Forbearance & Deferment

CHAPTER 5

The Federal Perkins Loan Program offers borrowers a variety of forbearance and deferment options. These options ***do not*** *allow for capitalization of interest at the end of any forbearance or deferment period.*

FORBEARANCE

Forbearance cite
34 CFR 674.33(d)

Forbearance is usually a temporary postponement of payments. The borrower may alternatively request an extension of time allowed for making payments or the acceptance of smaller payments than were previously scheduled. Unlike deferment, interest continues to accrue during any period of forbearance. The borrower may request to pay interest as it accrues during periods of forbearance, but the school *may not* require the borrower to do so.

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

Borrowers must request forbearance in writing, providing supporting documentation of the reason for forbearance. Both the borrower and the school must agree upon the terms of the forbearance.

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

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

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

Hardship

A school must grant forbearance if the total amount the borrower is obligated to pay monthly on all Federal Student Aid (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.

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

Deferment procedures cite
34 CFR 674.38(a)

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.

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. (The Department does **not** approve or supply deferment forms.) Borrowers must immediately report any change in their deferment status to lending schools.

Concurrent deferment cites
34 CFR 674.34(c)
34 CFR 674.52(d)

The borrower must request deferment *unless* the borrower is engaged in service for which a borrower may qualify for loan cancellation. (See the discussion of "Concurrent Deferment" later in this chapter.)

If a borrower is currently in deferment, the school must reaffirm continued eligibility for deferment on at least an annual basis. However, if the borrower is currently in economic hardship deferment for service in the Peace Corps, the school must grant deferment for the full term of the borrower's service, not to exceed three years or for the remaining period of economic hardship deferment eligibility, if it is less than the remaining period of service.

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

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

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

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

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

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

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

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

Graduate fellowship

A borrower may defer repayment if he or she is enrolled and in attendance as a regular student in a course of study that is part of a graduate fellowship program approved by the Department, including graduate or postgraduate fellowship-supported study (such as a Fulbright grant) outside the United States.

To receive deferment for enrollment in a graduate fellowship program, the borrower must provide certification that he or she is engaged in full-time study in an approved graduate fellowship program (or has been accepted by the program).

In-school deferment cite
34 CFR 674.34(b)(1)(i)

Enrollment verification cite
34 CFR 674.38(a)(2)

Graduate fellowship and rehabilitation training deferments cites
34 CFR 674.34(b)(1)(ii)
34 CFR 674.34(b)(1)(iii)
34 CFR 674.34(b)(1)(iv)

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).

Rehabilitation training

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

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

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

Seeking employment deferment cite
34 CFR 674.34(d)

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.

Economic hardship

Economic hardship deferment cite
34 CFR 674.34(e)

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 he or she is within any of the following categories:

1. 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. is receiving federal or state public assistance, such as Temporary Assistance to Needy Families (formerly, Aid to Families with Dependent Children), Supplemental Security Income, Food Stamps, or state general public assistance;

3. is working full time and is earning a total monthly gross income that does not exceed **$995.00** ($1244.17 for Alaska, $1145.00 for Hawaii). *(Please see boxed elements for further explanation of this figure.)

4. is not receiving total monthly gross income that is more than twice the amount in (3) above and that income minus an amount equal to the borrower's monthly payments on federal postsecondary education loans does not exceed the amount specified in (3) above;

ECONOMIC HARDSHIP DEFERMENT: DETERMINING THE MAXIMUM MONTHLY GROSS INCOME

To qualify for an economic hardship deferment, the borrower's monthly gross income must not exceed the greater of:

the monthly gross income of a minimum wage earner;

OR

the monthly gross income of a family of two at 100% of the poverty line.

Monthly Gross Income of Minimum Wage Earner

The current minimum wage is available at **http://www.dol.gov/dol/asp/public/programs/handbook/minwage.htm**.

$$\text{Monthly Gross Income} = \text{Minimum Wage X } \frac{(40\text{hrsX}(52\text{wks/yr})}{(12\text{mos/yr})}$$

As of September 1, 1997, the minimum wage is $5.15, making the current monthly gross income of a minimum wage earner **$892.66**.

