



National
Consumer Law
Center
*Fighting Together
for Economic Justice*

Default & Debt Collection

February 2026

Welcome back to
the second
session of
NCLC's student
loan training
series!



National Consumer Law Center - NCLC

- The National Consumer Law Center (NCLC) works for **economic fairness and justice** for people with low incomes.
- Through our student loan project we:
 - help student loan borrowers **understand their rights and obligations**,
 - **train and work with lawyers and advocates** across the country on student loan issues,
 - **advocate for borrowers with lawmakers**, and
 - **fight to make the student loan system better** for borrowers.
- For more information on NCLC's work, visit our website at nclc.org, and our student loan website at studentloanborrowerassistance.org.

Meet the trainers

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Housekeeping

- This session is being **recorded**.
- The **slides and the recording will be sent** to the email address you used to register for the training after the presentation.
 - Slides and recordings are also posted online on the training series landing page: studentloanborrowerassistance.org/for-advocates/training-upcoming-events/training-for-financial-counselors-other-professionals/
- The **links** in all of the slides will be accessible once the materials are sent out.
- Please put **questions in the Q&A**.
- We **will try to answer questions** that aren't covered in the presentation at the end, and we will send additional answers in writing with the slide deck and recording.
- The follow-up email will also include a **short survey form**—if you complete the survey, you will receive a **certificate of attendance** in the training for self-reporting professional development purposes.



What We'll Cover Today

- **Overview** of the federal student loan default crisis
- **Screening** for default
- Options for borrowers who **aren't yet in default**
- Default **collection tools and notice** requirements
- **Getting out of default**
 - **Rehabilitation**
 - **Consolidation**
 - **Cancellation and discharge** programs as a tool to resolve default

What We'll Cover Today

We will be talking about federal student loan default issues today. We'll discuss private student loan issues in our October webinar. If you have clients with private student loans in default, they may need to talk to a lawyer!

Overview of the federal student loan default crisis



The default crisis

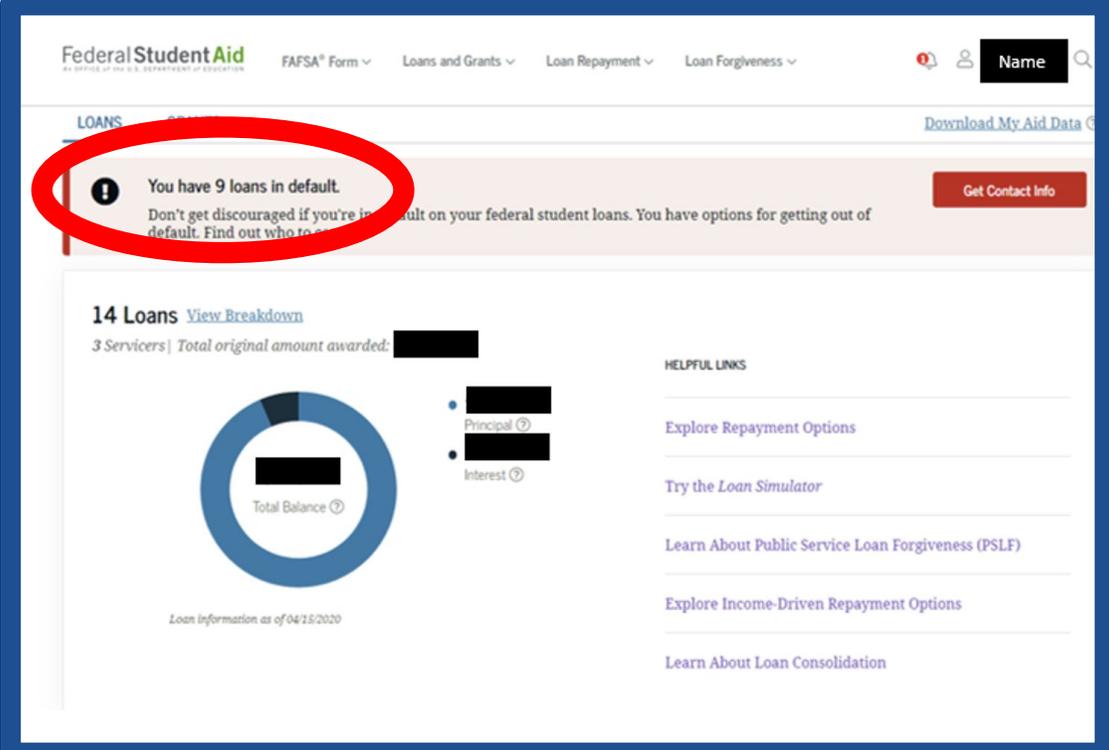
- Over **5.7 million borrowers are currently in default** on student loans held by the Department of Education. This group is mostly made out of borrowers **who were in default before the COVID-19 payment pause.**
- More than **7 million borrowers are in delinquency**, meaning they are more than 30 days behind on payments. This group includes borrowers who entered delinquency after the payment pause and on-ramp period ended.

Who are borrowers in default?

- Borrowers in default are typically dealing with **other financial hardships**:
 - more likely to be **low-income**,
 - three times as likely to have filed for **bankruptcy**, and
 - more likely to have **utility, medical, or credit card bills in collections**.
- Borrowers in default are **disproportionately Black and Brown borrowers**.
- Majority of defaulted borrowers **owe less than \$10,000**.
- Many in default **have not completed their degrees** or programs, and are more likely to have **attended a for-profit college**.
- **Older borrowers** are more likely to default because of **their own loans** or **costly Parent PLUS Loans** they took out for their kids.

When is a federal loan in default?

- The day after a student loan payment is missed, the loan is **delinquent**. The loan servicer will usually notify the borrower of the missed payment.
- After **270 days (9 months) of missed payments**, the loan is declared in **default**.
- Once the loan is in default, it will be transferred to the default loan servicer, generally **after 360 days**.



The screenshot shows the Federal Student Aid website interface. At the top, there is a navigation bar with the logo and several menu items: FAFSA Form, Loans and Grants, Loan Repayment, and Loan Forgiveness. A search bar with the text 'Name' is on the right. Below the navigation bar, a prominent notification banner is displayed, which is circled in red. The notification reads: 'You have 9 loans in default. Don't get discouraged if you're in default on your federal student loans. You have options for getting out of default. Find out who to contact.' To the right of the notification is a 'Get Contact Info' button. Below the notification, the user's loan status is shown as '14 Loans' with a 'View Breakdown' link. It also indicates '3 Servicers' and 'Total original amount awarded: [redacted]'. A donut chart is present, showing the 'Total Balance' and a legend for 'Principal' and 'Interest'. On the right side, there is a 'HELPFUL LINKS' section with several links: 'Explore Repayment Options', 'Try the Loan Simulator', 'Learn About Public Service Loan Forgiveness (PSLF)', 'Explore Income-Driven Repayment Options', and 'Learn About Loan Consolidation'. The date 'Loan information as of 04/15/2020' is visible at the bottom of the chart area.

Who handles defaulted federal student loans?

Loans held by the Department of Education (ED-held loans): After default, the loans are sent to the default servicer, the **Default Resolution Group**, or DRG (also sometimes listed in data as DMCS).

- Borrowers can set up an account at myeddebt.ed.gov (separate from their studentaid.gov account) to manage their loan.
- The IRS Treasury Offset Program is used to collect tax refunds, Social Security and other federal benefits.
- The Department of Education may also begin using private collection agencies again to help collect on the debt.

Commercial FFEL Loans: After a loan defaults, it is sent to the **guaranty agency**, which may use a private collection agency to help collect the debt.

Perkins Loan: The school will either collect on the loan or the loan will be sent to DRG.

Consequences of defaulting on federal loans

Defaulting on a federal student loan can:

- negatively impact a borrower's **credit score**,
- prevent a borrower from getting more **financial aid**, and
- make them ineligible for **other government loans** (including FHA and USDA mortgages).

To collect on a defaulted loan, the government can:

- Seize **tax refunds**, **garnish wages**, **take Social Security benefits**, and more.
- There is **no statute of limitations** for collection of federal student loans. **These debts can follow people for life!**

