Rehabilitation

You can renew eligibility for new loans and grants and eliminate the loan default by "rehabilitating" a defaulted loan. To qualify for FFEL or Direct Loan rehabilitation, you have to make nine monthly payments within 20 days of the due date during a period of 10 consecutive months. The 9 out of 10 rule basically allows you to miss your payment one month, but still be eligible to rehabilitate. The Perkins program has separate rules. To rehabilitate a Perkins loan, you must make nine payments in a nine month period.

An interruption in this consecutive period is allowed for qualifying military service members or affected civilians. These borrowers may resume their rehabilitation payments after their service is completed. See the special programs for military section of this site for information about other options for military service members and certain civilians affected by war or national emergencies.

If you are rehabilitating a FFEL loan, the guarantor must attempt to find a lender to purchase the loan after you have made the required payments. There is no resale requirement for Direct Loans. Once rehabilitation is complete, the loan is removed from default status and you are eligible for new loans and grants. The default notation should be removed from your credit record. In most cases, however, the other negative history will remain until it gets too old to report.

You can regain eligibility for federal assistance before you complete the rehabilitation as long as you make six monthly reasonable and affordable payments. However, you will need to complete the rehabilitation to get out of default.

Lenders will generally add collection costs to the new loan balance, but as of July 1, 2014, this should be no more than 16% of the unpaid principal and accrued interest at the time of the sale of the loan. The Department of Education says that it does not charge these fees to borrowers rehabilitating Direct Loans, but they can change this policy at their discretion. It is a good idea to ask about whether the government is going to add collection fees to your balance after rehabilitation.

You are entitled to get out of default through rehabilitation only once per loan. If you rehabilitated before August 14, 2008 and go back into default on that loan, you can still rehabilitate again. However, this new rehabilitation will be subject to the one-time limit.

How to Rehabilitate Your Loans

You will need to request rehabilitation from your loan holder. You may be dealing with a collection agency. Within 15 business days of the determination of the loan rehabilitation payment amount, the loan holder must give you a written rehabilitation agreement which includes the reasonable and affordable payment amount, a prominent statement that you may object orally or in writing to the reasonable and affordable payment amount with the method and time frame for raising an objection, a statement that the rehabilitation is null and void if you do not provide the documentation required to calculate the reasonable and affordable payment amount, and an explanation of any other terms and conditions. To accept the agreement, you must sign and return the agreement or accept the agreement electronically. Be sure and read everything before signing.

In the past, it was very common for collectors to tell you that you had to pay an unaffordable afford. This was wrong then and is still wrong. The law says that you only have to pay what is reasonable and affordable. There is no minimum amount that the loan holder must charge. To help protect borrowers, the new regulations effective July 1, 2014 create a a system to help ensure that borrowers are paying only what is "reasonable and affordable" for them.

Beginning July 1, 2014, here is how the system works: The loan holder should discuss your options, including the pros and cons of loan rehabilitation and loan consolidation. If you decide on rehabilitation, the loan holder should start out with the amount you would pay under the IBR formula. This is the IBR formula for older loans, based on the borrower making student loan payments of 15% of disposable income. This does not mean that you are eligible for IBR while you are still in default. Instead, the loan holder will use the 15% IBR formula to determine a reasonable and affordable payment amount. If you successfully rehabilitate the loan, you can then request an income-driven repayment plan. The loan holder will ask for your adjusted gross income (AGI) to figure out your 15% IBR payment. If you do not file taxes or if your most recent tax return is no longer accurate, you will need to submit alternative documentation of information on this form.

If you object to the 15% IBR amount, you can negotiate a different payment, but you must use a standard form to provide additional income and expense information. The loan holder can ask you to provide documentation of income and expenses.

