

Grace Periods, Deferment, & Forbearance in Detail

Basic information on grace periods, deferments, and forbearance is provided in the entrance and exit counseling materials (Chapters 1 and 2 of this Guide). However, this more detailed description may be valuable as a resource for particular deferments, or when you are counseling a borrower who has older loans that are eligible for the specific deferment provisions available prior to July 1993.

You can provide selected fact sheets to students as needed, or direct them to our Web site (www.ed.gov/studentaid) for this information.

Current deferments

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- ▲ Unemployment
- ▲ Economic Hardship

Deferments for students who borrowed prior to 7/1/93

- ▲ Working mother
- ▲ Parental leave
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- ▲ Temporary total disability
- ▲ Internship/residency
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- ▲ Teacher Shortage Area
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Forbearance

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- ▲ Mandatory administrative



GRACE PERIOD AFTER LEAVING SCHOOL

When you leave school, you won't have to begin repaying your loan right away. Stafford Loans allow a six-month "grace period" that starts when you leave school or drop below half-time enrollment. (Older Stafford Loans may have a 9- to 12-month grace period—check your promissory note.) You may request a shorter grace period if you wish. If you have unsubsidized loans, you can reduce the amount of interest that accrues on the loan by requesting a shorter grace period and beginning repayment earlier.

Grace periods are day-specific; that is, an initial grace period begins on the day immediately following the day that you stop attending school at least half time and ends on the day before the repayment period begins. The initial grace period isn't "used up" during shorter periods of nonenrollment. For instance, if you miss a semester (4 months), but resume your studies at least half-time, you'll still be eligible for the full 6-month grace period when you graduate.

Military service

A period of active duty military service of more than 30 days exempts a member of the Armed Forces from the six-month grace period limitation, for up to a maximum of three years. The period necessary to resume regular enrollment in the next available regular enrollment period is also exempted from the six-month grace period.

Correspondence grace periods

For correspondence students, the grace period begins on the earliest of the following three dates:

- ▲ the date you complete the program; or
- ▲ the date that is 60 days after the school's deadline for completing the program.

Your grace period may also begin if it appears that you've ceased work in the program. Your grace period will begin if you fall 60 days behind the due date for submitting a scheduled assignment.

Federal SLS loans (prior to 7/1/1993)

If you have a Federal Supplemental Loans for Students (SLS) loan that has not yet entered repayment and a Federal Stafford Loan that has not yet entered repayment, you may request that the lender delay repayment on the SLS loan for the period equivalent to the Stafford Loan grace period so that repayment on both loans can begin at the same time. (Note that no new SLS loans are being made; the SLS Program was repealed beginning with the 1993-94 award year.)

Stafford Loans prior to October 1981

A borrower with Stafford Loans made prior to October 1, 1981 is entitled to a six-month **post-deferment** grace period following any deferment. The one exception is the unemployment deferment. Although a borrower may have several periods of unemployment deferred, he or she may receive a post-deferment grace period **only** following the first unemployment deferment.



EDUCATIONAL DEFERMENTS

The following deferments apply to all “new” Stafford Loan, PLUS Loan, and Consolidation Loan borrowers. You’re considered a new borrower for deferment purposes if you took out your first loan from these programs on or after July 1, 1993.*

You can defer repayment on your Stafford Loan if you’re enrolled at least half-time at a school that’s eligible to participate in the SFA programs (even if the school does not currently award aid from those programs or can’t make Stafford Loans because of a high default rate). You may apply for an in-school deferment by submitting a deferment application with documentation. However, your lender or servicer can *automatically* grant you a deferment on your earlier loans if it receives a new student loan application from you. (The lender/servicer must notify you when it applies an automatic deferment and give you the options to continue paying the interest or to cancel the deferment.)

Rehabilitation training

A rehabilitation training program for disabled individuals is eligible for deferment if it is recognized as such by a state agency with responsibility for vocational rehabilitation programs, drug abuse treatment programs, mental health services programs, and alcohol abuse treatment programs. A rehabilitation training program is also eligible for deferment if it is recognized by the Department of Veterans Affairs; and provides trainees with rehabilitation services under a written plan that is individualized to meet the borrower’s needs, specifies the date on which the services are expected to end, and requires a substantial commitment from the trainee that normally would preclude full-time employment. (Full-time employment for this purpose involves at least 30 hours of work per week and is expected to last at least three months.)

