

# Peace Corps and Repayment of Your Federal Student Loans

## 1. I want to serve in the Peace Corps, but I'm concerned about how I will repay my federal student loans. Can I still join?

If you are serving in the Peace Corps, you have a number of options to help manage the repayment of your federal student loans. You may be eligible to defer repaying them for the duration of your service or enter an income-driven repayment plan, described under question 3 below. Also, your service in the Peace Corps may count toward your eligibility for Public Service Loan Forgiveness (PSLF), but you must plan ahead. Only loans received under the William D. Ford Federal Direct Loan (Direct Loan) Program are eligible for PSLF. Other federal student loans may become eligible for PSLF if you consolidate them into a Direct Consolidation Loan. See question 5 below for more information on loan eligibility.

**Note:** These options do not apply to private education loans. Separate arrangements must be made regarding repayment of those loans. If you're not sure what kind of loans you have, visit the U.S. Department of Education's (ED's) National Student Loan Data System (NSLDS®) at [www.nsls.ed.gov](http://www.nsls.ed.gov), which contains data and other information about federal student loans.

## 2. What is Public Service Loan Forgiveness (PSLF)?

PSLF is intended to encourage individuals to enter and to continue to work full-time in public service employment. Under the PSLF program, you may qualify for forgiveness of the remaining balance of your Direct Loans after you've made 120 qualifying payments (i.e., 10 years' worth of payments) on those loans while employed full-time by certain types of public service employers. Serving in the Peace Corps is considered qualifying employment for the PSLF Program. You do not need to make consecutive payments on your loans to qualify for PSLF, so if you leave your PSLF-qualifying employment but eventually return to public service, your prior qualifying payments continue to count toward the 120 monthly payment total. For more information about what payments qualify for PSLF visit [StudentAid.gov/publicservice](http://StudentAid.gov/publicservice).

## 3. How can I use my Peace Corps service to qualify for loan forgiveness?

If you serve full-time in the Peace Corps, you can qualify for PSLF in two ways:

*First*, you can make qualifying payments under a qualifying repayment plan just like any other Direct Loan borrower seeking PSLF. You would make payments on your Direct Loan for the full duration of your service. Also, to increase the likelihood that you will qualify for loan forgiveness, you should repay your loan under the Pay As You Earn (PAYE), Income-Based Repayment (IBR), or Income-Contingent Repayment (ICR) plans (the "income-driven repayment plans") because these plans are most likely to result in an outstanding balance after you make 120 qualifying payments.

Payments under income-driven repayment plans are based on your annual income, family size, and the amount of your eligible loans. You must submit annual verification of your income and family size to remain eligible under these plans. Note that as those who serve in the Peace Corps do not make significant income, payments under the income-driven plans can be as low as zero dollars per month. Any month your scheduled payment is zero dollars under an income-driven repayment plan, it still counts as a qualifying payment for PSLF. If your scheduled payment is greater than zero dollars per month under the same type of plan, you must make that full payment, and it must be made on time for it to qualify for PSLF.

*Second*, you can apply for an economic hardship deferment for the period of your Peace Corps service and then use the transition payment you receive after completing your service to make a lump-sum payment on your Direct Loan. The lump-sum payment, if made within six months of receiving your transition payment, will result in up to 12 qualifying payments for PSLF. The number of qualifying payments you make is determined by dividing the amount of your lump-sum payment by the amount of your scheduled monthly payment at the time you entered Peace Corps service, but you may not make more than 12 monthly payments toward the PSLF payment requirement. For example, if, when you entered the Peace Corps, you were required to make a monthly payment of \$400 and you requested the economic hardship deferment, you could make a lump-sum payment of \$4,800 from your transition payment and thus be credited for the maximum of 12 qualifying monthly payments toward PSLF forgiveness. If you serve in the Peace Corps for less than 12 months, you can make only the number of payments equal to the number of months you served. For example, a borrower who serves for six months can use the lump sum to make a maximum of six qualifying payments regardless of the amount of the lump-sum payment.

For most borrowers serving in the Peace Corps, declining the deferment and continuing to make monthly payments under an income-driven repayment plan will result in more PSLF-qualifying payments at a significantly lower cost to the borrower than using the transition payment.

#### 4. I am interested in an income-driven repayment plan to make qualifying PSLF payments during my Peace Corps service. Are there other considerations when repaying under these plans?

Yes. Repaying under an income-driven repayment plan will extend your overall repayment period if you decide later not to pursue or are not eligible for PSLF and will result in increased interest charges. In addition, although any outstanding balance left after 20 or 25 years of repayment under an income-driven repayment plan is forgiven, this amount is considered taxable income for the borrower by the Internal Revenue Service, whereas amounts forgiven under PSLF are not considered taxable income.