Collections paused temporarily

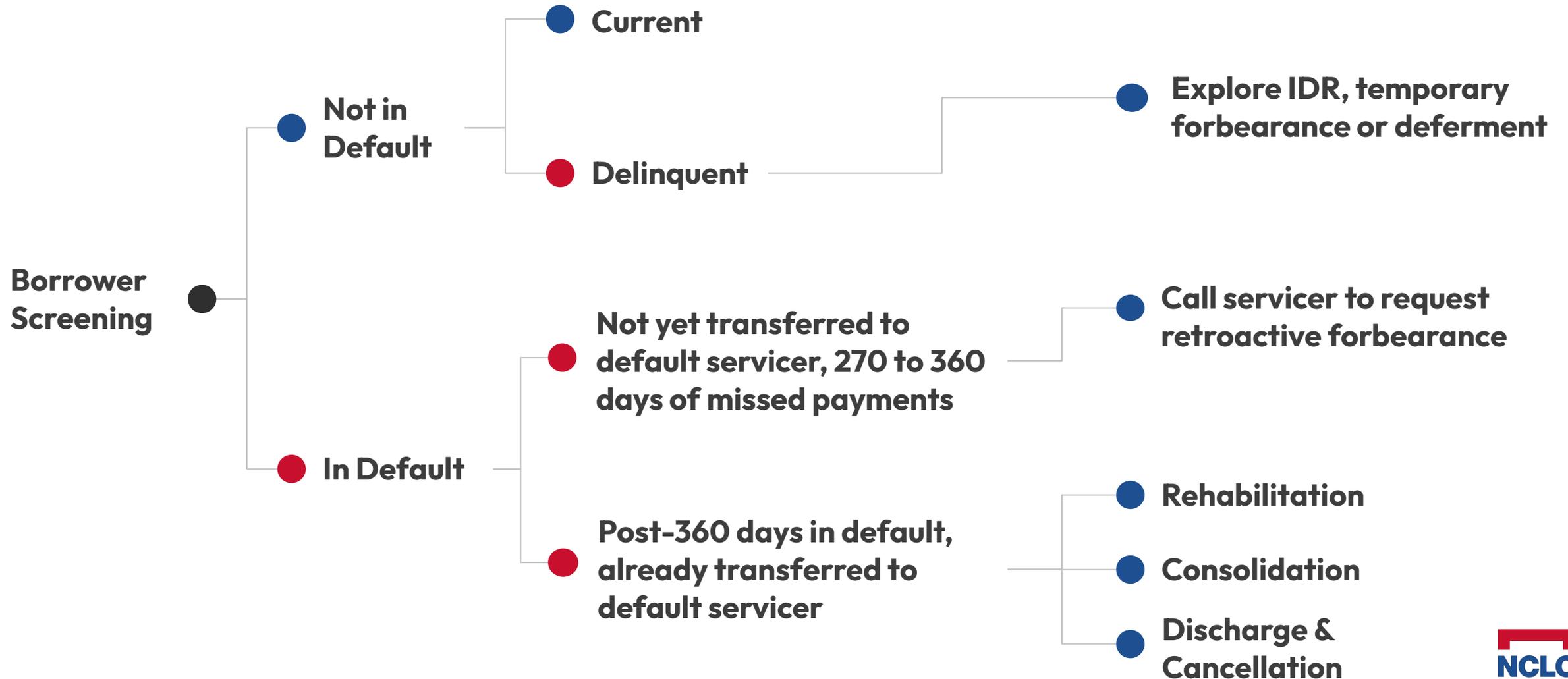
- The Department of Education announced that it is **pausing** default collections. **We do not know when it will restart.**
- This means borrowers in default will not be subject to wage garnishment, tax refund offset, or benefit offset—**for the time being.**
- Collection is paused, but **all other aspects of the default system are operating** as usual.
- Borrowers are still being **transferred to default servicers** (DRG), **initial default notices** are being sent out, and borrowers will face **credit consequences.**



Screening for
borrowers in
default



Roadmap for resolving default



Roadmap for resolving default

We'll spend the majority of the time discussing this section of the roadmap

Borrower Screening

In Default

Post-360 days in default, already transferred to default servicer

Rehabilitation

Consolidation

Discharge & Cancellation

How will these cases come to your office?

It's critical to screen everyone for student loan debt, as the consequences of defaulting can have far-reaching financial consequences.

- Even your clients who never attended college may have student loan debt, such as **Parent PLUS borrowers** or **co-signers of private loans**.
 - *Remember, Parent PLUS borrowers often think they just co-signed on their child's loan and don't realize that they are the only one responsible for the debt.*
- Clients may come to you with other non-student loan issues, such as problems with **credit, debt collection, bankruptcy**, and more.
- They may ask about help with **Social Security or tax refund offsets**.
- They may have other student loan questions and **not even know they're in default**.
- They **may not remember they have student loans** or **may think their loans were canceled** because they haven't paid on them in years.

Questions to ask when you meet with clients

- ❑ Did you attend college? **How did you pay for school?** Did you take out student loans?
- ❑ When is the **last time you made payments** on your student loans? Are you **current or behind** on your payments?
- ❑ Have you checked your account on studentaid.gov? Do you know who your **loan servicer** is? Have you checked your **online account with your servicer**?
- ❑ Have you ever had your **wages, Social Security benefits, or tax refunds taken** to pay back a debt? Did you ever get a **notice from the government or a debt collector** about student loan debt?
- ❑ Are student loans showing up on your **credit reports**?
- ❑ Have you been **sued** for a student loan debt? *Likely a private loan, but not always.*
- ❑ Did you **take out loans for your child's education or co-sign** on someone else's loans?

Questions to ask when you meet with clients

It's common for borrowers to not know some of the answers to these questions or get some of the answers wrong, so always **verify the information** with the borrower's records.

How to determine if a borrower's loans are in default

- **Review their account on studentaid.gov** – easiest way for most folks to find out if they're in default.
- **Review the borrower's .txt file.**
 - A borrower can download their .txt file on their account on studentaid.gov, by selecting “Download My Aid Data” on the dashboard/my aid page.
- **Call the Default Resolution Group at 1-800-621-3115** and ask if they have any loans in default.
 - The Default Resolution Group is the special default servicer for Direct Loans, and some FFEL and Perkins loans, but some FFEL and Perkins loans may have other default servicers.
- **Review the borrower's credit reports.**
 - Not all loans in default may appear on a credit report, but this can still be helpful in some cases, particularly if the borrower has any private loans in default.

Additional tip: When collections are back on, borrowers can call the The Treasury Offset Program (TOP) to find out if they have a debt that has been referred for tax refund or Social Security benefit offset. The **TOP number is 800-304-3107.**

Review the borrower's studentaid.gov account

- If the borrower has loans in default, they should see a **red banner** on their account dashboard alerting them of the default.
- They can also find the **status of individual loans** in several other places on studentaid.gov.
- In the “**Loan Breakdown,**” look at “**Loan Status**” to see which loans are in default.

The screenshot displays the 'Dashboard' page on studentaid.gov. A prominent red banner at the top left contains an information icon and the text: 'You have 3 loans in default. Don't get discouraged if you're in default on your federal student loans. You have options for getting out of default. Find out who to contact.' A red button labeled 'Get Contact Info' is located on the right side of this banner. Below the banner, the 'Plan Ahead' section features a 'FAFSA' logo and text about completing the Free Application for Federal Student Aid form. To the right, the 'Upcoming Payments' section shows the servicer as 'Texas Guaranteed Student Loan Corp.' and the due date as 'N/A'. The 'My Loan Servicers' section lists 'TEXAS GUARANTEED STUDENT LOAN CORP.' with the website 'www.trelliscompany.org'. A 'Loan Breakdown' table is visible, with a red circle highlighting the 'Loan Status' column. The table lists two loans: a 'Subsidized Loan' and an 'Unsubsidized Loan', both with a status of 'Default'. A red arrow points from the text in the first list item to the red banner in the screenshot.

Sort By	LOAN DATE	LOAN STATUS	REPAYMENT PLAN	INTEREST RATE	TOTAL BALANCE
Select		Default	N/A	0.00%	
Subsidized Loan		Default	N/A	0.00%	
VIEW LOAN DETAILS >					
Unsubsidized Loan	9/24/03	Default	N/A	0.00%	
VIEW LOAN DETAILS >					

Find the loan status in the .txt file as well

UpdtDt:08/08/2022

DelinqDate:

Current Loan Status:FB

Current Loan Status Description:FORBEARANCE

Loan Status:FB

Loan Status Description:FORBEARANCE

Loan Status Effective Date:12/14/2020

Loan Status:DA

Loan Status Description:DEFERRED

Loan Status Effective Date:11/10/2020

Loan Status:FB

Loan Status Description:FORBEARANCE

Loan Status Effective Date:11/03/2020

Loan Status:BK

Loan Status Description:BANKRUPTCY CLAIM, ACTIVE

Loan Status Effective Date:07/31/2020

Loan Status:DA

Loan Status Description:DEFERRED

Loan Status Effective Date:06/22/2020

Loan Status:FB

Loan Status Description:FORBEARANCE

Loan Status Effective Date:03/13/2020

**Current
Loan
Status:
look for
"DEFAULT"**

**Loan History:
look for any
history of
default**

Different types of federal loans

- Remember, it's important to know exactly what **type of federal loans** the borrower has.
- **Not all federal student loans are treated the same** when it comes to default, loan servicing, and even income-driven repayment (IDR) plans.
- For the purposes of loans in default, the most important thing to know is whether the borrower has **Direct Loans vs. FFEL or Perkins Loans**.
- All of this information can be found on the borrower's studentaid.gov account.
- For more help with this, watch these **help videos**:
 - [Know What Type of Loans You Have](#)
 - [Do You Have FFEL or Perkins Loans?](#)
 - [How to Use Studentaid.gov](#)

Find the loan type on the borrower's .txt file

Loan Type Code:D6

Loan Type Description:DIRECT CONSOLIDATED SUBSIDIZED

Loan Award ID:*****4492S16G77778102

Loan Attending School Name:SCHOOL CODE FOR CONSOLIDATION LOANS

Loan Attending School OPEID:88888800

Loan Date:12/31/2015

Loan Repayment Begin Date:12/31/2015

Loan Period Begin Date:

Loan Period End Date:

Loan Amount:\$5,274.00

Loan Disbursed Amount:\$5,274.00

Loan Canceled Amount:\$0.00

Loan Canceled Date:

