to do so will cause the loan to be reinstated.

Total and permanent disability loan discharge
34 CFR 674.61
GEN 06-14

Definitions of “totally and permanently disabled”
E-Announcements
Schools must evaluate all discharge applications received on or after July 1, 2010, in accordance with the revised definition of total and permanent disability (below).

Total and permanent disability is defined as: The condition of an individual who—
(1) Is unable to engage in any substantial gainful activity* by reason of any medically determinable physical or mental impairment that—
(i) Can be expected to result in death;
(ii) Has lasted for a continuous period of not less than 60 months; or
(iii) Can be expected to last for a continuous period of not less than 60 months; or
(2) Has been determined by the Secretary of Veterans Affairs to be unemployable due to a service-connected disability.
34 CFR 674.51(aa)

* Substantial gainful activity is defined as “a level of work performed for pay or profit that involves doing significant physical or mental activities, or a combination of both.”
34 CFR 674.51
The school must also inform the borrower that the loan will be rein-stated if, within three years of the date the discharge application was certified, the borrower

- has annual earnings from employment that exceed 100% of the poverty guideline for a family of two.
- receives a new TEACH Grant or a new loan under the Perkins or Direct Loan programs, except for a Direct Consolidation Loan that includes loans that were not discharged.

If your school determines, based on certification from the borrower’s physician, that the borrower is totally and permanently disabled, it must assign the account to the Department (see sidebar for ED servicers). At that time, it must notify the borrower that it has assigned the account to the Department for determination of eligibility for a total and permanent disability discharge and that no payments are due on the loan.

During its review of the application, the Department may ask the borrower to provide additional medical evidence and may arrange for an additional review of the borrower’s condition by an independent physician at no expense to the borrower.

- If the Department concludes that the borrower is totally and permanently disabled, it will discharge the loan and notify the borrower.
- If the Department concludes that the certification provided by the borrower does not establish that the borrower is totally and permanently disabled, the Department will notify the borrower that the discharge application has been denied and that the loan must be repaid to the Department under the terms of the promissory note.

If your school receives payments from a borrower after the physician certifies the borrower’s loan discharge application, you must forward these payments to the Department and notify the borrower that there is no need to make payments on the loan while the discharge application is under review unless the Department informs the borrower otherwise.
Discharge for service-connected disability (veterans)

A veteran’s Perkins Loan will be discharged if the veteran is unemployable due to a service-connected disability, as determined by the Department of Veterans Affairs (VA). To qualify for discharge of a Perkins loan based on a disability determination by the VA, a veteran must submit a completed copy of the ED-approved discharge application to the school that holds the loan.

The application does not need to be certified by a physician. Instead, the veteran must include documentation from the VA showing that the veteran is unemployable due to a service-connected disability. The veteran will not be required to provide any additional documentation related to his or her disability.

When it receives the completed application and the required documentation, the school must suspend collection activity on the loan and inform the veteran that the school will review the application and supporting documentation and—

- if the documentation from the Department of Veterans Affairs indicates that the veteran meets the conditions for a service-related disability discharge, the school will submit the application and supporting documentation to the Department’s servicer for an eligibility determination.

- if the documentation from the Department of Veterans Affairs does not indicate that the veteran meets the conditions for the discharge, the school will resume collection on the loan.

The school must also inform the veteran that even if he or she does not qualify for a service-connected disability discharge, the veteran may reapply for a disability discharge if he or she meets the general definition of “totally and permanently disabled” (see previous topic).

The Department of Education will notify the school of its determination of the veteran’s eligibility for the discharge. If the Department concludes that the veteran is eligible for the discharge, the school must discharge the veteran’s obligation to make further payments on the loan. The school must also return any loan payments received on or after the effective date of the determination by the Department of Veterans Affairs that the veteran is unemployable due to a service-connected disability. (Any such loan payments must be returned to the person who made them.)