#### 5. What loans are eligible for PSLF? Is there any way to qualify for PSLF if I have loans through the Federal Family Education Loan (FFEL) Program or Federal Perkins Loan Program?

Only loans you have received under the Direct Loan Program are eligible for PSLF. Loans you received under the FFEL Program, the Perkins Loan Program, or any other federal student loan program are not directly eligible for PSLF. If you have FFEL loans, you may consolidate them into a Direct Consolidation Loan to take advantage of PSLF. You'll want to keep in mind that only the qualifying payments you make on the new Direct Consolidation Loan while working in qualifying public service will count toward the required 120 qualifying payments for PSLF. Payments made on your FFEL loans before you consolidated them, even if they were made during qualifying service, do not count as qualifying PSLF payments.

In addition, any payments that you made on a Direct Loan that qualified towards PSLF will no longer count if you consolidate that loan into a Direct Consolidation Loan. In other words, consolidating a loan means you reset the number of qualifying payments you have made to zero, and you will need to make 120 new payments to qualify for PSLF. It is also important to note that to qualify to repay under the IBR or PAYE plans, you must not include any PLUS loans made to parents in your Direct Consolidation Loan. If you are not sure what kinds of loans you have, contact your loan servicer or check NSLDS.

As with FFEL loans, you may consolidate a Perkins Loan into a Direct Consolidation Loan. Before doing so, you should check with the school where you received your Perkins Loan or with your loan servicer to determine whether or not you qualify for loan cancellation under the Perkins Loan Program. Perkins loan borrowers may receive loan cancellation for eligible service in a variety of public service positions, including service in the Peace Corps. A Perkins borrower may receive partial cancellation of interest and principal for each 12-month period of Peace Corps service for up to four years. **Note:** If a Perkins Loan is consolidated into a Direct Consolidation Loan, it will no longer qualify for a Peace Corps service loan cancellation.

#### 6. What should I do if I've consolidated a PLUS loan (made to parents) with other federal student loans in a Direct Consolidation Loan?

The IBR and PAYE plans are not available to borrowers of PLUS Loans made to parents or Direct Consolidation Loans that repaid a PLUS Loan made to parents. However, a Direct Consolidation Loan that repaid PLUS Loans made to parents may be repaid under the ICR Plan, which is also a PSLF-eligible repayment plan.

#### 7. I think I will qualify for loan forgiveness under PSLF. How can I keep track of my eligibility?

It will take at least 10 years for you to make the 120 payments necessary to qualify for PSLF. To assist you in tracking your periods of qualifying employment and payments, the Department of Education has created the Employment Certification for Public Service Loan Forgiveness form (Employment Certification form) for you to complete and submit. For more information on this process, visit [StudentAid.gov/publicservice](https://studentaid.gov/publicservice) or FedLoan Servicing at [www.myfedloan.org](http://www.myfedloan.org).

#### 8. I think I will qualify for loan forgiveness under PSLF. What steps should I follow?

First, check NSLDS to verify that your loans are Direct Loans. Any Direct Loan will have "Direct" in the loan type name. If after checking NSLDS, you are still not sure your federal student loans are Direct Loans, contact the loan servicer (also listed in NSLDS). If you have FFEL Program loans or Perkins Loans, consider consolidating them (keeping in mind the special circumstances surrounding Perkins Loans discussed in question 5). Apply for a Direct Consolidation Loan at [StudentLoans.gov](https://studentloans.gov).

Next, decide which method you will use to make your qualifying payments. If you are going to enter an income-driven repayment plan, first check that you will be able to afford any payment you must make under those plans. Use the Repayment Estimator at [StudentAid.gov/repayment-estimator](https://studentaid.gov/repayment-estimator) to determine which of these plans may be right for you. If you decide to use an income-driven repayment plan, apply online for that plan at [StudentLoans.gov](https://studentloans.gov). If you decide to request a deferment of your federal student loans, contact your loan servicer or visit its website to download and complete the Economic Hardship Deferment form.

After you've served in the Peace Corps for a year or when you have finished your service, complete the Employment Certification form for PSLF at [StudentAid.gov/publicservice](https://studentaid.gov/publicservice). This will allow you to confirm that your employment and payments qualify for PSLF.

If you use your Peace Corps transition payment to make PSLF-qualifying payments, tell your loan servicer that your payment is not intended to cover future installments, or it may affect your ability to make qualifying payments in the future. Continue making monthly payments on your loan. You may submit the Employment Certification form either before or after making the lump sum payment. When you submit the form, it may help to include a record of the date and amount of your transition payment, the date and amount of your PSLF-qualifying lump sum payment, and a statement that you served in the Peace Corps and intend for your lump sum payment to count toward PSLF. After you complete this process, FedLoan Servicing at [www.myfedloan.org](http://www.myfedloan.org) will send you notification that provides the number of qualifying payments you've made.