Loan Outstanding Principal Balance:\$5,350.00

Loan Outstanding Principal Balance as of Date:07/31/2022

Loan Outstanding Interest Balance:\$425.00

Loan Outstanding Interest Balance as of Date:07/31/2022

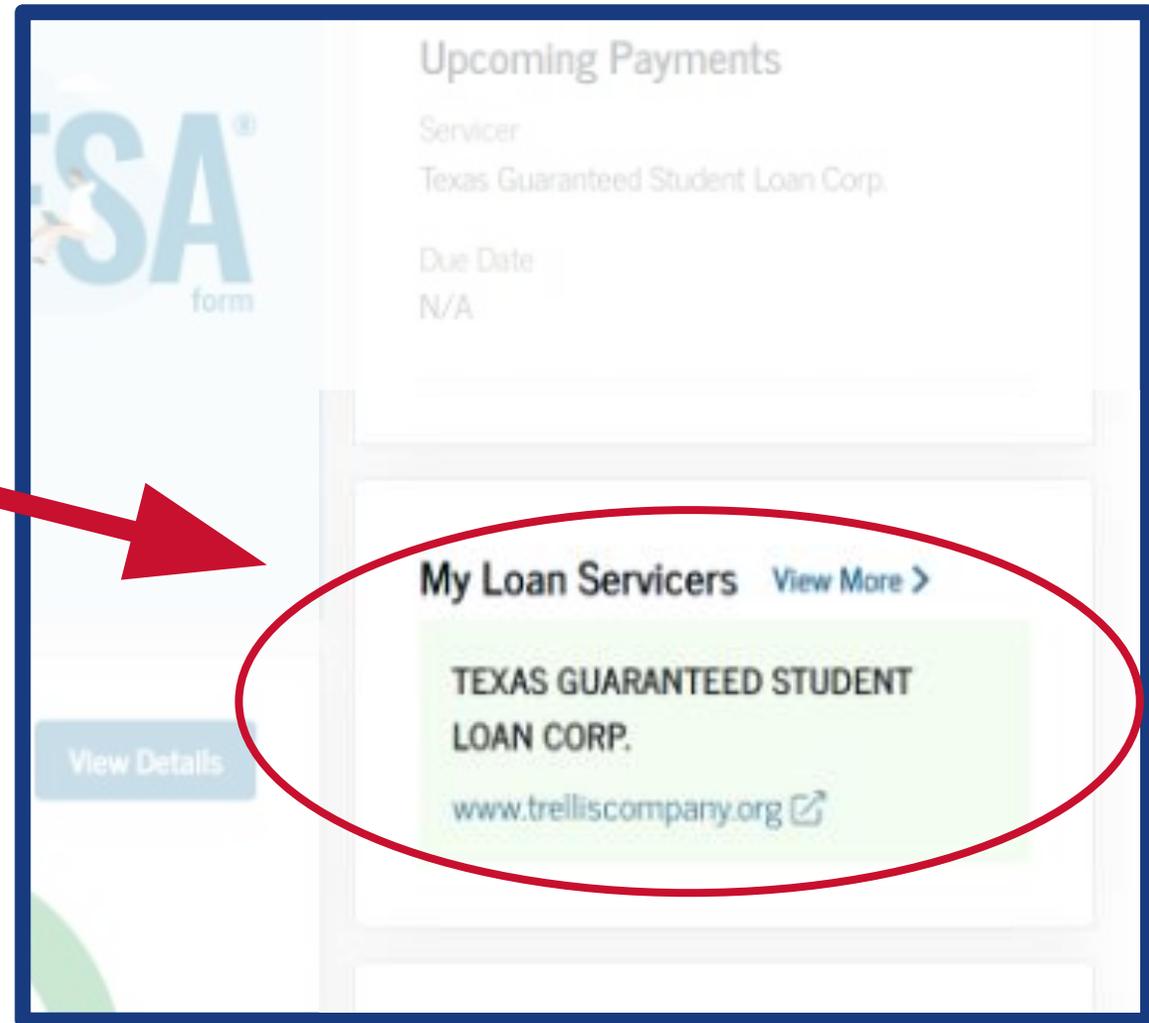


Loan Type and Subtype:

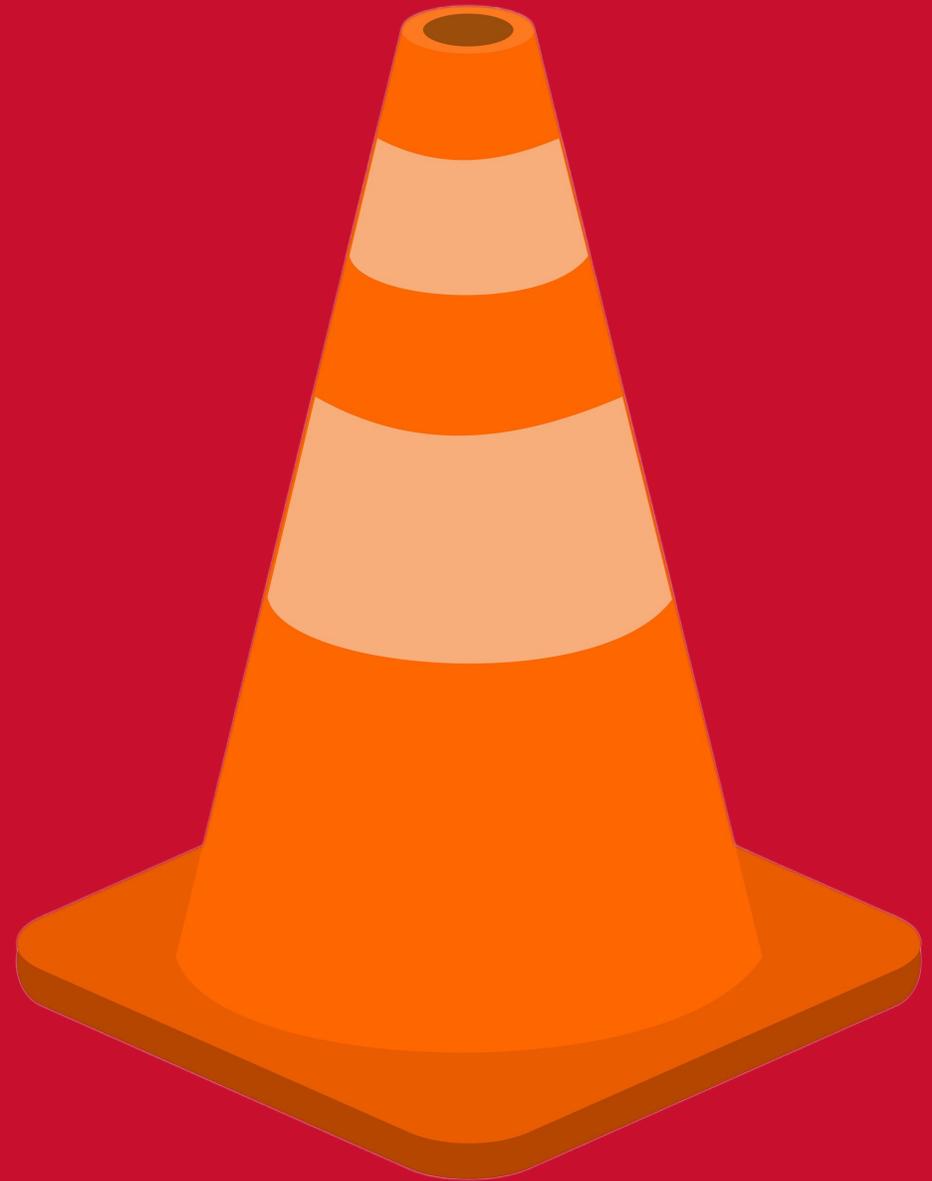
Are we dealing with loans other than Direct Loans? Consolidation Loans or Parent PLUS Loans?