To qualify for a rehabilitation training program deferment, you must have an authorized official of the training program provide a statement to your lender certifying that you will be receiving services under an eligible rehabilitation training program for disabled individuals.

Federal schools

You can also defer your Stafford or PLUS loan if you’re enrolled full-time at a school that is operated by the federal government (for instance, the service academies), provided that you are a citizen or national of the United States and pursuing a course of study at a school located in a State.

Graduate fellowship program

You can defer your Stafford or PLUS loan while you’re studying full-time in a fellowship program that provides sufficient financial support for full-time study for at least six months, requires a written statement of educational objectives from applicants before awarding financial support, and requires graduate fellows to submit periodic reports, projects, or evidence of the fellow’s progress. In the case of a course of study at a foreign university, the fellowship program must accept the course of study as meeting its completion requirements.

You must submit a deferment form to the lender with a statement from an authorized official of the fellowship program certifying that you have at least a bachelor’s degree and that you have been accepted into an eligible graduate fellowship program (or recommended for acceptance). The official must also provide your anticipated completion date in the program.

Medical internship or residency

“New borrowers” after July 1, 1993 can’t get an educational deferment for service in a medical internship or residency program, except for an internship in dentistry. However, you may qualify for a mandatory forbearance, which would enable you to postpone the principal and/or interest payments on your loan(s). Remember that there is no interest subsidy during periods of forbearance.

*or if you had no outstanding balance on any loans from those programs on July 1, 1993 or on the date you took out your new loan after July 1, 1993



UNEMPLOYMENT/ ECONOMIC HARDSHIP DEFERMENTS

*The following deferments apply to all "new" Stafford Loan, PLUS Loan, and Consolidation Loan borrowers. You're considered a new borrower for deferment purposes if you took out your first loan from these programs on or after July 1, 1993.**

Unemployment or part-time employment deferment

If you're looking for a job, but can't get full-time employment, you may defer your payments for up to three years. Full-time employment is defined as at least 30 hours of work a week, with the expectation that the job will last at least three months. To get the deferment you must submit an application to your lender, including a written certification that describes your diligent search for full-time work.

If you're only seeking to defer an "initial period" of unemployment, you won't have to describe efforts to get a job at the time the deferment is granted. The initial period deferment can be granted for a period of unemployment beginning up to 6 months before the day your request was received and can extend for up to 6 months after that date (a maximum of 12 months).

To keep the deferment, you'll have to resubmit the deferment request every six months, to confirm that you are continuing to look for work. The request must document at least six attempts to get a job during the previous six months, including information such as the name and address of the employer, or other information acceptable to your lender or servicer. Your lender may accept comparable documentation that you've used for the Unemployment Insurance Service, if it shows the same number of contacts and contains the same information that's required for your loan deferment.

If you live within 50 miles of a public or private employment agency, you must also register with the employment agency.

You can't get an unemployment deferment if you don't want to look for work at salary and responsibility levels for which you feel you are overqualified based on your education or previous experience.

Economic hardship deferment

You may also get a deferment if you are experiencing economic hardship due to low income (not to exceed a total of three years). You'll have to submit a deferment request every 12 months to confirm your continuing eligibility. You're considered to be experiencing economic hardship if you are receiving payment under a federal or state public assistance program or have already been granted an economic hardship deferment for another federal student loan** for the same period for which you are requesting an economic hardship deferment. You can also qualify for this deferment if you have sufficiently low income or high debt burden under one of the following three categories listed on the next page.

**or if you had no outstanding balance on any loans from those programs on July 1, 1993 or on the date you took out your new loan after July 1, 1993*

***Federal Perkins, Federal Stafford, Federal PLUS, Federal Consolidation loans*

Low income and/or high debt burden

1 You are not working full time and your total monthly gross income from all sources is less than twice the greater of (1) the minimum wage rate* or (2) the poverty line** for a family of two. In addition, after deducting the total monthly payments on federal education loans, the borrower's income from all sources may not exceed the larger of (1) the minimum wage rate* or (2) the poverty** line for a family of two.

→ Based on the current minimum wage and poverty line (as of May 2001), this means your total monthly gross income must be less than \$1,875 and your income from all sources minus your total monthly payments on federal education loans must be \$938 or less. (Alaska and Hawaii have different poverty guidelines.)

2 You are working full time, but earning a total monthly gross income that does not exceed the greater of (1) the minimum wage* or (2) the poverty line** for a family of two.