Understanding the Rehabilitation System as of July 1, 2014

1. Unless you object, the loan holder will use the 15% IBR formula to determine your reasonable and affordable payment amount. This does not mean that you are eligible for IBR. You may be able to get into the IBR program, but only after you complete the rehabilitation program.
2. You can object to the IBR payment and request a lower amount based on your financial circumstances. If you take this route, be advised that your payment will likely increase after the rehabilitation period. At that point, you can request deferment if you qualify or forbearance if you cannot afford the regular IBR payments, but these are time limited options. You should think carefully about whether it is a good time to rehabilitate if you don't think you will be able to afford the IBR payments.
3. The loan holder will make an initial estimate of your reasonable and affordable payment based on the information you give them about your income. You will likely have to follow up and provide documentation of your income in order to get the rehabilitation started.
4. The loan holder may tell you that you have to make a "good faith" payment while they are waiting for you to submit documentation of your income. This is your choice. You do not have to make this payment. However, you may want to do this so that you can get started with the nine month rehabilitation period. Be advised that these payments will count toward the nine months only as long as the final rehabilitation payment amount is not higher than the amount you are paying as a "good faith" payment.
5. If you are having your wages garnished, you have a one time right to have the garnishment suspended if you make five required rehabilitation payments. The rehabilitation payments are in addition to the amounts being garnished. You should list the garnishment amount if you are using the financial disclosure form (see above) to determine the "reasonable and affordable" rehabilitation payment. Clearly the money garnished from your pay has a big impact on your budget!
6. You may successfully make it through the rehabilitation process only to find that the loan holder has put you in a standard repayment plan with payments that you cannot afford. You should carefully track when the rehabilitation period is over. Once you have rehabilitated, your loan is out of default and you are eligible for any of the pre-default flexible repayment plans. Arrange for an affordable repayment plan with your lender so that the transition out of rehabilitation is as smooth as possible. Income-based repayment is available in both the FFEL and Direct loan programs.
7. There will usually be a new servicer after your rehabilitated loan is sold or transferred. It is a good idea to ask your current loan holder to give you the name of the new servicer as soon as possible so that you can arrange for an affordable payment plan.
8. Your FFEL lender may be unable to sell the loan after rehabilitation. You are required to keep making payments until a buyer is found. One way to deal with this problem is to consolidate with the Direct Loan program. If the lender cannot find a buyer, it is supposed to assign the rehabilitated loan to the Department.

REHABILITATION TIPS AND FAQs

Q: Can my loan holder charge collection costs after I rehabilitate my loans?

> *A: Yes, but as of July 1, 2014, no more than 16% of the unpaid principal and accrued interest at the time of the sale of the loan.*

Q: Can my loan holder continue to collect even after I have signed a rehabilitation agreement?

> *A: Yes, but only very limited contacts. Collection during the rehabilitation period is limited to collection activities that are required by law and to any communications that support the rehabilitation (for example, monthly statements with the amount your rehabilitation payment listed).*

Q: Do I have the right to rehabilitate defaulted private loans?

> *A: Only if your private lender has a rehabilitation program. Most do not.*

Q: What if my lender won't agree to a rehabilitation payment amount that I find reasonable and affordable?

> *A: In the past, loan holders have commonly told borrowers that minimum payments are required so that they can sell your loan at the end of the rehabilitation period. Private collectors almost always said this because they were paid a higher commission if they set up rehabilitation plans where borrowers paid certain minimum amounts. Despite these statements, borrowers have always been eligible to make reasonable and affordable payments. The July 2014 rules described above reinforce this requirement and set up a system where the collector must offer you a reasonable and affordable payment tied to the 15% IBR formula. The best way to deal with a collector insisting that you pay a higher amount or that you have to make a down payment is to tell the collector that you are aware of your right to a reasonable and affordable payment plan and to keep pushing until they give it to you. If you still don't get anywhere, you should try contacting the Department of Education ombudsman office or one of the guaranty agency ombudsman offices. You should also consider filing a complaint. If you still can't get anywhere, you might consider contacting a lawyer.*

Federal Student Aid

Public Service Loan Forgiveness Program

What is the Public Service Loan Forgiveness (PSLF) Program?

The PSLF Program is intended to encourage individuals to enter and continue to work full-time in public service jobs. Under this program, you may qualify for forgiveness of the remaining balance due on your William D. Ford Federal Direct Loan Program (Direct Loan Program) loans after you have made 120 qualifying payments on those loans while employed full-time by certain public service employers. Since you must make 120 qualifying payments on your eligible federal student loans after October 1, 2007 before you qualify for the loan forgiveness, the first forgiveness of loan balances will not be granted until October 2017.

What federal student loans are eligible for forgiveness under the PSLF Program?