Finding the loan type on studentaid.gov

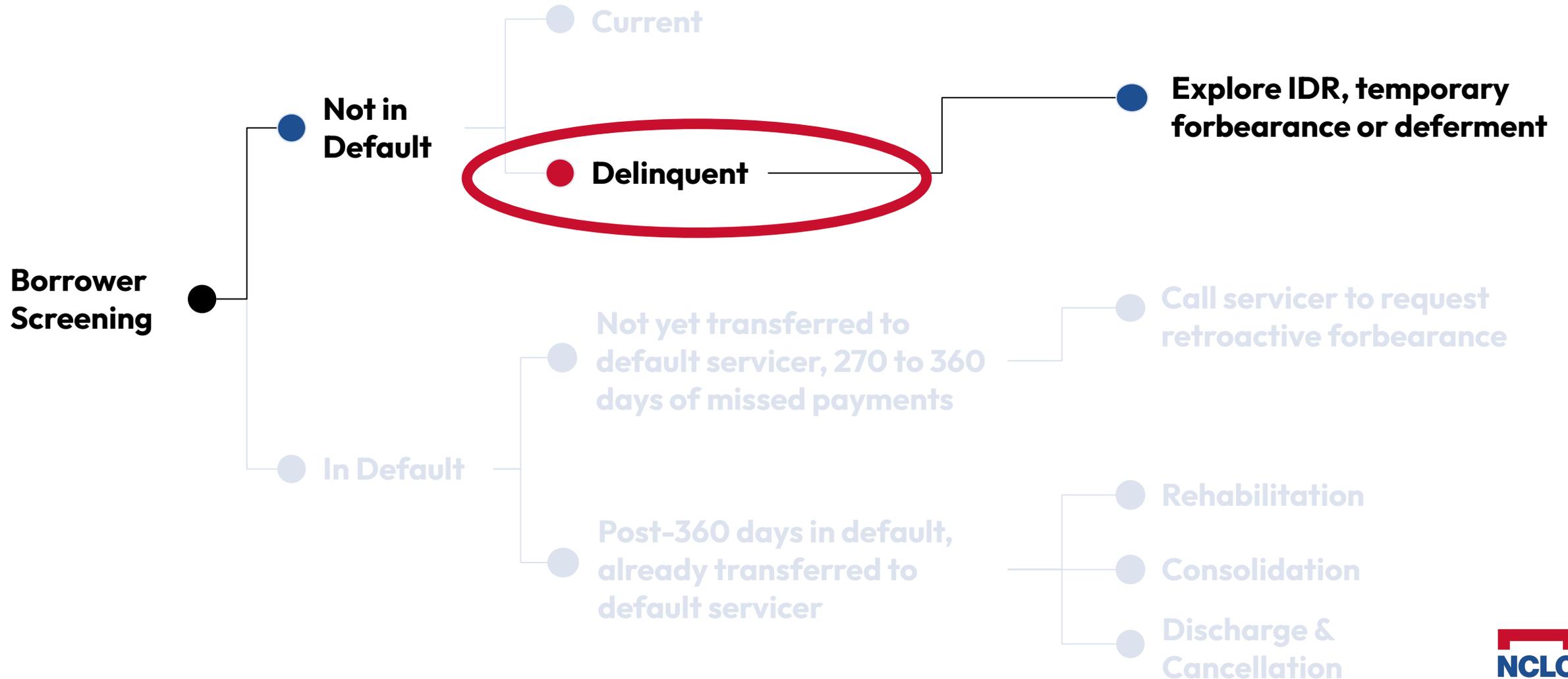
- Because of changes in studentaid.gov's user experience, it may be **more difficult to find loan type information without the borrower's .txt file**.
- But looking at who the **loan servicer** is can help clue you in on what type of loans the borrower may have.
- If a loan is in default, and the servicer is the **Default Resolution Group (DRG)**, it **could be a Direct, FFEL, or Perkins loan** (you'll need to confirm loan type with the .txt file).
- If the loan is in default, and **the servicer is not DRG**, you're not dealing with a **Direct loan**, and it is likely a **FFEL Loan** (as in the example here).



What about
borrowers who
are at risk of
default, but
haven't
defaulted yet?



Roadmap for resolving default



Pre-default options for Borrowers at risk of default

- Explore enrolling in an **income-driven repayment (IDR) plan** for affordable monthly payments based on the borrower's income and family size and earns credit toward loan cancellation.
 - If the borrower is already in an IDR plan, look at options for **switching plans**, some plans may be cheaper than others.
 - Use the Department of Education's [Loan Simulator tool](#) and the [EDCAP repayment calculator](#) to help estimate payments.

Pre-default options for Borrowers at risk of default

- Consider a **temporary deferment & forbearance**.
 - These should be **used sparingly**, and only if the borrower can't afford another payment plan.
 - There are **time limits** for deferment and forbearance, **interest still may accrue** on the loan, and time in deferment and forbearance generally **doesn't count toward PSLF or IDR cancellation**.
 - For more information, see studentaid.gov/manage-loans/lower-payments/get-temporary-relief/deferment

Pre-default options for Borrowers at risk of default

■ We'll talk more about **repayment options,**
■ **deferments, and forbearances** in our
August webinar.

Default
collection
tools & notice
requirements



What the government can do when collections turn back on

To collect a defaulted loan, the government can:

- **Seize tax refunds** without a court order,
 - This is a blanket seizure of all of the borrower's tax refund, including the **Earned Income Tax Credit and Child Tax Credit**, supposed to help low-income families and families with children.
- **Offset a portion of Social Security benefits** without a court order
 - The first \$750 in benefits per month is protected, and then the government **can take up to 15%** of the borrower's benefits, as long as your remaining monthly benefit stays above \$750.
 - SSI and VA benefits are fully protected and can't be offset.
- **Garnish wages** without a court order,
 - The government can only take amounts above 30x the federal minimum wage of the borrower's wages is protected, **\$217/week**, or **15% of the borrower's disposable pay**, whichever is smaller.
 - Disposable pay is the amount of a borrower's pay remaining after withholding for taxes, health insurance, etc.

Roadmap for resolving default

An initial 65-day default notice is sent when the loan in default is transferred to the default servicer.

Borrower Screening

In Default

Post-360 days in default, already transferred to default servicer

Rehabilitation

Consolidation

Discharge & Cancellation

What notices will the borrower get when they default?

- Before the government can take any steps to collect on a defaulted loan, such as seizing the borrower's tax refund, wages or federal benefits, the **government must send the borrower a notice by mail to their last known address**. This notice is the **first alert** for the borrower to take steps to get their loans out of default to prevent collection from starting altogether.
- **Initial 65-day default notice –aka the “Default Welcome Letter”**
 - After a borrower first defaults, but before collection begins, the Department of Education **must notify borrowers that their loans are in default** and that the Department of Education is **sending the debt to the Department of Treasury for collection**.
 - This notice is sent **as soon as the borrower's account is transferred to the default loan servicer**, Default Resolution Group (DRG), and uploaded to the Department of Education default collection system.
 - The **notice lists the involuntary collection actions the government may take to collect the debt**, such as refund offset, benefit seizure, and wage garnishment, but doesn't specify which type of collection the borrower will be subject to.

What notices will the borrower get when they default?

The 65 Day Notice gives the borrower **65 days to act** to remove their loans from default to **stop collections from starting**. It is also an opportunity for the borrower to **object** if they believe their loans should not be in default.

Can borrowers stop collections after getting the notices?

- After receiving the initial 65-day notice/default welcome letter, the borrower **must take the following steps within 65-days of the date listed on the notice if they want to prevent collections** from occurring:
 - Submit a **signed consolidation application**
 - Enter into a **rehabilitation agreement** and **make at least one payment** within the 65 days.
 - **Pay off the debt in full** or enter into a **voluntary repayment agreement**
 - **Warning! the loans will still be in default** during the repayment agreement. And this agreement is different from a rehabilitation agreement.
 - Raise a **valid objection to the debt**. This is usually done through a written request for review.
- If the borrower does not take any action within 65 days of the date of the notice, **the debt will be certified for collections and the government may start collection actions.**

Can borrowers stop collections after getting the notices?

- Again, collections are currently paused for now, but borrowers getting these letters **should not wait** to raise objections or dispute the debt if they want to prevent collections from occurring once they're turned back on. The collections pause gives **borrowers time to try to get out of default now**, but the rest of the timelines may still apply.

Common objections to collections

■ Statutory Discharge:

- If the borrower is eligible for for statutory discharge, such as [Total and Permanent Disability \(TPD\) Discharge](#), [Borrower Defense](#), or [Closed School Discharge](#), they **should immediately submit a [discharge application](#) and respond to the initial 65-day notice/default welcome letter objecting** to collection based on their eligibility for a discharge (and attaching a copy of the submitted application)

■ Financial Hardship:

- The borrower can **object to the collections based on a [financial hardship](#)**. There are different hardship standards based on what kind of collection action the government is taking (tax refund offset, wage garnishment, etc.).

Common objections to collections

We'll go over **loan cancellation, forgiveness, and statutory discharge programs** in our **May webinar.**

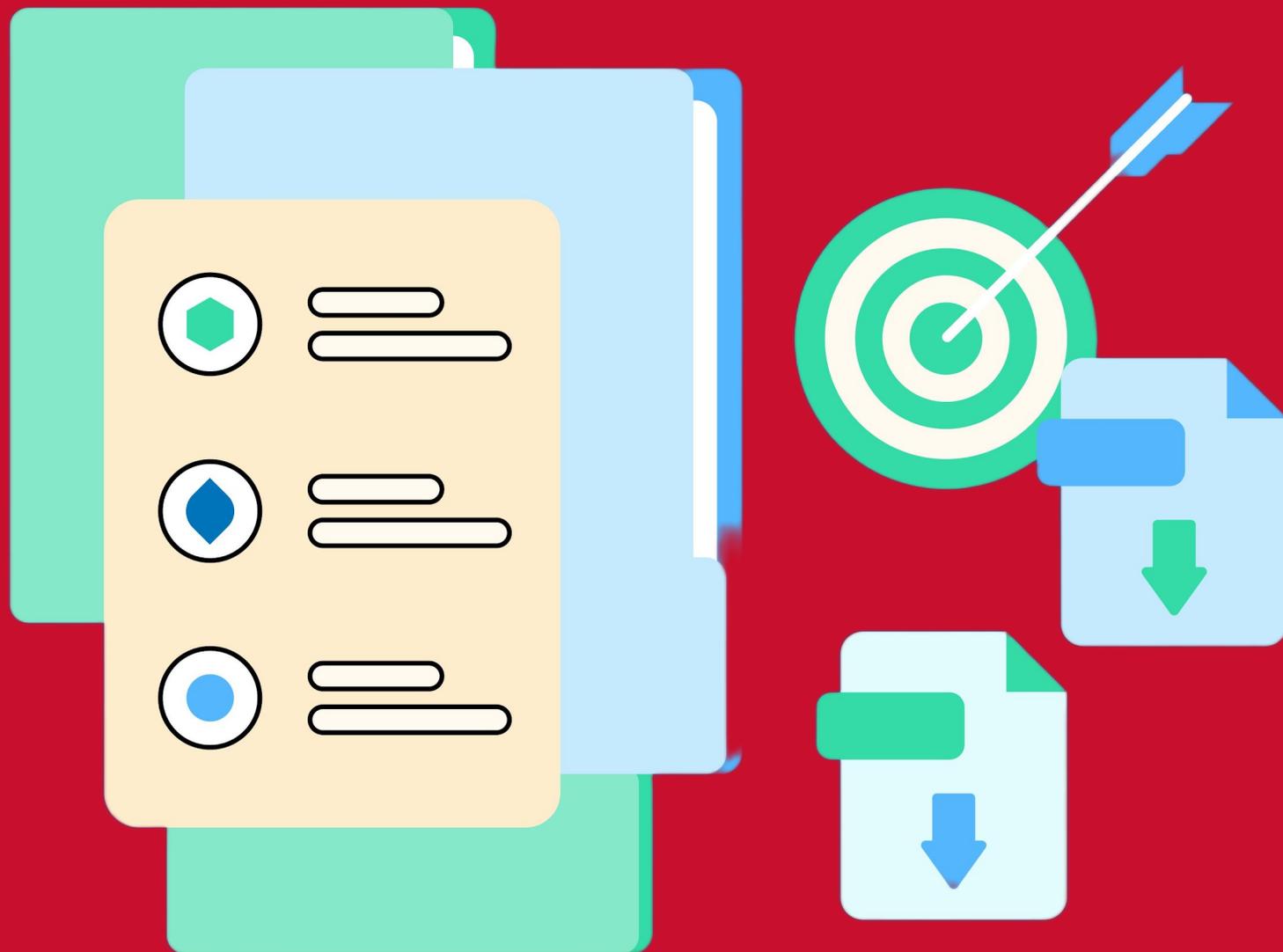
Will the borrower get more notices?