However, if the school or the Department of Education determines, based on a review of the documentation, that the veteran is not totally and permanently disabled, the school must resume collection on the loan.
Closed schools
You can find a searchable database of closed schools online at

Closed school discharge
Your school must assign to Federal Student Aid (FSA) Collections all its outstanding Perkins and NDSL loans if it is closing.

FSA Collections may discharge a Perkins Loan or NDSL made on or after January 1, 1986, if the borrower is unable to complete his or her program of study due to the closure of the school. FSA Collections must reimburse borrowers for payments made voluntarily or by forced collection.

A borrower whose loan was in default and then discharged under this provision is not considered to have been in default and reestablishes FSA eligibility, provided he or she meets all other eligibility criteria. FSA Collections reports the discharge to the credit bureaus to which the previous loan status was reported.

Note: A borrower is also eligible for a closed school discharge if the borrower withdrew from the school not more than 90 days before the school closed (or longer in exceptional circumstances).

Discharge for spouses of 9-11 victims
Schools must discharge the outstanding balance of a Perkins Loan that was made to the spouse of an eligible public servant who died or became permanently and totally disabled due to injuries suffered in the September 11, 2001 terrorist attacks. An eligible public servant is a police officer, firefighter, or other safety or rescue personnel, or a member of the armed forces, who died or became permanently and totally disabled due to injuries suffered in the September 11, 2001 terrorist attacks. This discharge is only available on Perkins, NDSL, or Defense Loan amounts that were owed on September 11, 2001. The law doesn’t authorize refunding of any payments made on a loan prior to the loan discharge date.
Bankruptcy discharge

The basic actions a school must take when a borrower files for bankruptcy protection are covered here, in Dear Colleague Letter GEN-95-40 (dated September 1995), and in 34 CFR 674.49. For the best advice on how to proceed when a borrower files for bankruptcy protection, a school should consult its attorney. The school should ensure that the attorney is aware of the due diligence provisions that apply to school actions.

If a school receives notice that a borrower has filed for bankruptcy protection, it must immediately stop collection efforts (outside the bankruptcy proceeding itself). If the borrower has filed under Chapter 12 or 13 of the Bankruptcy Code, the school must also suspend collection efforts against any endorser.

The school must file a proof of claim in the bankruptcy proceeding unless, in the case of a proceeding under Chapter 7 of the Bankruptcy Code, the notice of meeting of creditors states the borrower has no assets.

Effective for bankruptcies filed on or after October 8, 1998, a borrower who receives a general discharge in bankruptcy does not, by that order, obtain a discharge of a loan that has been in repayment for seven years or more at the time of the bankruptcy filing. For these bankruptcies, a student loan is discharged by a general discharge order only if the borrower also obtains a court ruling that repayment of the loan would impose an undue hardship on the borrower and his or her dependents.

Resuming/terminating billing and collection

A school must resume billing and collection procedures after the borrower has received a discharge under 11 U.S.C. 727, 11 U.S.C. 1141, 11 U.S.C. 1228, 11 U.S.C. 1328(a), or U.S.C. 1328(b) unless the court has found that repayment would impose an undue hardship. If the court has found that repayment would impose an undue hardship, the school must terminate all collection action and write off the loan. If a school receives a repayment from a borrower after a loan has been discharged, it must deposit that payment in its Perkins Loan Fund.
Bankruptcy Procedures

Responding to complaint for determination of dischargeability

Customarily, a borrower obtains a judicial ruling of undue hardship by filing an adversary proceeding—a lawsuit within the bankruptcy proceeding—in the bankruptcy court seeking to prove undue hardship. If a borrower files an adversary proceeding to prove undue hardship under 11 U.S.C. 523(a) (8), the school must decide, on the basis of reasonably available information, whether repayment under the current repayment schedule or under any adjusted schedule would impose undue hardship on the borrower and his or her dependents.

