



FAQs About Federal Student Loan Rehabilitation

March 2009

1. Is it true that guaranty agencies are having trouble finding buyers for rehabilitated loans?

Yes, but a new [law](#) will provide relief.

2. I heard that the government is buying other student loans, why can't they buy these too?

The government says that it only has the authority to buy newer loans. The new [law](#) fixes this problem.

3. Does there really have to be a sale of my loan in order to complete rehabilitation?

The law says that federally guaranteed loans must be sold after rehabilitation if this is practicable. Since it is not currently practicable to sell these loans, we believe that a sale should not be required. The government does not agree with this interpretation.

4. Am I still in default if I have made the required rehabilitation payments, but the agency cannot sell my loans?

Based on the way the current program works, yes.

5. Does this mean that the loan holder can try to collect from me?

Yes.

6. Is there anything that can be done to prevent collection until a buyer is found?

Yes. You should keep making your payments and also ask the agency to cease all collection activities. You may still get a monthly statement, but this should be only to remind you to make your required monthly payment. [The National Council of Higher Education Loan Programs](#) stated in March 2009 that guaranty agencies will not offset state tax rebates of all borrowers who have made the required nine rehabilitation payments and continue to make timely payments. You should not be subject to federal offsets either. Please [tell us about your situation](#) if you have made the required rehabilitation payments and are still being offset, garnished, or facing other collection actions.

7. Do I have any other options to get out of default?

Yes, the other way to get out of default through repayment is [consolidation](#).

8. Are there benefits to rehabilitation that I can't get by consolidating?

Yes. The main benefit is that once you rehabilitate your loans, the default notation on your [credit report](#), should be erased. If you consolidate, the credit report will note that you had a defaulted loan for a period of time, but that the defaulted loan was paid in full. The report will show a positive balance going forward as long as you make your payments on the new consolidation loan.

9. Are there benefits to consolidation that I can't get by rehabilitating?

Yes. If you consolidate with Direct Loans, you have access to the [income contingent repayment plan](#) and [income-based repayment plan](#) once new rules go into effect. You can select this plan and your payment amount will be determined through a standard formula. In contrast, with rehabilitation, there is no formula for determining your reasonable and affordable repayment amount. Collectors often claim wrongly that you have to pay higher amounts that are not reasonable and affordable for you. Consolidation also allows you to combine all of your loans rather than deal with each loan individually.

Another benefit is that you can get out of default as soon as the loan is consolidated as opposed to making nine payments in a ten month period in order to rehabilitate. Finally, you do not have to worry about whether there is a buyer for your loan if you consolidate.

10. How can I decide between these options?

You should carefully weigh the pros and cons. You should not feel pressured to choose a particular option. It is your decision and you know best which factors are most important to you. Whichever option you choose, you want to make sure that the payments are affordable so that you don't end up back in default again.