- Typically, the **65-day notice is provided to borrowers only once**—borrowers who have been in default for a long time may not remember receiving it.
- Additionally, **if borrowers have moved since the last time they updated their address with their loan servicers**, they may not have received the notice. The government sends it to the last known address on file for the borrower. It's critical that borrowers update their addresses with their loan servicers and on studentaid.gov in order to make sure they receive notices about their loans.
- Borrowers who have loans that defaulted prior to March 2020 (before the COVID-19 payment pause) **will not receive a new 65-day notice**.
- Borrowers who **defaulted after the payment pause and on-ramp period are now beginning** to receive the initial 65-day notice/default welcome letter.

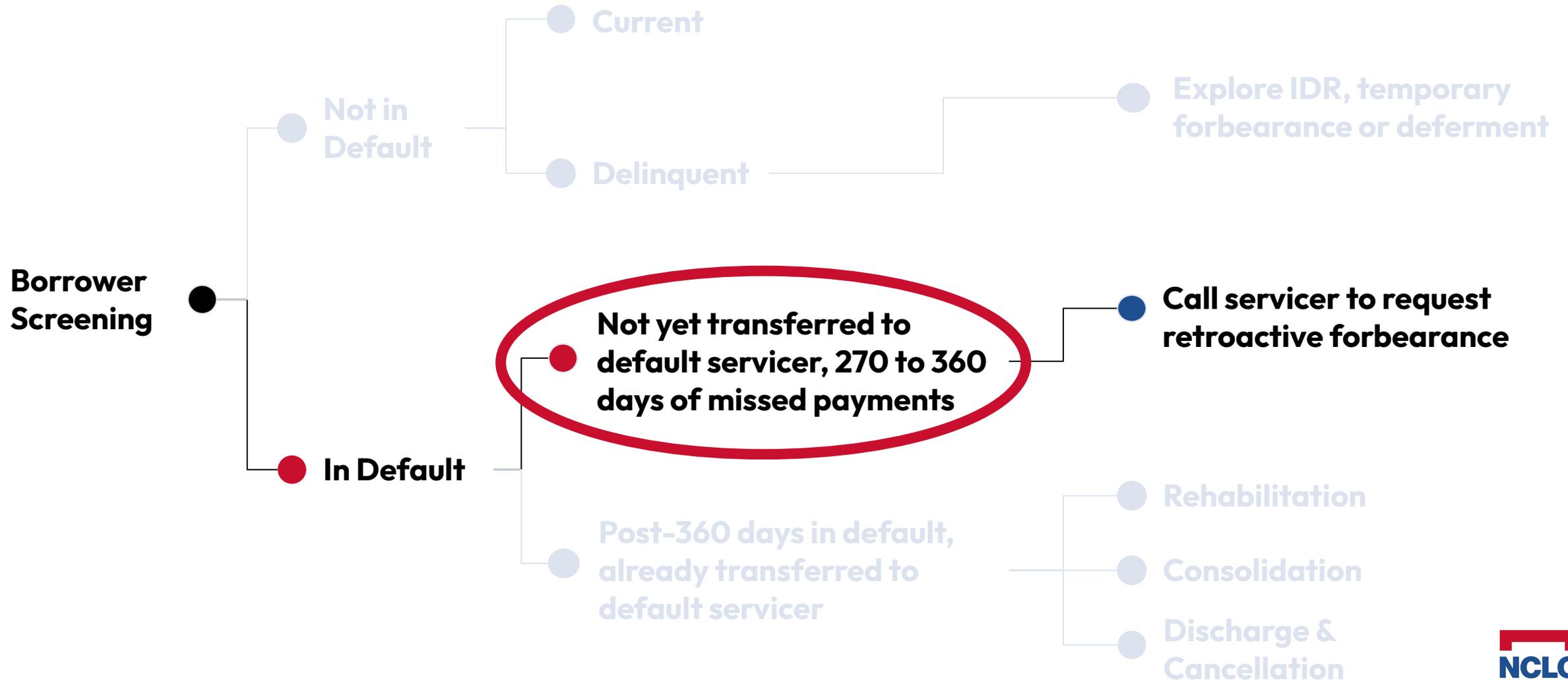
Will the borrower get more notices?

- Borrowers who are subject to **tax refund offset will generally only receive the 65-day initial notice/welcome letter** before their tax refund is taken.
- Borrowers who are subject to wage garnishment or a benefit offset **should receive at least one additional notice, generally 30-days before the offset or wage garnishment begins.**
- If the **borrower acts within the time period on the notice**, they may be able to stop the government from beginning to use those collection powers.
 - Again, to stop collections, they must take steps to either **get out of default** (through consolidation or rehabilitation), **object to the collection**, or enter into a **voluntary payment agreement**.

Getting out of default



Roadmap for resolving default



Borrowers won't typically get a notice of their default until their loan is transferred to a default loan servicer. They may get "last chance" notices from their servicers before they're in default, but not always, so this is something you'll have to catch and identify with the borrower.

Borrower Screening

In Default

● **Not yet transferred to default servicer, 270 to 360 days of missed payments**