→ Based on the current minimum wage and poverty line (as of May 2001), this means your total monthly gross income must be \$937.50 or less. (\$1,171.67 in Alaska and \$1,077.50 in Hawaii.)

3 You are working full time and your annual federal student loan payments are at least 20 percent of your adjusted gross income **and** your income minus the your monthly loan payments are less than 220 percent of the greater of (1) the minimum wage* or (2) the poverty line** for a family of two. (You can't include defaulted loans in the education debt burden unless you've made satisfactory repayment arrangements.)

→ Based on the current minimum wage and poverty line (as of May 2001), this means you qualify for a deferment if your monthly federal education debt is at least 20% of your monthly income, AND, after subtracting that debt from your monthly income, the remaining amount is \$2,062.25 or less.

*The minimum wage, currently \$5.15, is determined by statute and is posted on the U.S. Department of Labor's Web site at: www.dol.gov/dol/asp/public/programs/handbook/minwage.htm

**The poverty guideline is established by the U.S. Department of Health and Human Services, under Section 673(2) of the Community Service Block Grant Act. The current guidelines are posted at: <http://aspe.os.dhhs.gov/poverty/01poverty.htm>

DEFERMENTS PRIOR TO JULY 1993

An "old borrower" who received a Stafford, PLUS, or Consolidation Loan before July 1, 1993 is eligible for the following deferments on that loan and subsequent loans from those programs. You're considered an "old borrower" for loans after July 1, 1993 if you had an outstanding balance on a Stafford, PLUS, or Consolidation Loan on July 1, 1993, AND on the date that you take out a loan after July 1, 1993.



Working mother

To qualify for the working-mother deferment, you must give your lender a statement certifying that you—

- are the mother of a preschool-age child (not yet enrolled in first grade),
- are working full time (at least 30 hours of work a week for at least 3 months),
- don't earn more than the minimum hourly wage plus one dollar, and
- entered or reentered the workforce within the last year, before the beginning date of the requested deferment period.

In addition to the certification you'll have to provide your lender with documents showing the age of your child (e.g., a birth certificate) and your hourly wages (e.g., a pay stub showing her hourly rate of pay).

Parental leave

To qualify for a parental-leave deferment you must give your lender a statement certifying that you—

- are pregnant, caring for your newborn child, or caring for an adopted child immediately following the placement of the child with you, and
- won't be attending school or working full-time during the deferment period.

You'll also need to provide a statement from an authorized college official certifying that you were enrolled at least half time during the 6 months preceding the beginning of the deferment period. Finally you'll have to provide a physician's statement that you are pregnant, a birth certificate, or a statement from the adoption agency official evidencing a pre-adoption placement.

Dependent's disability

To qualify for a deferment when your spouse or other dependent requires continuous nursing or similar services for a period of at least 90 days, you must provide your lender with a statement certifying that you are unable to work full time because of the nursing care that you are giving. You'll also need to provide a statement from a doctor of medicine or osteopathy who is legally authorized to practice, certifying that your spouse or dependent needs continuous nursing or similar services for a period of at least 90 days. A lender may not grant a deferment based on a single certification that extends more than 6 months after the date of the certification.

Temporary total disability

To qualify for a temporary total disability deferment, you must provide your lender with a statement from a doctor of medicine or osteopathy who is legally authorized to practice, certifying that you are temporarily totally disabled (unable to work or go to school for at least 60 days while recovering from an illness or injury). You cannot be considered temporarily totally disabled on the basis of a condition that existed before you applied for the loan, unless the condition has substantially deteriorated after you submitted the loan application. A lender may not grant a deferment based on a single certification that extends more than 6 months after the date of certification.

Internship/residency

To be eligible for this deferment, you must provide your lender with a statement from a state official or from an authorized official of the organization that offers the internship or residency program. If the statement is signed by a state official, it must certify that the state requires you to complete part or all of the program before you can be certified for professional practice or service. The state official's statement must include the anticipated dates you will begin and complete the minimum period of participation in the program required for state certification. If the statement is signed by a school official, it must include the anticipated dates that you will begin and complete the program and it must certify that the program—

- is a supervised training program that requires a baccalaureate degree for admission
- leads to a degree or certificate awarded by a college or university, a hospital, or a health care facility that offers postgraduate training.

Armed Forces, Public Health Service, & NOAA

To qualify for a military deferment* you must give your lender a written statement from your commanding or personnel officer certifying—that you are on active duty in the Armed Forces* of the United States, the dates on which your military service began and is expected to end. As an alternative, you may provide a copy of your official military orders and a copy of your military identification.