Monthly Gross Income of a Family of Two at 100% of the Poverty Line

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.htm**.

$$\text{Monthly Gross Income} = \frac{\text{Annual Poverty Line (yearly)}}{12\text{mos/yr}}$$

For 2002, the monthly gross income for a family of two at the poverty line is:

All states and the District of Columbia (except Alaska and Hawaii)....$ 995.00

Alaska..$1244.17

Hawaii..$1145.00

5. is working full time and has a federal educational debt burden that is 20% or more of the borrower's total monthly gross income and the borrower's total monthly gross income minus such burden is less than 220% of the amount specified in (3) above; or

6. is serving as a volunteer in the Peace Corps.

For purposes of qualifying under option 3 or 5 of the economic hardship deferment, 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.

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

To receive an initial economic hardship deferment based on option 4 above, the borrower must submit at least the following documentation:

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

To determine the monthly amount due on federal postsecondary education loans, the school must count only the monthly amount that the borrower **would have owed** on each loan **if it had been scheduled to be repaid in 10 years** from the date the loan entered repayment; the school should disregard the actual repayment schedule or the actual monthly payment amount (if any) that the borrower would owe during the period for which the economic hardship deferment is requested.

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.

Concurrent deferment

Concurrent deferment cites
34 CFR 674.34(c)
34 CFR 674.52(d)

Schools must automatically defer loans during periods when the borrower is performing service that will qualify him or her for loan cancellation. (See chapter 6 of this volume for more information on service cancellations.) 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.

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

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

HARDSHIP DEFERMENT FOR LOANS MADE BEFORE JULY 1, 1993

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.

Hardship deferments cites
34 CFR 674.35(g)
34 CFR 674.36(e)
34 CFR 674.37(e)

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.

DEFERMENT EXCLUSIVE TO PERKINS LOANS MADE BEFORE JULY 1, 1993, AND NDSLs MADE BETWEEN OCTOBER 1, 1980 AND JULY 1, 1993

The deferments in this section are only available for Perkins Loans made before July 1, 1993, and NDSLs made between October 1, 1980 and July 1, 1993. See the subsections following this list for more details on these deferments and for information on additional deferments.

Exclusive deferments list cites
34 CFR 674.35(c)
34 CFR 674.36(c)

A borrower may defer repayment for up to three 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;
- a Peace Corps or ACTION (under Title I, Part A of the Domestic Volunteer Service Act of 1973) volunteer **or** comparable service (see below);
- a volunteer under Title I, Part A of the Domestic Volunteer Service Act of 1973 (ACTION programs);
- temporarily totally disabled or unable to work because he or she must care for a **spouse or other dependent** who is so disabled;
- **(for Perkins Loans made before July 1, 1993 only)** a working mother (up to 12 months deferment); and
- **(for Perkins Loans made before July 1, 1993 only)** a new parent (up to six (6) months deferment).

Service comparable to Peace Corps/ACTION volunteer

Peace corps/ACTION deferment cites
34 CFR 674.35(c)(5)
34 CFR 674.36(c)(4)

A borrower is considered to be providing service comparable to Peace Corps or ACTION service if he or she meets **all** of the following five criteria:

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

Temporary total disability deferment

An affidavit from a qualified physician[1] is required to prove disability. 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.

Temporary total disability deferment cites
34 CFR 674.35(c)(6)
34 CFR 674.36(c)(5)

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 two 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.

Internship deferment cites
34 CFR 674.35(d)
34 CFR 674.36(d)

1. A qualified physician is a doctor of medicine or osteopathy who is legally authorized to practice medicine.

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.

Parenting deferments

These deferments are **only available to borrowers of Perkins Loan made before July 1, 1993**.

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 going to work (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.

DEFERMENTS EXCLUSIVE TO LOANS MADE BEFORE OCTOBER 1, 1980

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.

DEFERMENT AND DEFAULT

Deferment and default cite
34 CFR 674.38(b)

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[2] the loan. The school would have to de-accelerate the loan before granting the deferment. 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.

2. 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.

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

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

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

DEFERMENT VS. IN-SCHOOL ENROLLMENT STATUS

Sometimes the borrower transfers to another school—successfully maintaining at-least-half-time enrollment and therefore maintaining in-school status—but the borrower does not notify the school that he or she has transferred until after the initial grace period expires. In this situation, the borrower often requests deferment when he or she is actually entitled to continuation of his or her in-school status.

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

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.

In-school status cite
34 CFR 674.38(c)