

Loan Forgiveness — Exceptions to the loan-repayment rule



Most borrowers of federal education loans must repay the full amount that they borrowed plus interest. Borrowers in certain occupations may qualify for loan forgiveness, however, and under certain exceptional circumstances, borrowers may qualify to have all or a portion of their loan obligation discharged.

Teacher loan forgiveness

Federal legislation signed into law on Oct. 30, 2004, made significant changes in the terms of teacher loan forgiveness for Federal Stafford-loan borrowers. The eligibility requirements for loan forgiveness now differ depending on when a borrower began teaching service that qualifies for loan forgiveness, and the maximum loan-forgiveness amount varies according to the subject matter that the borrower is employed to teach.

Who is eligible?

- ◇ You must have been a new borrower as of Oct. 1, 1998. A new borrower is one who had no outstanding loan balance on a Federal Family Education Loan Program or William D. Ford Federal Direct Loan Program loan as of that date or the date you obtained a loan after Oct. 1, 1998.
- ◇ You must have been employed as a full-time teacher for five consecutive, complete years in a qualified elementary or secondary school serving a low-income community. At least one of the five years of qualified teaching service must have been after the 1997–1998 academic year.
- ◇ The loan for which forgiveness is sought must have been made before the end of your fifth academic year of qualified teaching employment.
- ◇ If you are in default on the loans for which you seek loan forgiveness, you must have made satisfactory repayment arrangements with your loan holder.
- ◇ You may not seek loan forgiveness based on teaching service for which you already have received a benefit through the AmeriCorps program.

Additional eligibility requirements for teachers who began teaching service that qualifies for loan forgiveness prior to Oct. 30, 2004.

- ◇ If you are employed as an elementary-school teacher, you must have demonstrated knowledge and teaching skills in reading, writing, mathematics and other areas of the school's curriculum.
- ◇ If you are employed as a secondary-school teacher, you must be teaching a subject that is relevant to your academic major.
- ◇ Up to \$5,000 of the outstanding balance of a qualified Stafford loan, or the outstanding portion of a Consolidation loan used to repay qualified Stafford loans, may be forgiven.

Additional eligibility requirements for teachers who began teaching service that qualifies for loan forgiveness on or after Oct. 30, 2004.

- ◇ You must be a “highly qualified” teacher as defined in the Elementary and Secondary Act of 1965.

- ◇ Up to \$5,000 of the outstanding balance of a qualified Stafford loan, or the outstanding portion of a Consolidation loan used to repay qualified Stafford loans, may be forgiven.

Additional eligibility requirements to qualify for a maximum \$17,500 in loan forgiveness.

- ◇ You must have borrowed eligible loans prior to Oct. 1, 2005.
- ◇ You must be a “highly qualified” teacher as defined in the Elementary and Secondary Act of 1965 and employed for the required period as a full-time secondary-school teacher of mathematics or science, or as an elementary- or secondary-school special-education teacher.
- ◇ Note that if you already have received \$5,000 in teacher loan forgiveness and meet the criteria above to qualify for the maximum \$17,500 in loan forgiveness, you may apply for the additional benefit (the maximum \$17,500 less what you already have received in loan forgiveness) by submitting a new Teacher Loan Forgiveness Application.

Additional information.

- ◇ The program forgives only the eligible outstanding principal and interest of qualified federal education loans. Amounts that you previously paid will not be refunded.
- ◇ If you are engaged in qualified teaching service, you may apply to your lender or loan servicer for forbearance to suspend payments on qualified loans for up to one year at a time.

How does a teacher apply for loan forgiveness?

- ◇ You must complete a Teacher Loan Forgiveness Application and submit the application to your lender or loan servicer. The application is available from the USA Funds® Web site, www.usafunds.org. Go to the section for “Borrowers,” and select “Forms and Publications” and “Loan-Cancellation and Forgiveness Forms.”

Child-care-provider loan forgiveness

Subject to annual appropriations approved by Congress, the U.S. Department of Education will repay up to 100 percent of an eligible child-care provider’s Stafford-loan obligations.

Who is eligible?

- ◇ You must have been a new borrower as of Oct. 7, 1998. A new borrower is one who had no outstanding loan balance on a FFELP or William D. Ford Federal Direct Loan Program loan as of that date or the date the borrower obtained a loan after Oct. 7, 1998.



