

Issue 14

Proposed Regulatory Language

Team II - School-based Loan Issues

Origin: HEOA section 465
Issue: Military Service Cancellation
Statutory Cite: HEA section 465(a) (3) (A)
Regulatory Cite: §674.59
DCL page reference: Page 136
Status: Tentative agreement reached

Regulatory language:

Sec. 674.59 Cancellation for military service.

(a) *Cancellation on a Defense loan.* (1) An institution **must** cancel up to 50 percent 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. Army, Navy, Air Force, Marine Corps, or Coast Guard.

(2) The cancellation rate is 12 1/2 percent of the original loan principal, plus the interest on the unpaid balance accruing during the year of qualifying service, for the first complete year of qualifying service, and for each consecutive year of qualifying service.

(3) Service for less than a complete year, including any fraction of a year beyond a complete year of service, does not qualify for military cancellation.

(b) Cancellation of an NDSL or Perkins loan. (1) An institution **must** cancel up to 50 percent of **the outstanding balance on** an NDSL or Perkins loan **for active duty service that ended before August 14, 2008,** as a member of the U.S. Army, Navy, Air Force, Marine Corps, or Coast Guard in an area of hostilities that qualifies for special pay under section 310 of title 37 of the United States Code.

(2) The cancellation rate is 12 1/2 percent 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.

(c) (1) An institution must cancel up to 100 percent of the outstanding balance on a borrower's Federal Perkins or NDSL loan for a borrower's full year of active duty service that includes August 14, 2008, or begins on or after that date, as a member of the U.S. Army, Navy, Air Force, Marine Corps, or Coast Guard in an area of hostilities that qualifies for special pay under section 310 of title 37 of the United States Code.

(2) The cancellation rate is 15 percent for the first and second year of qualifying service, 20 percent for the third and fourth year of qualifying service, and 30 percent for the fifth year of qualifying service.

(~~3~~d) Service for less than a complete year, including any fraction of a year beyond a complete year of service, does not qualify for military cancellation.

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Amendatory Language

Team II - School-based Loan Issues

x. Section 674.59 is amended by:

A. In paragraph (a) (1), removing the word "shall" and adding, in its place, the word "must".

B. Revising paragraph (b) (1).

C. Adding new paragraph (c).

D. Redesignating paragraph (b) (3) as paragraph (d).

E. Revising the authority citation that appears at the end of the section.

The addition and revisions read as follows:

§674.59 Military Service Cancellation.

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(b) Cancellation of an NDSL or Perkins loan. (1) An institution must cancel up to 50 percent of the outstanding balance on an NDSL or Perkins loan for active duty service that ended before August 14, 2008, as a member of the U.S. Army, Navy, Air Force, Marine Corps, or Coast Guard in an area of hostilities that qualifies for special pay under section 310 of title 37 of the United States Code.

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(c) (1) An institution must cancel up to 100 percent of the outstanding balance on a borrower's Federal Perkins or NDSL loan for a borrower's full year of active duty service that includes August 14, 2008, or begins on or after that date, as a member of the U.S. Army, Navy, Air Force, Marine Corps, or Coast Guard in an area of hostilities that qualifies for special pay under section 310 of title 37 of the United States Code.

(2) The cancellation rate is 15 percent for the first and second year of qualifying service, 20 percent for the third and fourth year of qualifying service, and 30 percent for the fifth year of qualifying service.

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