Any non-defaulted loan made under the Direct Loan Program is eligible for loan forgiveness. (See below for information on how non-Direct Loans may become eligible.) The Direct Loan Program includes the following loans:

- Federal Direct Stafford/Ford Loans (Direct Subsidized Loans)
- Federal Direct Unsubsidized Stafford/Ford Loans (Direct Unsubsidized Loans)
- Federal Direct PLUS Loans (Direct PLUS Loans)—for parents and graduate or professional students
- Federal Direct Consolidation Loans (Direct Consolidation Loans)

NOTE: Parents who received a Direct PLUS Loan may qualify for forgiveness of the PLUS loan, if the parent borrower—not the student on whose behalf the loan was obtained—is employed by a public service organization (additional conditions apply; see the Q&As below).

How can other federal student loans become eligible for loan forgiveness under the PSLF Program?

Although loan forgiveness under this program is available only for loans made and repaid under the Direct Loan Program, loans made under other federal student loan programs may become eligible for forgiveness if they are consolidated into a Direct Consolidation Loan. However, only payments made on the Direct Consolidation Loan will count toward the required 120 qualifying payments.

The following loans may be consolidated into the Direct Loan Program:

- Federal Family Education Loan (FFEL) Program loans, which include
    - Subsidized Federal Stafford Loans
    - Unsubsidized Federal Stafford Loans
    - Federal PLUS Loans—for parents and graduate or professional students
    - FFEL Consolidation Loans (excluding joint spousal consolidation loans)
- Federal Perkins Loans
- Certain Health Professions and Nursing Loans

NOTE: *To consolidate a Federal Perkins Loan or Health Professions or Nursing Loan into a Direct Consolidation Loan, you also must consolidate at least one FFEL Program loan or Direct Loan. If you are unsure about what kind of loans you have, check the U.S. Department of Education's (ED's) National Student Loan Data System (NSLDS) at www.nslds.ed.gov.*

What are the borrower eligibility requirements for loan forgiveness under the PSLF Program?

- You must not be in default on the loans for which forgiveness is requested.
- You must be employed full time by a public service organization
  - o when making each of the required 120 qualifying loan payments (certain repayment conditions apply—see below);
  - o at the time you apply for loan forgiveness; and
  - o at the time the remaining balance on your eligible loans is forgiven.

What are the specific loan repayment requirements for loan forgiveness under the PSLF Program?

- You must have made 120 separate monthly payments after October 1, 2007, on the Direct Loan Program loans for which forgiveness is requested. Payments made before this time do not count toward meeting this requirement. Each of the 120 qualifying payments must be made for the full scheduled installment amount and no later than 15 days after the scheduled payment due date. The 120 required payments do not need to be made consecutively.
- The 120 required payments must be made under one or more of the following Direct Loan Program repayment plans:
  - o Income-Based Repayment (IBR) Plan (not available for Direct PLUS Loans made to parents or for Direct Consolidation Loans that repaid Direct or FFEL PLUS Loans made to parents)
  - o Pay As You Earn Plan (not available for Direct PLUS Loans made to parents or for Direct Consolidation Loans that repaid Direct or FFEL PLUS Loans made to parents)
  - o Income Contingent Repayment (ICR) Plan (not available for Direct PLUS Loans made to parents; however, Direct Consolidation Loans that repaid Direct or FFEL PLUS loans made to parents may be repaid under ICR)
  - o 10-Year Standard Repayment Plan
  - o Any other Direct Loan Program repayment plan; but only payments that are at least equal to the monthly payment amount that would have been required under the 10-Year Standard Repayment Plan may be counted toward the required 120 payments

For more information about the repayment plans available in the Direct Loan Program, please visit **www.studentaid.ed.gov/repay-loans**.

IMPORTANT NOTE: *The PSLF Program provides for forgiveness of the remaining balance of a borrower's eligible loans after the borrower has made 120 qualifying payments on those loans. In general, only borrowers who are making reduced monthly payments through the IBR, Pay As You Earn, or ICR repayment plans will have a remaining balance after making 120 payments on a loan.*

What types of public service jobs will qualify a borrower for loan forgiveness under the PSLF Program?

You must be employed full time (in any position) by a public service organization, or must be serving in a full-time AmeriCorps or Peace Corps position. Organizations that meet the definition of "public service organization" for purposes of the PSLF Program are listed below.