** For the purpose of this section, the Armed Forces means the Army, Navy, Air Force, Marine Corps, and the Coast Guard. You may qualify for a military deferment for full-time service in a reserve component of the Armed Forces if that service is expected to last at least one year, as evidenced by official military orders, unless an order for national mobilization of reservists is issued. A member of the National Guard can only qualify for a military deferment while he or she is on active duty status as a member of the U.S. Army or Air Force Reserves and meets the criteria for a reservist.*

To qualify for a deferment for working in the National Oceanic and Atmospheric Administration (NOAA) or as an officer in the Commissioned Corps of the U.S. Public Health Service (PHS), you must give your lender a statement from an authorized official of the PHS or NOAA certifying that you are engaged in full-time service, and the dates your service began and is expected to end.

Teacher Shortage Area

Repayment of Stafford Loans may be deferred for full-time teaching in a federally-designated teacher shortage area for a maximum of three years. To obtain a targeted teaching deferment, you must submit a deferment form to your lender for each school year of teaching service. The principal at the school where you are teaching must certify on the deferment form that you are teaching in a federally-designated teacher shortage area. If the State Education Agency has not informed principals that their schools were designated as having a shortage of teachers, you should contact your State Education Agency to get the form certified. Please remember that you must reapply each school year for a targeted teaching deferment. If you continue to teach in the same shortage area for which you obtained the original deferment, you may continue to receive the deferment for a maximum of three years, even if your position is no longer considered to be in a teacher shortage area for those subsequent years. To receive the continuing deferment, you must provide the lender with a completed deferment form, certified by the school principal, indicating that you continue to teach, full time, in the same teacher shortage area for which the deferment was received the previous school year.

ACTION and PEACE CORPS

To qualify for a deferment for service under the Peace Corps Act, you must provide your lender with a statement from an authorized Peace Corps official certifying that you've agreed to serve for a term of at least one year and giving the date you began your service and the date on which your service is expected to end. Your lender must grant a deferment for your full term of service in the Peace Corps, not to exceed three years. To qualify for a deferment as a full-time paid volunteer in an ACTION program, you must provide your lender with a statement from an authorized official of the program certifying that you've agreed to serve for a term of at least one year and giving the date on which your service began and the date on which the it is expected to end.

Tax exempt organizations

To qualify for a deferment as a full-time paid volunteer for a tax-exempt organization, you must provide your lender with a statement from an authorized official of the volunteer program certifying that you serve in a tax exempt organization, and that you've agreed to serve for a term of at least one year and giving the date on which your service began and the date on which the it is expected to end. The official will also be certifying that you—

- provide service to low-income persons and their communities to assist them in eliminating poverty and poverty-related human, social, and environmental conditions.
- don't, as a part of your duties, give religious instruction, conduct worship services, engage in religious proselytizing, or engage in fund-raising to support religious activities.
- don't receive compensation that exceeds the federal minimum wage, except that the tax-exempt organization may provide volunteers with health, retirement, and other fringe benefits that are substantially equivalent to the benefits offered to other employees of the organization.



TYPES OF FORBEARANCE

If you're financially unable to make the required payments on your loan, you can ask your lender to grant forbearance. You can ask for a forbearance over the phone—the request doesn't need to be made in writing. A lender will usually grant a forbearance that temporarily suspends your scheduled payments. Upon your request, the lender apply a forbearance to temporarily reduce the payments that were previously schedul, or to extend the time for you to make a scheduled payment.

Your lender may grant forbearance of principal, interest, or both. If forbearance is granted on interest, the interest that accrues during the forbearance will usually be capitalized and added to the loan.

Your lender can grant forbearance for up to 1 year if you agree to this in writing. Forbearance can be granted for up to 3 months for a natural disaster.

A lender can also grant forbearance for up to 60 days after your request for deferment, forbearance, change in repayment plan, or consolidation of loans, to allow for submission of supporting documentation or processing the request. Interest accruing during the 60-day period cannot be capitalized.

If two persons are jointly liable for repayment (as co-makers) of a PLUS Loan or Consolidation Loan, the lender may grant forbearance only if **both** persons meet the conditions for a forbearance.