● Post-360 days in default, already transferred to default servicer

● Explore IDR, temporary forbearance or deferment

● Call servicer to request retroactive forbearance

● Rehabilitation

● Consolidation

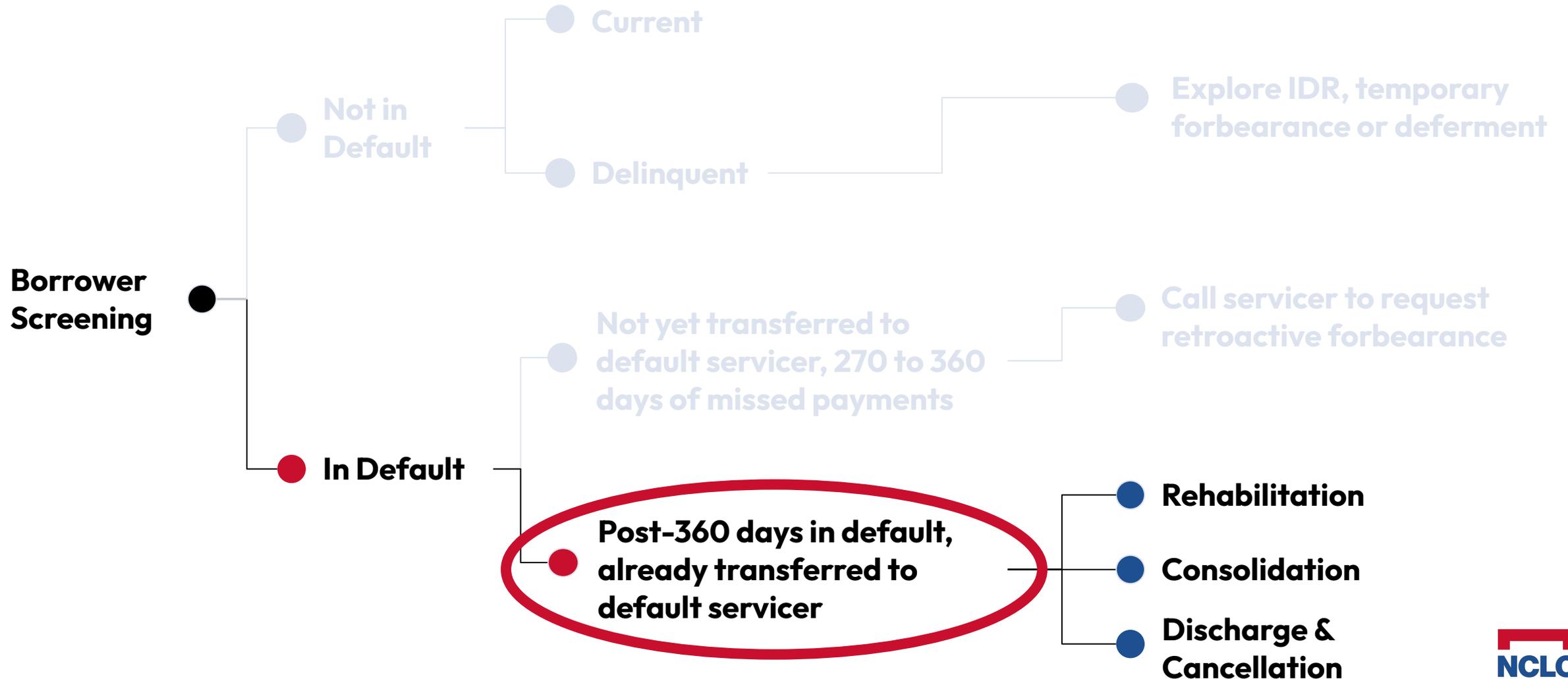
● Discharge & Cancellation

Retroactive forbearance for newly defaulted borrowers

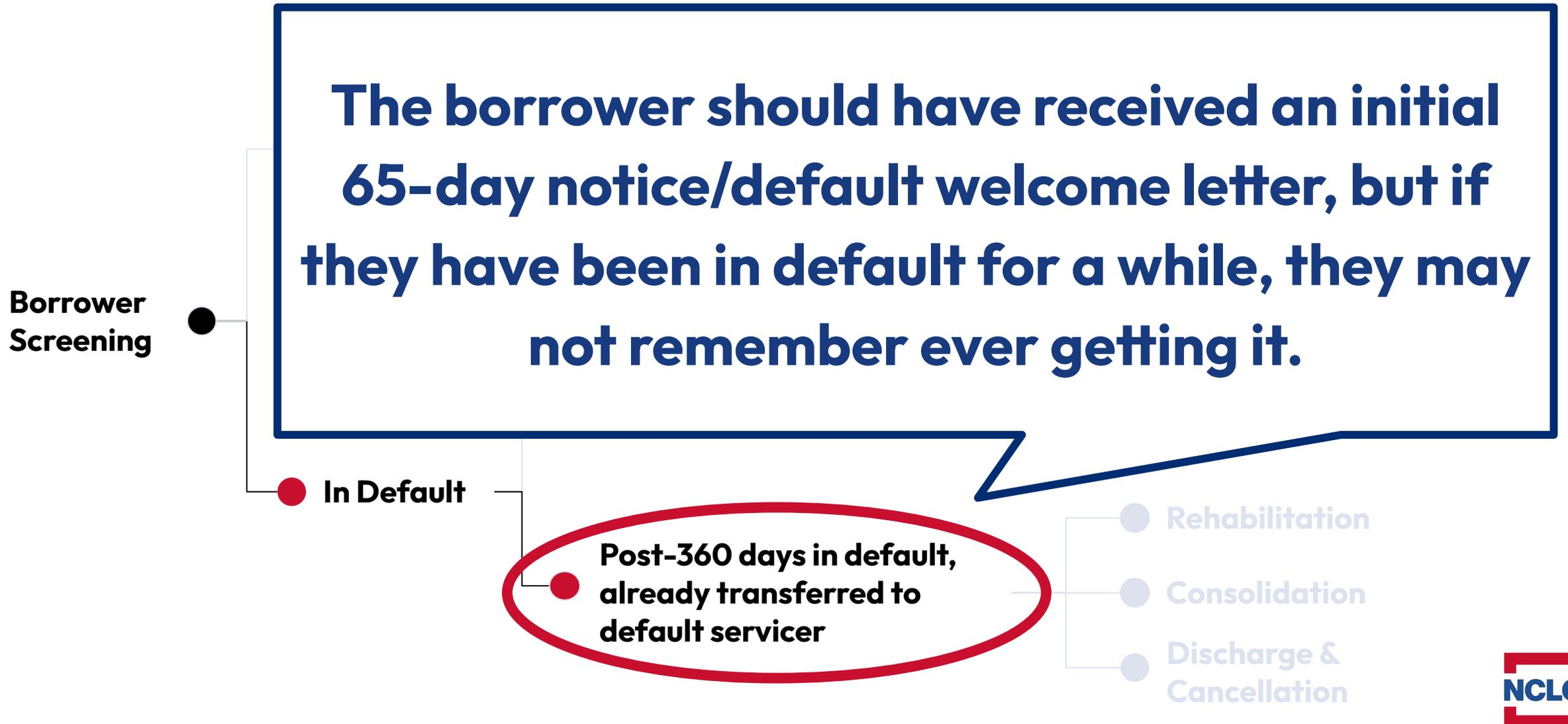
Are you working with a borrower who recently defaulted?

- If a borrower is more than 270 days behind on their student loan payments but has **not yet been transferred to the default loan servicer** (Default Resolution Group), there may be a **short window to quickly get them out of default before the transfer** takes place!
- Typically, federal loans that are held by the Department of Education are **transferred to the Default Resolution Group for default servicing after 360 days** of nonpayment.
- If you're working with a borrower who is within that window (usually between 270 and 360 days of nonpayment), you can **call their current loan servicer and ask to have the borrower placed in a retroactive forbearance**. Borrowers can also ask to apply for an IDR plan.
- This is a critical tool to help newly defaulted borrowers **get back into good standing quickly and easily**.

Roadmap for resolving default



Roadmap for resolving default



Ways to get out of default

1. Pay off the **all** of the debt.
2. Pay off the defaulted loan by **consolidating** it into a new Direct Consolidation Loan.
3. Enter into a **rehabilitation agreement** where the loan will be put back into good standing after you make 9 on time monthly payments in a row.
4. Apply for a **statutory discharge** to cancel or forgive the debt in default and have the Department of Education grant that discharge.
5. File for **bankruptcy**.



Ways to get out of default

1. Pay off the **all** of the debt.
2. Pay off the defaulted loan by **consolidating** it into a new Direct Consolidation Loan.
3. Enter into a **rehabilitation agreement** where the loan will be put back into good standing after you make 9 on time monthly payments in a row.
4. Apply for a **statutory discharge** to cancel or forgive the debt in default and have the Department of Education grant that discharge.
5. File for **bankruptcy**.

Most common paths out of default.

Consolidation vs. loan rehabilitation

■ Consolidation:

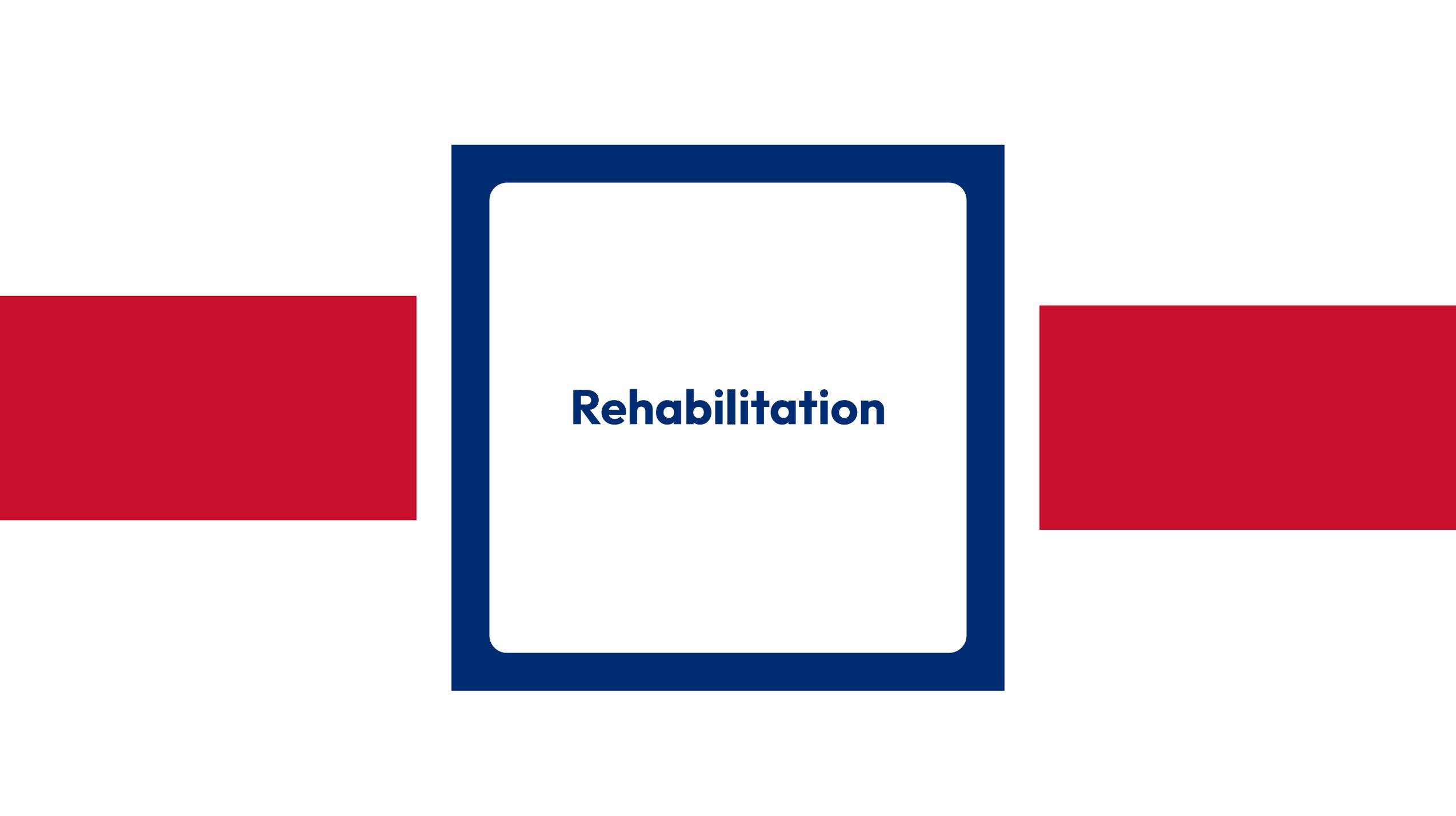
- Creates a **new federal loan** that pays off the old defaulted loans.
- A borrower can consolidate a **single loan** into a Direct Consolidation Loan or can consolidate **multiple loans**.
- To consolidate out of default, there are **certain steps** the borrower must take.
- There are major **cons to consolidating**, so beware of the risks.
- Consolidating **after July 1, 2026** will change a borrower's repayment options.