- A government organization (including a federal, state, local, or tribal organization, agency, or entity; a public child or family service agency; or a tribal college or university).
- A not-for-profit, tax-exempt organization under section 501(c)(3) of the Internal Revenue Code.

- A private, not-for-profit organization (that is not a labor union or a partisan political organization) that provides one or more of the following public services:
    - Emergency management
    - Military service
    - Public safety
    - Law enforcement
    - Public interest law services
    - Early childhood education (including licensed or regulated health care, Head Start, and state-funded pre-kindergarten)
    - Public service for individuals with disabilities and the elderly
    - Public health (including nurses, nurse practitioners, nurses in a clinical setting, and full-time professionals engaged in health care practitioner occupations and health care support occupations)
    - Public education
    - Public library services
    - School library or other school-based services

What is full-time employment?

You must meet your employer's definition of full-time. However, for PSLF purposes, that definition must be at least an annual average of 30 hours per week. For purposes of the full-time requirement, your qualifying employment at a not-for-profit organization does not include time spent participating in religious instruction, worship services, or any form of proselytizing.

If you are a teacher, or other employee of a public service organization, under contract for at least eight out of 12 months, you meet the full-time standard if you work an average of at least 30 hours per week during the contractual period and receive credit by your employer for a full year's worth of employment.

If you are employed in more than one qualifying part-time job simultaneously, you may meet the full-time employment requirement if you work a combined average of at least 30 hours per week with your employers.

How can I keep track of my eligibility?

ED has created the **Employment Certification for Public Service Loan Forgiveness** form (Employment Certification form) and a process to help you monitor your progress toward making the 120 qualifying payments necessary to apply for PSLF. You should complete the form, including your employer's certification of employment, and submit it to FedLoan Servicing (PHEAA), the PSLF servicer, at the address listed in Section 6 of the Employment Certification form.

The form allows you to get your employer's certification of employment while you are still employed at that organization or shortly after leaving. The process allows you to receive confirmation of qualifying employment and Direct Loan payment eligibility. You may also submit the form less frequently than annually to cover more than one year's employment or for more than one employer.

While use of the form and process is not required, it will help you keep track of your progress toward meeting the PSLF eligibility requirements. If you do not periodically submit the form, you will still be required to submit a form for each qualifying employer at the time you apply for forgiveness and when forgiveness is granted.

Where can I find additional information about the PSLF Program?

This fact sheet only provides a summary of the basic requirements of the PSLF Program. For more detailed information, including how to monitor your progress toward qualifying for PSLF, read the PSLF Questions and Answers document at **www.studentaid.ed.gov/publicservice** or contact your federal loan servicer.

This information was updated in the fall of 2013. For updates or additional information on federal student aid, visit StudentAid.gov.

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Federal Student Aid

Income-Driven Repayment Plans for Federal Student Loans

What is an income-driven repayment plan?

An income-driven repayment plan is a repayment plan that sets your monthly student loan payment at an amount that is intended to be affordable based on your income and family size. The U.S. Department of Education offers three income-driven repayment plans: Income-Based Repayment Plan (IBR Plan), Pay As You Earn Repayment Plan (Pay As You Earn Plan), and Income-Contingent Repayment Plan (ICR Plan). Most federal student loans are eligible for at least one income-driven repayment plan.

How are monthly payment amounts determined under income-driven repayment plans?

The chart below shows how payment amounts are determined under each income-driven plan. Depending on your income and family size, you may have no monthly payment at all. You can estimate your payments under these plans using the Repayment Estimator at StudentAid.gov/repayment-estimator.

Income-Driven Repayment Plan	Payment Amount
IBR Plan for those who are not new borrowers* on or after July 1, 2014	Generally 15 percent of your discretionary income, but never more than the 10-year Standard Repayment Plan amount
IBR Plan for those who are new borrowers* on or after July 1, 2014	Generally 10 percent of your discretionary income, but never more than the 10-year Standard Repayment Plan amount
Pay As You Earn Plan	Generally 10 percent of your discretionary income, but never more than the 10-year Standard Repayment Plan amount
ICR Plan	The lesser of the following: 20 percent of your discretionary income or what you would pay on a repayment plan with a fixed payment over the course of 12 years, adjusted according to your income

*For IBR, you are a new borrower if you had no outstanding balance on a William D. Ford Federal Direct Loan (Direct Loan) Program loan or Federal Family Education Loan (FFEL) Program loan when you received a Direct Loan on or after July 1, 2014.