- ◇ You must have received an associate or bachelor's degree in early-childhood education from a higher-education institution.
- ◇ You must have worked full time (at least 30 hours per week) for at least two consecutive years at a child-care facility that provides for the education and care of children through age 5 and meets applicable state or local government licensing, certification, approval or registration requirements. At least 70 percent of the children in the community served by the facility must come from households that earn less than 85 percent of the state median household income.

How much of the outstanding loan amount can be forgiven?

- ◇ Up to 100 percent of the outstanding balance of a qualified Stafford loan may be forgiven in increments based on your term of qualified employment, according to the following schedule:
 - 20 percent after two consecutive years of qualified employment.
 - 20 percent after three consecutive years of qualified employment.
 - 30 percent after each of the fourth and fifth consecutive years of qualified employment.
- ◇ The program forgives only the eligible outstanding balances of qualified federal education loans. Amounts that you previously paid will not be refunded.

- ◇ If you are engaged in qualified child-care employment, you also may apply to your lender or loan servicer for forbearance to suspend payments on qualified education loans for up to a year at a time.

How does a child-care provider apply for loan forgiveness?

- ◇ You must file a Child Care Provider Loan Forgiveness Application. The application is available from the USA Funds Web site, www.usafunds.org. Go to the section for “Borrowers,” and select “Forms and Publications” and “Loan-Cancellation and Forgiveness Forms.”
- ◇ Loan forgiveness will be granted on a first-come, first-served basis, subject to annual federal appropriations for the program. You must re-apply each year to be considered for additional loan forgiveness.

Other loan-forgiveness opportunities

Some state governments sponsor student-loan-forgiveness programs for certain occupations or classes of borrowers. Contact your state department of education, higher-education agency or state student-loan secondary market. In addition, some employers offer loan-payment benefits to their employees. Check with your employer’s benefits department for more information.

Loan-discharge options

In rare cases, all or a portion of a Federal Stafford loan, PLUS loan or consolidation loan may be discharged, relieving you of any further obligation to pay that portion of the remaining balance. For example, your obligation to repay your loans may be discharged if you meet one of the following conditions:

- ◇ You die, or the dependent student for whom you obtained a PLUS loan dies.
- ◇ You meet or your spouse meets the criteria for total and permanent disability.
- ◇ You prove undue hardship in an adversary proceeding before a bankruptcy court.
- ◇ You are unable to complete your studies because your school closes.
- ◇ Your school falsely certified your eligibility for a loan or failed to make a refund owed to your lender.

If you believe that you qualify for one of these options, contact your lender or loan servicer for more information.

Perkins-loan cancellation and discharge

If you have Federal Perkins loans — federal student loans that are administered by a school — your loans may be discharged if you meet one of the following conditions:

- ◇ You die.
- ◇ You meet the criteria for total and permanent disability.
- ◇ You prove undue hardship in an adversary proceeding before a bankruptcy court.
- ◇ You are unable to complete your studies because your school closed.

In addition, all or a portion of your Perkins loan may be cancelled if you meet one of the following conditions:

- ◇ You're a full-time teacher in an elementary or secondary school that serves a high concentration of low-income students.
- ◇ You're a full-time special-education teacher in an elementary or secondary school.
- ◇ You're a full-time elementary or secondary teacher of mathematics, science, foreign languages, bilingual education or other field designated by your state as a teacher-shortage area.
- ◇ You're a full-time provider of early-intervention services to disabled children.
- ◇ You're a full-time law-enforcement or corrections officer.
- ◇ You're a full-time nurse or medical technician.
- ◇ You're a full-time employee of a public or private, nonprofit child or family-service agency providing services to high-risk children and their families from low-income communities.
- ◇ You're a full-time staff member in the educational component of a Head Start program.
- ◇ You've served in the U.S. Armed Forces in an area of hostilities.
- ◇ You've served as a VISTA or Peace Corps volunteer.

If you believe you meet one of these criteria, contact the school that you attended when you received your Perkins loans.

Important note: If you don't qualify for the loan-forgiveness or loan-discharge options listed above, you must repay your loans, even if you don't complete your studies, if you are dissatisfied with the quality of your education, or if you're unable to find employment after you graduate.

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