■ Loan rehabilitation:

- The borrower enters into a **temporary repayment agreement with the default loan servicer** to “rehabilitate” the loan, bringing it current.
- Requires **9, on-time, consecutive, monthly payments**.
- Until new rules take effect, **rehabilitation can only be used once**.

Consolidation vs. loan rehabilitation

Borrowers are generally limited to doing consolidation or rehabilitation **only once to get out of default, but there are exceptions to this. Additionally, although rare, if a borrower **had a judgment** entered against them for a defaulted federal student loan, they can't get out of default using rehabilitation or consolidation.**



Rehabilitation

Rehabilitation

- **Make 9 out of 10, on-time, consecutive, “reasonable and affordable,” monthly payments.**
- **“Reasonable and affordable” payments based on a particular calculation.**
- **There is a minimum payment of \$5 per month.**

How are rehabilitation payments calculated

- Typically, the rehabilitation agreement payment is calculated using the IBR formula:
 - **15% of adjusted gross income above 150% of the poverty level, divided by 12,**
 - **Income is calculated based on the borrower's past two tax returns** (spouse's income is included in the calculation if they jointly file taxes).
- But, if the payment is too high, or the borrower can't submit their tax returns, then there is an **alternative repayment calculation** that can be used.
- The alternative payment is calculated as **15% of the difference between the borrower's household income and reasonable expenses.**
- In order to qualify for this, the borrower **must submit the form below, along with proof of their income and expenses:**
 - studentaid.gov/sites/default/files/LoanRehabilitationIncomeandExpense-en-us.pdf

Pros of rehabilitation

Pros of rehabilitation:

- Default notation on credit report is removed (but not the negative history).
- Preserves certain defenses (such as Borrower Defense to Repayment) that aren't preserved with a consolidation.
- Avoids the potential loss of IDR credits, which they may lose if they consolidate.

Cons of rehabilitation

Cons of rehabilitation:

- Until new rules go into effect, this option **can only be used once**, so if a borrower defaults again and has already completed a loan rehabilitation, they won't have this as an option until the rules change
 - The new rule will allow borrowers to use rehabilitation **up to two times** and should go into effect July 2027.
 - **Pro tip:** if the borrower tried, but didn't actually complete the loan rehabilitation the first time (didn't make all the payments or sign the agreement), they still can use this as an option!
- Some borrowers find it **difficult to keep up the the 9 monthly payments**.
- Borrowers also need to make sure they make a plan for how they will keep up with payments once the rehabilitation is complete.
 - They should take steps to **apply for IDR or they will be automatically be placed into the Standard plan**, which they may not be able to afford ongoing.

Steps to rehabilitate a defaulted loan

1. The borrower **must call the default servicer and request a rehabilitation agreement**. The borrower can also **request that any collections stop**.
 - The borrower should be prepared to **tell the servicer their income**. The servicer will then tell the borrower what their **estimated monthly payment will be**, and the borrower can either **choose to begin paying immediately or wait until the agreement is finalized**.

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3. The servicer will send the borrower the rehabilitation agreement, which will say how much they must pay a month. The borrower **must sign and return the agreement.**

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5. Once the loan rehabilitation is completed, the borrower's loans will **be moved to a new servicer**. In the past, the borrower's payment would remain the same as in the rehabilitation agreement for 90 days, giving the borrower time to sign up for **IDR plan**. If they don't sign up for an IDR plan, the loans will be placed back into a **Standard plan**.

Steps to rehabilitate a defaulted loan

1.

Watch out for notices, and make sure the borrower has a **plan for**

2.

paying the loans back after the

3.

rehabilitation has been completed,

4.

so they don't risk falling into

5.

default again.

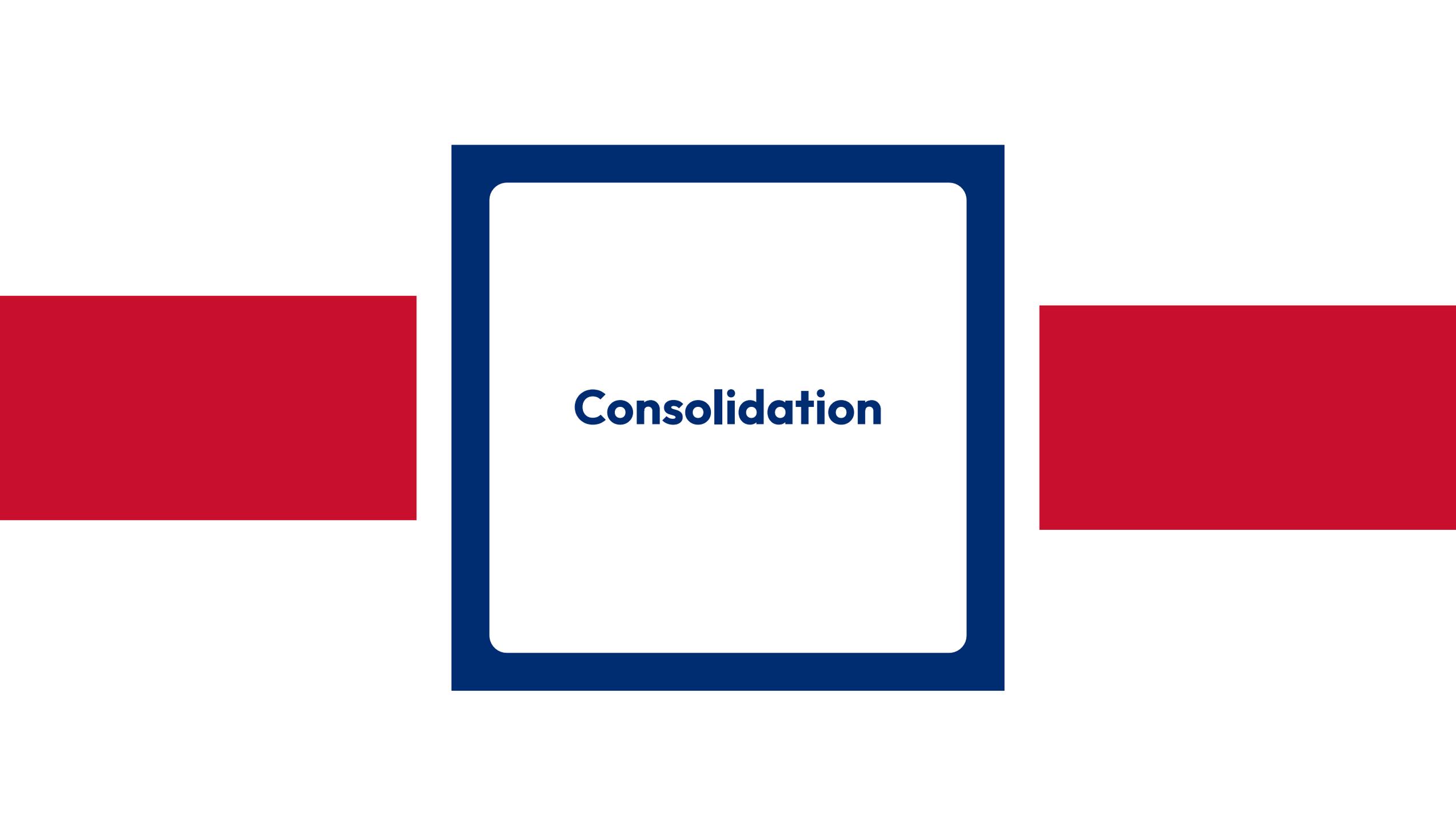
placed back into a Standard plan.

Notes about loan rehabilitation

- If collection has **not started**, the borrower can object to collections and tell the default servicer that they entered into a rehabilitation agreement on a specific date and want collections to stop.
- If collection **has already started**, entering into a loan rehabilitation agreement generally will not stop collections. The borrower must continue paying their loan rehabilitation agreement even if their wages are garnished or their tax refund is taken.
 - After **5 months** of on-time rehabilitation agreement payments, the borrower can call their default servicer to ask that wage garnishment stop.
 - There is **no guidance for when tax refund or Social Security benefits offset stop**.

