



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

Congress and the Administration have come a long way in recent years to improve the rehabilitation program for borrowers, including regulations requiring the use of the income-based repayment formula to determine reasonable and affordable payments and allowing FFEL loan holders to assign rehabilitated loans to the Department if sales are not practicable. The additional 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

There is a one-time limit on loans rehabilitated on or after August 14, 2008. As a result, borrowers who are desperately trying to get back into repayment are often left with no options.

2. Ensure that Collectors are Counseling Borrowers on the Full Range of Options to Get Out of Default.

3. Provide Full Credit Reporting Benefits

Lenders should be given the discretion to erase all negative history in the borrower's credit report, not just the default notation. This is a much more complete "credit cleaning" benefit.

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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