If the school concludes that repayment would not impose an undue hardship, the school must then decide whether the expected costs of opposing the discharge would exceed one-third of the total amount owed on the loan (principal, interest, late charges, and collection costs). If the expected costs do not exceed one-third of the total amount owed on the loan, the school must oppose the discharge and, if the borrower is in default, seek a judgment for the amount owed. If necessary, the school may compromise a portion of that amount to obtain a judgment.

If the school opposes a request for determination of dischargeability on the ground of undue hardship, a school may also file a complaint with the court to obtain a determination that the loan is not dischargeable and to obtain a judgment on the loan.

Schools that are state instrumentalities may, as an alternative, oppose an undue hardship claim by asserting their immunity from suit in bankruptcy. As with any other action in defending student loans in bankruptcy, the school should consult with counsel and should ensure that counsel is fully informed about recent changes in Department regulations to support this position.

Procedures for responding to proposed Chapter 13 repayment plan

Under Chapter 13, the borrower may generally obtain an adjustment in repayment terms of all of his/her debts. The borrower proposes a repayment plan that addresses whether and how each debt or class of debts will be paid. If the court approves the plan, creditors are bound to the terms of that plan for duration of the plan, typically three to five years. If the borrower’s repayment plan proposes full repayment of the Perkins Loan, including all principal, interest, late charges, and collection costs on the loan, no response from the school is required. The school is also not required to respond to a proposed repayment plan that does not include any provision in regard to the Perkins Loan obligation or to general unsecured claims.

If the borrower proposes to repay less than the total amount owed and that the remainder be discharged, the school must determine, from its own records and court documents, the amount of the loan dischargeable under the plan. The school does this by subtracting the total proposed payments from the total amount owed. The school must also determine from its own records and court documents whether the borrower’s proposed repayment plan meets the requirements of 11 U.S.C. 1325.
Bankruptcy Procedures, continued

Two of those requirements are particularly relevant:

- First, the amount to be paid under the plan must at least equal the amount the school would receive if the debtor had filed under Chapter 7 rather than under Chapter 13.

- Second, to pay creditors under the plan, the debtor must use all income not needed to support himself or herself and his or her dependents.

If the borrower's proposed repayment plan does not meet the requirements of 11 U.S.C. 1325, the school must object to the confirmation by the court of the proposed plan, unless the cost of this action will exceed one-third of the dischargeable loan debt; if the cost will exceed one-third of the dischargeable debt, the school is not required to take this action.

Also, when a borrower proposes to repay less than the total amount owed, the school must determine whether grounds exist under 11 U.S.C. 1307 for the school to move to have the Chapter 13 case either dismissed or converted to a Chapter 7 proceeding. Such grounds include a borrower's failure to (1) begin payments under the plan within the required time (usually 30 days from the date the plan is filed), (2) file a proposed plan in a timely manner, or (3) pay required court fees and charges.

If the school determines that such grounds do exist, the school must move to dismiss or convert the Chapter 13 case to a Chapter 7 proceeding, unless the cost of this action will exceed one-third of the dischargeable loan debt.

After a borrower's proposed repayment plan is confirmed by the court, the school must monitor the borrower's compliance with the repayment plan. If the school determines from its own records or court documents that the borrower either has not made the payments required under the plan or has filed for a hardship discharge under 11 U.S.C. 1328(b), the school must determine whether grounds exist under 11 U.S.C. 1307 to dismiss the case filed under Chapter 13 or to convert the Chapter 13 case to a Chapter 7 proceeding or whether the borrower is entitled to a hardship discharge. If grounds do exist under 11 U.S.C. 1307 to dismiss or convert a Chapter 13 case, the school must move to convert or dismiss the case. If a borrower has not demonstrated entitlement to a hardship discharge under 11 U.S.C. 1328(b), the school must oppose the hardship discharge request, unless the costs of these actions, when added to those already incurred, would exceed one-third of the dischargeable debt.