Sample Payment Amounts

The table below provides examples of monthly and total payment amounts under the IBR, Pay As You Earn, and ICR plans for a borrower who is single and in a one-person household; has an annual income of $40,000; and resides in one of the 48 contiguous states. These figures are estimates based on an interest rate of 8.25%, the current maximum interest rate for undergraduate borrowers. Various factors, including your actual interest rate, the amount of your loan debt and income, and whether and how quickly your income increases may cause your payment amount to differ from the amounts shown in these tables. These figures assume that income increases 5 percent per year and use the 2014 Poverty Guidelines (published by the U.S. Department of Health and Human Services) and Income Percentage Factors (from the U.S. Department of Education).

Debt	IBR Plan for those who are not new borrowers on or after July 1, 2014				Pay As You Earn Plan and IBR Plan for new borrowers on or after July 1, 2014				ICR Plan			
	Initial Payment	Final Payment	Total Paid	Months in Repayment	Initial Payment.	Final Payment	Total Paid	Months in Repayment	Initial Payment	Final Payment	Total Paid	Months in Repayment
$20,000	Not Eligible	N/A	N/A	N/A	$188	$245	$31,380	135	$191	$219	$33,738	163
$40,000	$281	$491	$73,192	175	$1880	$491	$85,237	240	$382	$439	$67,475	163
$60,000	$281	$736	$149,964	271	$188	$621	$89,061	240	$472	$658	$106,678	176
$80,000	$281	$981	$192,465	300	$188	$621	$89,061	240	$472	$914	$172,634	227
$100,000	$281	$1,227	$200,062	300	$188	$621	$89,061	240	$472	$1,332	$272,028	288

How long will I be in repayment under each plan?

Income-driven repayment plans have different repayment periods (see the chart below). Under all three plans, any remaining loan balance is forgiven if your federal student loans are not repaid in full at the end of the repayment period. For any income-driven repayment plan, the repayment period includes periods of economic hardship deferment and periods of repayment under certain other repayment plans. Whether you ultimately have a balance left to be forgiven at the end of your repayment period depends on a number of factors, such as how quickly your income rises and how large your income is relative to your debt. Because of these factors, you may fully repay your loan prior to the end of your repayment period.

Repayment Plan	Repayment Period
IBR Plan for those who are not new borrowers on or after July 1, 2014	25 years
IBR Plan for new borrowers on or after July 1, 2014	20 years
Pay As You Earn Plan	20 years
ICR Plan	25 years

Note: If you're paying under an income-driven repayment plan and are eligible for Public Service Loan Forgiveness, you may qualify for forgiveness of any remaining Direct Loan balance after you have made 10 years of qualifying payments. Visit StudentAid.gov/publicservice to learn more.

Who is eligible for income-driven repayment?

IBR and Pay As You Earn Plans

Both of these plans have an eligibility requirement you must meet before you can enter the plan. In order for you to qualify, the payment that you would be required to make under the IBR or Pay As You Earn plan (based on your income and family size) must be less than what you would pay under the Standard Repayment Plan with a 10-year repayment period. Generally, you will meet this requirement if your federal student loan debt is higher than your annual discretionary income or represents a significant portion of your annual discretionary income.

There is an additional qualification requirement for the Pay As You Earn Plan. For Pay As You Earn, you also must be a new borrower as of Oct. 1, 2007, and must have received a disbursement of a Direct Loan on or after Oct. 1, 2011. You are a new borrower if you had no outstanding balance on a Direct Loan or FFEL Program loan when you received a Direct Loan or FFEL Program loan on or after Oct. 1, 2007.

ICR Plan

The ICR Plan does not have an initial income eligibility requirement. Any borrower with eligible federal student loans may make payments under this plan.

Will I always pay the same amount each month under an income-driven repayment plan?

IBR and Pay As You Earn Plans

When you enter the IBR or Pay As You Earn Plan, your monthly payment will be based on your income and family size. You must provide your loan servicer with updated income and family size information each year. Your required monthly payment amount may increase or decrease if your income or family size changes from year to year.

