

Loan Rehabilitation: Prepare Now for Successful Repayment



Congratulations on your decision to rehabilitate your defaulted student loans. You have taken the first step in getting back on track in the repayment of your loans.

After you have completed the loan rehabilitation program requirements, your loans will be removed from default and transferred to your new lender or servicer, or to the U.S. Department of Education. You'll also select the monthly repayment option that best fits your own circumstances.

Make sure you're ready for successful repayment with your new lender or servicer by taking these simple steps now.

1. Know Your Loan Types and Current Loan Program.

The loans you are rehabilitating were made through the Federal Family Education Loan Program. That program offers many different repayment plans that may be right for you. Another federal loan program, the William D. Ford Direct Loan Program, has additional repayment plan options that you also may want to consider.

If you select a Direct Loan repayment plan, you'll need to consolidate your FFELP loans through the Direct Loan Program. Learn more about Direct Loan consolidation at studentloans.gov.

2. Keep in Touch With Your New Lender or Servicer.

Reach out to your new lender or servicer as soon as you complete the loan rehabilitation program, to establish repayment arrangements and select a repayment plan.

If you lose track of your loan documents at any point in the future, use the National Student Loan Data System Student Access website, www.nslds.ed.gov, to find your lender's or servicer's name and contact information. Your lender or servicer can provide detailed and updated information regarding your loan balance.

If you move after you complete the loan rehabilitation program, notify your lender or servicer of changes in your address and telephone number. Otherwise, you might not receive important information about your student loan account — and end up facing additional charges for missed or late payments and risking severe penalties for default.

Contact your new lender or servicer if you have any questions about successful repayment or other issues regarding your student loan account.



3. Choose the Right Repayment Plan for You.

See the brief descriptions of each repayment option in the “Repayment Options” section. To determine which option is best for you, use the online student loan Repayment Estimator at studentloans.gov to estimate your monthly payment.

Select the plan that provides a monthly payment that you can afford but also pays back the loan as quickly as possible. The longer you take to pay off your loan, the more interest you will pay. In fact, you may prepay your loan principal at any time, without penalty, to reduce your interest costs.

Repayment Options

The following options are available for federal student loans issued under the Federal Family Education Loan Program or William D. Ford Direct Loan Program.

Standard repayment. Typically this is the least expensive option in terms of total interest costs. Also known as the level repayment plan, this option provides a fixed monthly payment of at least \$50 over a period of up to 10 years. If your monthly payments under this option exceed 8 percent to 10 percent of your gross monthly income, however, consider one of the following flexible repayment options.

Graduated repayment. Monthly payments start low and increase over time. Graduated repayment may be a good choice if you currently have limited income but expect higher earnings in the future. The maximum repayment term under this option is 10 years. Total interest costs are higher under this option than with standard repayment.

Income-sensitive repayment. Available only for FFELP loans, your payments can be adjusted up or down annually to account for changes in your income. The minimum payment must be enough to cover accruing interest. The repayment period of 10 years can be extended to 15 years under a special forbearance provision. Total interest costs will be higher with this option than with standard repayment.

Extended repayment. This option is available only if you did not have a balance on a FFELP loan or Direct Loan as of Oct. 7, 1998, or at the time you received a FFELP loan or Direct Loan after Oct. 7, 1998. Extended repayment is available only if your outstanding FFELP loan or Direct Loan balance is more than \$30,000.

Under this plan, you may reduce the amount of your monthly payment by spreading payments over a period of up to 25 years under a standard or graduated repayment schedule. Because payments are stretched over a longer term, total interest costs will be significantly higher than under the other repayment plans.

Income-based repayment. You may qualify for this repayment option if your loan payments during the year exceed 15 percent of your “discretionary” income. Under this plan you may limit your payments to 15 percent of your “discretionary” income. In addition, your payments may be less than accruing interest, you may qualify to pay back your loans over a period of up to 25 years, and you may qualify for forgiveness of any remaining amount you owe after 25 years of payment. Beginning July 1, 2014, new borrowers may qualify for income-based payments of no more than 10 percent of their discretionary income and are eligible for loan forgiveness after 20 years of repayment. Parent PLUS loans and consolidation loans that repaid a parent PLUS loan are not eligible.

Income-contingent repayment. This option is available only for Direct Loans, except Direct PLUS loans to parents. Your payments are based on your income, family size and outstanding loan balance. Payments may be less than the accruing interest. If you haven’t fully repaid your loan after 25 years, you may qualify to have the unpaid amount forgiven.

Pay as You Earn. Payments are limited to 10 percent of your “discretionary” income, and you may qualify for loan forgiveness after 20 years of repayment. The option is available only to Direct Loan borrowers — except for those with Direct PLUS loans to parents or Direct Consolidation loans that repaid a parent PLUS loan — who were new borrowers as of Oct. 1, 2007, and received a Direct Loan disbursement since Oct. 1, 2011.



Revised Pay as You Earn. Payments are limited to 10 percent of your “discretionary” income. There is no income requirement to qualify. You may qualify for loan forgiveness after 20 years of repayment for undergraduate loans, or after 25 years of repayment for loans received for graduate study. The option is available only to Direct Loan borrowers, with no restrictions based on when a loan was received. Parent PLUS loans and consolidation loans that repaid a parent PLUS loan are not eligible.

Loan consolidation. Consolidation, available only through the Direct Loan Program, permits you to bundle all of your federal education loans into a convenient single monthly loan payment at a fixed interest rate. Depending on your total outstanding loan balance, you also may be able to extend your repayment period and lower your monthly payments. You are likely to pay more total interest, however, by extending your payment period and making smaller payments over a longer term. Consolidating your loans also will allow you to take advantage of the additional repayment plans available only under the Direct Loan Program.

What’s the maximum loan payment you can afford?

If your monthly student loan payment exceeds the range of loan payments listed below for your annual income, explore a flexible repayment option.

Maximum affordable monthly payments assume that payments do not exceed 8 percent to 10 percent of your gross monthly income.

Your Annual Income	Range of Affordable Monthly Loan Payments
\$15,000	\$100 – \$125
\$20,000	\$133 – \$167
\$25,000	\$167 – \$208
\$30,000	\$200 – \$250
\$35,000	\$233 – \$292
\$40,000	\$267 – \$333
\$45,000	\$300 – \$375
\$50,000	\$333 – \$417
\$75,000	\$500 – \$625
\$100,000	\$667 – \$833

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