

**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

**Summary of Issue:** The HEOA eliminates the 50 percent limitation on military service cancellations. Borrowers who are serving in areas of hostility may now receive military service cancellations of up to 100 percent of the loan in increments of 15 percent for the first and second years of service; 20 percent for the third and fourth years of service; and 30 percent for the fifth year of service. The cancellation provision applies to NDSL and Perkins Loans and the effective date is August 14, 2008.

**Regulatory language:**

**Sec. 674.59 Cancellation for military service.**

(a) *Cancellation on a Defense loan.* (1) An institution shall 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 shall cancel up to 50 percent of **the outstanding balance of** 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 shall cancel up to 100 percent of the outstanding balance of 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.

(3d) 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.