



The Student Loan Borrower Assistance Project (SLBA) is a program of the [National Consumer Law Center](#) (NCLC).

POLICY BRIEF

Relief for Financially Distressed Government Student Loan Borrowers: Provide Full Rehabilitation Relief

Background

Borrowers in default on federal student loans can either consolidate or rehabilitate to repay their way out of default. Rehabilitation is often touted as a better solution, but this is not necessarily true. Numerous barriers in the current program prevent many borrowers from accessing the rehabilitation program and getting relief. The recommendations below will help restore the full promise of loan rehabilitation for vulnerable borrowers. This is critically needed to give these borrowers another chance to make affordable payments and in many cases go back to school.

Recommended Actions

1. Eliminate the One-time Limit on Loan Rehabilitation

The HEOA included a new one-time limit on loan rehabilitation. (20 U.S.C. §1078-6). As a result, borrowers who are desperately trying to get back into repayment are often left with no options.

2. Freeze Eligibility For Borrowers Stuck in the “Credit Crisis” Logjam

The HEA provides that federally guaranteed loans must be sold after rehabilitation if this is practicable. The Department of Education interprets this as a resale requirement. Since the economic crisis began, many borrowers have been stuck even after they completed their required rehabilitation payments simply because their guaranty agencies could not find buyers for the loans. Some borrowers made the required payments, but later missed a payment or two while waiting for the agency to find a loan buyer. These borrowers should still be eligible for loan rehabilitation.

3. Provide Full Credit Reporting Benefits

Guaranty agencies that cannot find buyers for rehabilitated loans in the current economic climate often counsel borrowers to consolidate with Direct loans. These borrowers should still be eligible for the rehabilitation “credit cleaning” benefit. This can be accomplished by allowing the guaranty agencies to clean up the borrower’s credit after the borrower has made the required payments, but prior to sale of the loan.

In addition, lenders and agencies should be given the discretion to erase all negative history in the borrower’s credit report, not just the default notation.

4. Eliminate the 45% “Excess Consolidation Proceeds” Standard

The HEA (20 U.S.C. §1078(c)(6)(C)) requires guaranty agencies to remit the entire amount of the collection costs charged borrowers when a defaulted loan is paid off with excess consolidation proceeds. Excess proceeds are defined as the proceeds of consolidation loans received to pay defaulted loans that exceed 45% of the agency’s total collections in that year.

This standard was created to prevent agencies from pressuring borrowers into consolidation. However, times have changed and the policy now harms borrowers by discouraging agencies from counseling borrowers about consolidation. As a result, many borrowers remain stuck in the rehabilitation pipeline even though they could get similar relief through consolidation.

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