

## Curing Federal Student Loan Defaults

Useful terms:	
Default	A borrower fails to make a loan payment in more than 270 days. A borrower is not eligible to receive additional financial aid, forbearance, or deferment until the default has been cured.
Payments	On-time payments—made within 20 days of the monthly payment due date
	Involuntary payments—made through wage garnishment or tax refund withholdings
	Voluntary payments—made through a written agreement with the loan holder
Types of federal student loans	Direct Student Loan (Subsidized or Unsubsidized)
	Direct PLUS Loan
	Direct Consolidation Loan
	Federal Family Education Loan (FFEL)
	Federal Perkins Loan

To cure a federal student loan default:	
<b>Payment in full</b>	This is the quickest method to cure a default, but may be unreasonable for the borrower depending on the size of the loan and the borrower's resources.
	<ol style="list-style-type: none"> <li>1) Request the full payoff amount from the loan holder</li> <li>2) Pay the entire payoff amount by the date given by the loan holder</li> </ol>
<b>Loan Rehabilitation</b>	<p>This is the longest method to cure a default, but the default will be removed from the borrower's credit history. A borrower may use this method only once.</p> <p>For this method, a borrower makes a written agreement with the loan holder to pay nine voluntary, reasonable, affordable, and on-time monthly payments. The borrower must then make all nine payments within a ten month period. Involuntary payments may continue until the loan is no longer in default or some of the nine voluntary payments are made.</p>
	<ol style="list-style-type: none"> <li>1) Request loan rehabilitation from the loan holder.</li> <li>2) The loan holder determines what a reasonable monthly amount is. If the borrower cannot afford this amount, the borrower must request an alternative monthly payment from the loan holder.</li> <li>3) The loan holder determines the alternative monthly payment amount based on the borrower's monthly income after monthly expenses have been taken out. The borrower must provide documentation of monthly income and expenses to the loan holder. This amount can be as low as \$5 per month.</li> <li>4) The borrower then informs the loan holder of which monthly payment amount the borrower chooses to make.</li> </ol>
<b>Loan Consolidation</b>	<p>This method will consolidate the loan(s) into a new Direct Consolidation Loan. The default is cured more quickly, but the default remains on the borrower's credit history.</p> <p>If a defaulted loan is being collected through garnishment of wages or in accordance with a court order, the borrower cannot consolidate the loan unless the wage garnishment order is lifted or the judgment vacated.</p> <p>There are some limitations on who can use this method based on the type of federal student loans the borrower has.</p>
<b>Defaulted federal student loan that has not been consolidated:</b>	<p>Choose one of the following options in order to consolidate the loan:</p> <ol style="list-style-type: none"> <li>1) Agree to repay the new, consolidated loan under an income-driven repayment plan<sup>^</sup></li> </ol> <p>OR</p> <ol style="list-style-type: none"> <li>2) Make three consecutive, voluntary, on-time, full monthly payments before consolidating the loan*</li> </ol>

<p>Defaulted Direct Consolidation Loan:</p>	<p><u>The borrower has at least one other eligible loan to consolidate:</u>  Choose one of the following options in order to consolidate the loan:  1) Agree to repay the new, consolidated loan under an income-driven repayment plan^  OR  2) Make three consecutive, voluntary, on-time, full monthly payments before consolidating the loan*</p> <p><u>The borrower has no other eligible loans to consolidate:</u>  Choose one of the following options to cure the default:  a) Payment in full  OR  b) Loan Rehabilitation</p>
<p>Defaulted FFEL Consolidation Loan:</p>	<p><u>The borrower has at least one other eligible loan to consolidate:</u>  Choose one of the following options in order to consolidate the loan:  1) Agree to repay the new, consolidated loan under an income-driven repayment plan^  OR  2) Make three consecutive, voluntary, on-time, full monthly payments before consolidating the loan*</p> <p><u>The borrower has no other eligible loans to consolidate:</u>  Agree to repay the new, consolidated loan under an income-driven repayment plan</p>

^ Borrower must agree to one of the available income-driven repayment plans at the time of application to consolidate and must provide documentation of income.

\* New payment amounts are determined by the loan holder, and cannot be more than what is reasonable and affordable based on borrower's total financial circumstances. All repayment plans for which the borrower is eligible are available to repay the new Direct Consolidation Loan.

For more information, see <https://studentaid.ed.gov>.

- *Getting Out of Default:* <https://studentaid.ed.gov/sa/repay-loans/default/get-out>
- *Federal Loans vs. Private Loans:* <https://studentaid.ed.gov/sa/types/loans/federal-vs-private>
- *Basic Eligibility Criteria:* <https://studentaid.ed.gov/sa/eligibility/basic-criteria>
- *Glossary:* <https://studentaid.ed.gov/sa/glossary>

For information on additional related topics:

- *Wage Garnishment:* <https://scllegal.org/brochures/wage-garnishment/>
- *Student Loan Forgiveness Programs:* <https://studentloanhero.com/featured/the-complete-list-of-student-loan-forgiveness-programs/>
- *Forgiveness, Cancellation, and Discharge:* <https://studentaid.ed.gov/sa/repay-loans/forgiveness-cancellation>
- *Total and Permanent Disability Discharge:* <https://studentaid.ed.gov/sa/repay-loans/forgiveness-cancellation/disability-discharge>