If the payment amount based on your income and family size ever increases to the point that it is higher than the amount you would have to pay under the 10-year Standard Repayment Plan, your payment will no longer be based on your income and family size. Instead, your payment will be the amount you would have had to pay under the 10-year Standard Repayment Plan. This amount will be determined based on the loan amount you owed when you first entered the IBR or Pay As You Earn plan.

ICR Plan

Under the ICR Plan, your payment is always based on your income and family size but will usually be higher than payments under the IBR and Pay As You Earn plans, and in some cases could be higher than the amount you would pay under the 10-year Standard Repayment Plan.

What types of federal student loans are eligible to be repaid under an income-driven repayment plan?

Loan Type	IBR Plan	Pay As You Earn Plan	ICR Plan
Direct Subsidized Loans	Eligible	Eligible	Eligible
Direct Unsubsidized Loans	Eligible	Eligible	Eligible
Direct PLUS Loans made to graduate or professional students	Eligible	Eligible	Eligible
Direct PLUS Loans made to parents	Not eligible	Not eligible	Eligible if consolidated*
Direct Consolidation Loans that did not repay any PLUS loans made to parents	Eligible	Eligible	Eligible
Direct Consolidation Loans that repaid PLUS loans made to parents	Not eligible	Not eligible	Eligible
Subsidized Federal Stafford Loans (from the FFEL program)	Eligible	Eligible if consolidated*	Eligible if consolidated*
Unsubsidized Federal Stafford Loans (from the FFEL program)	Eligible	Eligible if consolidated*	Eligible if consolidated*
FFEL PLUS Loans made to graduate or professional students	Eligible	Eligible if consolidated*	Eligible if consolidated*
FFEL PLUS Loans made to parents	Not eligible	Not eligible	Eligible if consolidated*
FFEL Consolidation Loans that did not repay any PLUS loans made to parents	Eligible	Eligible if consolidated*	Eligible if consolidated*
FFEL Consolidation Loans that repaid PLUS loans made to parents	Not eligible	Not eligible	Eligible if consolidated*
Federal Perkins Loans	Eligible if consolidated*	Eligible if consolidated*	Eligible if consolidated*

*If a loan type is listed as "Eligible if consolidated," this means that if you consolidate that loan type into a Direct Consolidation Loan, you can then repay the consolidation loan under the income-driven plan.

Note that only federal student loans can be repaid under the income-driven plans. Private student loans are not eligible.

What are the pros and cons of repaying my loan under an income-driven plan?

Income-driven repayment plans may lower your federal student loan payments. However, whenever you make lower payments or extend your repayment period, you will likely pay more in interest over time—sometimes significantly more. In addition, under current Internal Revenue Service (IRS) rules, you may have to pay income tax on any amount that is forgiven if you still have a remaining balance at the end of your repayment period for an income-driven repayment plan.

How do I apply for an income-driven plan?

Before you apply for an income-driven repayment plan, contact your loan servicer if you have any questions. Your loan servicer will help you decide whether one of these plans is right for you.

To apply, you must submit an application called the Income-Driven Repayment Plan Request. You can submit the application online at StudentLoans.gov or on a paper form, which you can obtain from your loan servicer. Along with the application, you will be asked to provide income information. You can document your income using your adjusted gross income (AGI) if (1) you have filed a federal income tax return in the past two years and (2) the income on your most recent federal income tax return is not significantly different from your current income. If you do not meet these conditions for documenting your income using AGI, you must provide alternative documentation of income.

You can provide your AGI in one of the following ways:

- Apply using the online Income-Driven Repayment Plan Request and use the IRS Data Retrieval Tool in the application to transfer income information from your most recent federal income tax return.
- Use the paper Income-Driven Repayment Plan Request and provide a paper copy of your most recently filed federal income tax return or IRS tax return transcript.

You can provide alternative documentation of income in one of the following ways:

- If you currently receive taxable income, you must submit a paper Income-Driven Repayment Plan Request with alternative documentation of your income, such as a pay stub.
- If you do not currently have income or if you receive only untaxed income, you can indicate as much on the online or paper application. You are not required to supply further documentation of your income.

This information was compiled in the summer of 2014. For updates or additional information on income-driven repayment plans, visit StudentAid.gov/idr.