## 9. What if I do not plan to pursue public service or PSLF? How should I handle my federal student loans while serving in Peace Corps?

How you handle your federal student loan payments during your Peace Corps service depends on your personal circumstances and the amount of your loan. For example, if you have significant personal savings and a small loan balance, it may make financial sense for you to make larger payments under a plan, such as the 10-year Standard Repayment Plan, during your Peace Corps service. Making smaller, income-driven payments during your Peace Corps service may result in a larger loan balance that will either need to be repaid or forgiven. If you have a higher loan balance and you are concerned about affording repayment during your service, an income-driven repayment plan or a deferment may be advisable even if you do not plan to pursue PSLF.

In all cases, stay current on your student loan payments during your service. If you do not enroll in an income-driven repayment plan or request an economic hardship deferment and fail to make payments, you may default on your student loans. A default on your loan would have significant consequences, including fees and penalties that will increase your student loan balance and result in negative reports on your credit history. If you do not believe you can afford your regular monthly payments during Peace Corps service, entering an income-driven repayment plan may result in a monthly payment of zero dollars that would avoid a default. The examples at the end of this document show different borrower repayment scenarios that may inform your decision-making.

## 10. Where can I find more information about PSLF?

Visit [StudentAid.gov/publicservice](http://StudentAid.gov/publicservice).

### Borrower Repayment Scenarios

These scenarios provide simplified illustrations of different borrower circumstances. Please contact your loan servicer to determine which repayment plan is best for you. You must make separate arrangements to repay private student loans. Both scenarios assume a service term of 27 months and reflect federal student loans with an interest rate of 6.8 percent.<sup>1</sup>

**Scenario 1:** John is married and files a separate tax return from his spouse, has \$25,000 in Direct Unsubsidized Loans, and makes \$5,000 per year in the Peace Corps. Upon completing his service he plans to be a public school teacher and make about \$35,000 per year. He is unsure if he will apply for PSLF. Therefore, the table below also shows how deferring payments and making a lump sum 12-month payment toward PSLF service would impact repayment amounts for each option.

Borrower Options for Managing Repayment	Peace Corps Monthly Payment	Employment Monthly Payment	PSLF Amount Forgiven	Total Repaid (over period that would qualify John for PSLF)
PAYE	\$0	\$84 - \$153	\$32,169	\$9,832
IBR	\$0	\$126 - \$230	\$27,253	\$14,747
ICR	\$0	\$233	\$23,828	\$19,224
Deferment → 10-year standard repayment	\$0 (\$3,456 lump sum)	\$332	\$0	\$39,282
10-year Standard Repayment	\$288	\$288	\$0	\$34,524

If John makes a lump-sum post-deferment payment and does not choose a repayment plan before deferring his loans, his payments would be calculated using the 10-year Repayment Plan. This means he will pay \$3,456 to make 12 qualifying payments toward PSLF.

<sup>1</sup> For the estimates of the income-driven repayment plans, both scenarios assume that income after the borrowers are employed increases at a rate of 5 percent per year and use the 2014 Poverty Guidelines and Income Percentage Factors. Both are adjusted for inflation based on estimates from the Congressional Budget Office.

This scenario shows that even if John is unsure of his plans to pursue PSLF, if he cannot afford his monthly payments during his Peace Corps service, it still may be a better decision financially to enroll in an income-driven repayment plan instead of deferring his loan payments.

**Scenario 2:** Jeff is single, has \$20,000 in Direct Unsubsidized Loans, and makes \$2,000 per year in the Peace Corps. Upon completing his service he plans to work for a private for-profit company, where he expects to make about \$110,000 per year. He does not plan to apply for PSLF because his employment does not qualify.

<b>Borrower Options for Managing Repayment</b>	<b>Peace Corps Monthly Payment</b>	<b>Employment Monthly Payment</b>	<b>PSLF Amount Forgiven</b>	<b>Total Repaid (over full repayment period)</b>
<b>PAYE</b>	\$0	\$230	n/a	\$36,601
<b>IBR</b>	\$0	\$230	n/a	\$36,314
<b>ICR</b>	\$0	\$296 - \$310	n/a	\$32,569
<b>Deferment</b>	\$0	\$265	n/a	\$31,845
<b>10-year Standard Repayment</b>	\$230	\$230	n/a	\$27,619

This scenario shows that, if Jeff can afford to make payments during his Peace Corps service, he will pay a lower total amount over the life of his loans than if he were to defer them. But, if Jeff cannot afford to make payments during his Peace Corps service, an income-driven plan may be preferable to a deferment because it will result in lower monthly payments. However, it will also result in a higher total amount repaid.