

Helping Students Deal with Default

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Student's Can Prevent Default By--

- ★ Choosing the right repayment plan
- ★ Changing repayment plans
- ★ Using Deferment options
- ★ Using Forbearance options

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Repayment plans

FFEL & Direct Loan

- ★ Standard
- ★ Extended
- ★ Graduated
- ★ Income-sensitive (FFEL) or
Income contingent (Direct Loans)
- ★ Changing repayment plans



Repayment plans

Perkins Loan

- ★ May require minimum monthly Repayment - maximum 10-year repayment
- ★ Flexibility in reducing scheduled repayment amounts
- ★ Flexibility to extend repayment period for illness or unemployment

Types of Deferments

All Title IV Loan Programs:

- ★ Student or in-school,
- ★ Graduate fellowship,
- ★ Rehabilitation Training Program,
- ★ Unemployment,
- ★ Economic Hardship

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Types of Deferments

FFEL / Direct Loans

- ★ OTHER DEFERMENT TYPES if student was a first-time borrower before July 1, 1993

Perkins

- ★ OTHER DEFERMENT TYPES if student's loan was made before July 1, 1993

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Forbearance

All Title IV Loan Programs:

- ★ Temporary cessation of payments
- ★ Extension of Time for making payments
- ★ Temporarily making smaller payments

Types of Forbearances

FFEL / Direct Loans

- ★ Optional (FFEL) - willing but unable to pay due to poor health or other acceptable reasons
- ★ General (Direct Loans) same as “optional” in FFEL

Types of Forbearance

FFEL / Direct Loans (cont'd)

★ Mandatory Forbearance

- MEDICAL OR DENTAL interns/residents
- Borrower's with title IV loan payments \geq 20% of borrower's monthly income
- NATIONAL SERVICE



Types of Forbearance

FFEL / Direct Loans (cont'd)

★ Eligible Borrower's for:

- DOD Loan Repayment Program
- Teacher Loan Forgiveness Program

★ NATIONAL MILITARY MOBILIZATION

Forbearance

FFEL / Direct Loans (cont'd)

- ★ Interval not to exceed 12 months
- ★ Requires request/documentation and written agreement



Types of Forbearance

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- ★ Borrower's with title IV loan payments \geq 20% of borrower's monthly gross income
- ★ Poor health or other acceptable reasons
- ★ National Military Mobilization



Types of Forbearance

Perkins (cont'd)

- ★ Intervals of up to 12 months for total no greater than 3 years
- ★ Requires written request/documentation and written agreement



Taking care of the default and regaining title IV eligibility

Students can resolve their default and regain title IV eligibility through--

- ★ Satisfactory Repayment Arrangements, or
- ★ Loan Consolidation
- ★ Loan Rehabilitation



Satisfactory Repayment Arrangements

FFEL / Direct Loans

Satisfactory repayment arrangements are--

- ★ to regain title IV eligibility, making 6 consecutive, on-time, voluntary, full monthly payments. By law, a student can only do this once.
- ★ For purposes of loan consolidation, making 3 consecutive, on-time, voluntary, full monthly payments

In either case, the monthly payments should be reasonable and affordable based on borrower's financial circumstances.

Satisfactory Repayment Arrangements

Perkins Loan Program

- ★ Satisfactory repayment arrangement is 6 consecutive, on-time, monthly payments on a defaulted loan. A student can only do this once.

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Consolidation

To consolidate a defaulted loan, a student may--

- ★ Make satisfactory repayment arrangements (all title IV Loan Programs), or
- ★ Agree to repay the consolidation loan under the ICR Plan. (Direct Loans only)



Consolidation

FFEL / Direct Loans

- ★ Pays off loans being consolidated
FFEL only: A consolidating lender is a current loan holder unless the borrower has multiple loans.
- ★ Eligible loans include all title IV loans and Health Professions Loans

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Consolidation

FFEL

- ★ Satisfactory arrangements required on defaulted loans
- ★ Applicant must be in grace or repayment
Exception: Direct Loan borrowers can be in-school
- ★ Interest rate is weighted average of loans being consolidated



Consolidation

Direct Loan/ FFEL

- ★ Provides for extended repayment and reduced payment amounts
- ★ Defaulted Loans Consolidated:
 - Reported as paid-in-full to Credit Bureaus
 - Borrower regains title IV eligibility
- ★ Perkins not recommended for consolidation



Rehabilitation

Direct Loan / FFEL

- ★ To rehabilitate a loan, a defaulted borrower must make 12 consecutive on-time, reasonable, and affordable, voluntary, full monthly payments.
- ★ FFEL only - Loan is not rehabilitated until it is repurchased by an eligible lender
- ★ Borrower regains all benefits of normal repayment.
- ★ New maximum repayment period is established beginning with the first of the 12 payments.



Rehabilitation

Direct Loan / FFEL

- ★ Borrower regains title IV eligibility.
- ★ Record of default is removed from borrower's credit report
- ★ Up to 18.5 percent of the default-related collections costs included in the rehabilitated loan amount.

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Rehabilitation

Perkins

- ★ To rehabilitate a defaulted borrower must make 12 consecutive, on-time, full monthly payments as determined by the school.
- ★ Borrower must request rehabilitation.
- ★ Borrower regains all benefits of normal repayment



Rehabilitation

Perkins (cont'd)

- ★ New maximum repayment period up to 10 years established beginning with the first of the 12 payments
- ★ Borrower regains all title IV eligibility
- ★ School must request the credit bureau to remove the default from the borrower's credit history



Rehabilitation

Perkins

- ★ Collection costs related to the default are capped at 24 percent.
- ★ Borrower may rehabilitate a loan one time only
- ★ School must notify borrower of option and the consequences of rehabilitation.

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ED Resources

★ Ombudsman

1-877-557-2575 (toll free)

www.sfahelp.ed.gov



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The logo features the text 'NASFAA national conference 2000' in a bold, sans-serif font. Below it, 'Washington, DC - July 9-12' is written in a smaller font. A large, faint map of the United States is visible in the background, with a red arc and three stars overlaid on it.