Mandatory Forbearance

Your lender *must* grant you forbearance for both principal and interest (if requested) in the following circumstances:

- ▲ You're serving in a medical or dental internship or residency program and you're not eligible for the internship deferment formerly available in the FFEL program.
- ▲ If your monthly SFA loan payments are collectively equal to or greater than 20 percent of the your total monthly income. The lender may grant a total of three years (not necessarily continuous) of forbearance.
- ▲ If you are serving in a national service position for which you received a national service education award under Americorps (the National and Community Service Trust Act of 1993).
- ▲ If you're eligible for partial repayment of a loan under the Student Loan Repayment Programs administered by the Department of Defense.

These forbearances must be renewed every 12 months. **[Last year's text says that the forbearance for med/dental forbearance must be made in writing--is that a mistake or an exception to the general statement above, that forbearances no longer have to be requested in writing?]**

Administrative forbearance

In certain cases, the lender may apply an administrative forbearance, which doesn't require your approval. Upon notifying you, your lender may grant forbearance for circumstances such as:

- ▲ A deferment was granted but your lender later learns that you did not qualify for the deferment.
- ▲ A period during which payments were overdue before your deferment began.
- ▲ If you enter repayment and the lender doesn't find out until later, the period between the date you entered repayment until the date the first payment scheduled by the lender is due.
- ▲ A period of delinquency at the time a loan is determined to be delinquent, sold, or transferred, as long as the borrower or endorser is less than 60 days delinquent on the loan at the time of sale or transfer.
- ▲ A period necessary to determine your eligibility for bankruptcy discharge, closed school discharge, or similar discharges.
- ▲ A period of delinquency that may remain after deferment or mandatory forbearance and before the next due date is established.
- ▲ Up to three months if you've been affected by a disaster in a geographic area specifically designated by the Department as a natural disaster area. You must contact the lender to request forbearance, but you do not need to make a written request or submit documentation.

Mandatory administrative forbearance

Your lender *must* grant you an administrative forbearance if the following circumstances apply:

- ▲ You're making reduced payments because the effect of a variable interest rate change requires the extension of the maximum repayment term (under a standard or graduated repayment schedule). Up to three years must be granted.
- ▲ You're making reduced payments because an income-sensitive repayment schedule requires the extension of the maximum repayment term. Up to five years may be granted.
- ▲ The Department notifies the lender that exceptional circumstances exist (such as a local or national emergency or a military mobilization). If you are part of a military mobilization you must provide supporting documentation as proof.



REPAYING A PLUS LOAN (PARENTS)

The PLUS Loan doesn't have an interest subsidy—if you're a parent borrowing a PLUS for your son or daughter, you're responsible for paying the interest that accrues while he or she is in school, and during any periods that the lender has granted deferment or forbearance on your loan.

You have the same choice of repayment plans as a student who borrows a Stafford Loan: standard, extended, graduated, and income-sensitive.

The repayment period for a PLUS Loan begins on the date of the last loan disbursement and ends no later than 10 years after repayment begins, excluding periods of authorized deferment and forbearance. (Exception: if you choose the extended repayment plan, the maximum repayment period is 25 years.) Your first payment of principal and interest is due within 60 days after the loan is fully disbursed, unless a deferment condition applies.

The minimum repayment amount is a total of \$600 per year for all of your PLUS Loans. If you also received Stafford Loans as a student, you must pay a total of at least \$600 per year on all of your student Stafford Loans and PLUS Loans combined. The monthly payment amounts must be at least equal to the amount of interest due. Your lender may require a repayment period of less than 5 years, if necessary, to ensure that the above minimum payments are met. The lender may also round up the loan payment to ensure that the payment is a multiple of \$5.

The deferments for PLUS loans are currently the same as for a Stafford loan. You can defer payments while you're enrolled at least half time in college. You can also seek a deferment if you have been unable to find full-time employment or if you're experiencing economic hardship. (If you borrowed a federal student loan before July 1, 1993, you may be able to defer your loan while your son or daughter is enrolled at least half-time in college.)

A PLUS loan has most of the same cancellation provisions as a Stafford loan, including school closure, false certification, teacher service, some bankruptcy cases, and the death or disability of the borrower. See the fact sheets covering these cancellation conditions for more information. The major exception is that PLUS borrowers are not eligible for cancellation as child care providers.

Important note:
If the student for whom you borrowed enrolls less than half time or does not enroll at all during the period for which the loan was intended, the entire amount is immediately due to the lender. It's your responsibility to notify the lender of the date when the student for whom you borrowed ceases to be enrolled at least half time. (The school is also required to promptly notify the lender when the student drops below half-time status.)