Notes about loan rehabilitation

- When the borrower enters the rehabilitation agreement, they should **still request that all collections stop**, including tax refund and Social Security benefits offset. They should repeat the request in writing when they return the signed rehabilitation agreement and documentation. But if the collections continue, the borrower **still needs to make their rehabilitation agreement payments to stay on track to rehabilitate their loans.**

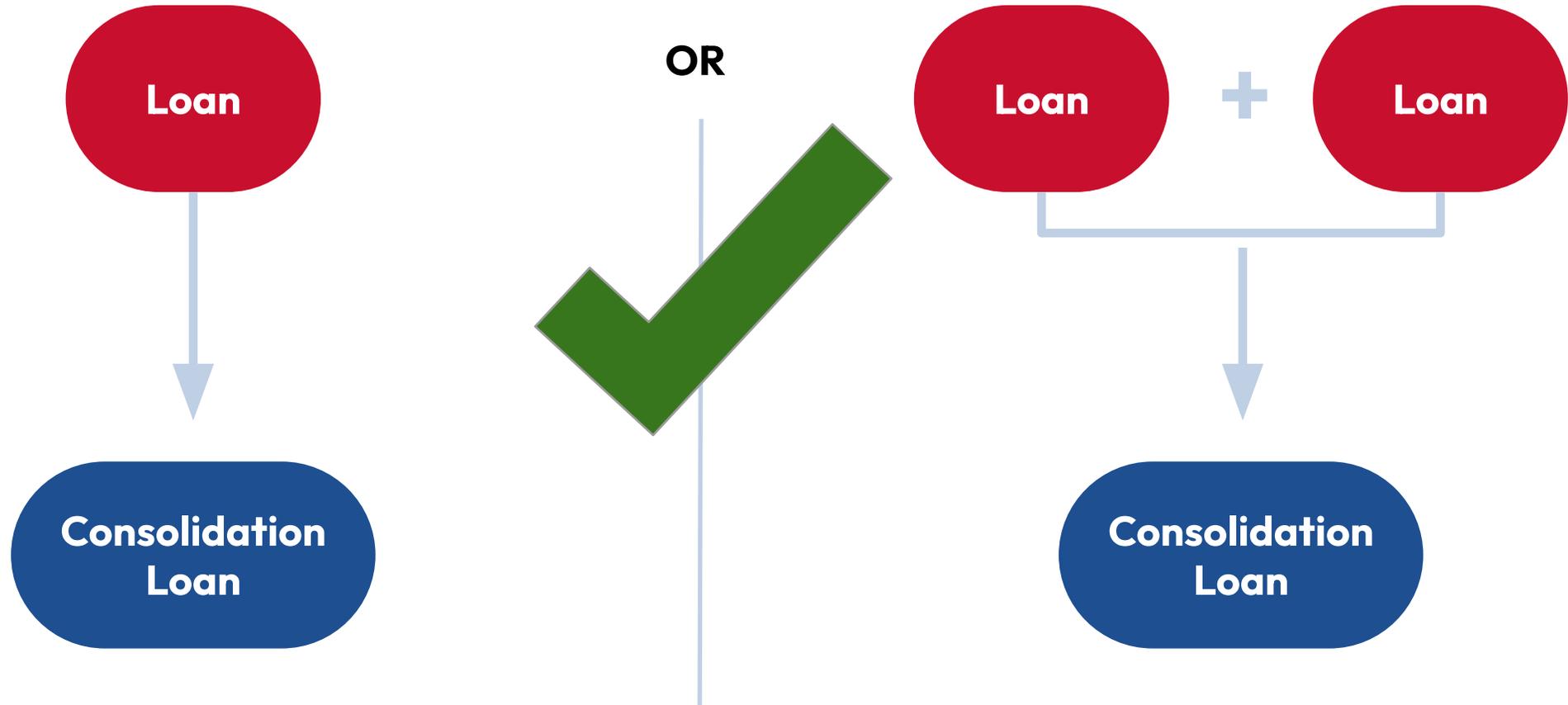


Consolidation

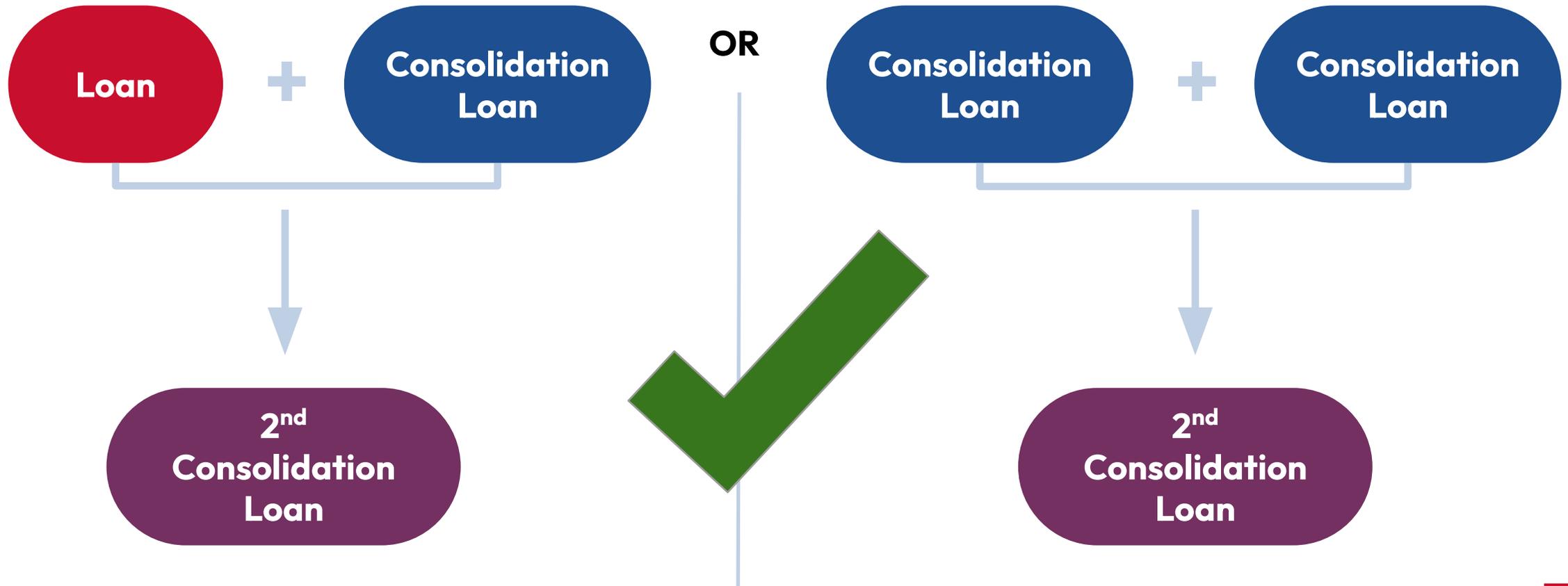
Consolidating a loan to get out of default

- To consolidate a defaulted loan, the borrower has to apply **for a new Direct Consolidation Loan**, and during the application process must choose to either:
 - apply for an **income-driven repayment (IDR) plan**, or
 - make **3 voluntary, on time, full, monthly payments**.
 - In the past, this was calculated the same as a rehabilitation or IBR payment.
- Borrowers who are subject to **wage garnishment can't use consolidation** to exit default.
- If a borrower consolidated their loans in the past, and **only has a single Direct Consolidation Loan, they will not be able to re-consolidate** that loan to get out of default now. If they have other loans they can consolidate those with a previous consolidation loan.
 - If the borrower only has a FFEL consolidation loan, they **can apply to consolidate the single FFEL consolidation loan** into a new Direct Consolidation Loan.

Wait, when can you consolidate again?



Wait, when can you consolidate again?



Wait, when can you consolidate again?

**Consolidation
Loan**

X

**A single consolidation
loan generally cannot
be re-consolidated on
its own, unless it is a
FFEL consolidation
loan**

Things to consider before consolidating

- Consolidating loans may **reset credits toward IDR loan forgiveness**, which means borrowers close to loan forgiveness may have to restart the process.
- The **principal** for the new consolidation loan will include the interest, principal and fees that the borrower owed on the defaulted loans before consolidating.
- The **interest rate** for the new consolidation loan will be an average of the interest rates of the loans being consolidated.
- Borrowers with pending or potential borrower defense claims could end up being subjected to **harsher standards** that may be almost impossible to meet.
- There is a huge **backlog for processing IDR applications**, and it's unclear whether that is impacting borrowers trying to consolidate out of default now.

Things to consider before consolidating

Please let NCLC know if you see borrowers that are able to consolidate out of default quickly, or, conversely, if you see borrowers that have been **waiting a long time** for their loans to be removed from default.

Warning flag for consolidating now

- Because of changes being implemented as a result of the Big Bill, **if a borrower's consolidation loan is disbursed after July 1, 2026**, their repayment options will be significantly different.
- Borrowers with **any loans issued or disbursed after July 1, 2026, including consolidation loans, will only have access to the Standard or the RAP plan**,
 - And any borrowers with **Parent PLUS loans will only have access to the Standard plan**.
- It can take months to process consolidation applications, so borrowers who want to maintain access to the older repayment options, **especially Parent PLUS borrowers, should consider consolidating ASAP, but no later than April 1st**.
- **More information at:**
 - studentloanborrowerassistance.org/do-you-have-parent-plus-loans-act-now-to-lower-your-payments-before-options-disappear/
 - studentloanborrowerassistance.org/big-bill-means-big-changes-for-student-loan-borrowers-what-you-need-to-know/

How to apply for a new Direct Consolidation Loan

- A borrower can apply for a new Direct Consolidation Loan to get their loans out of default [online](#) or via a [paper](#) application. View a [demo of the online consolidation application](#).
- For the application the borrower will need:
 - their **personal information**, including their SSN, employer name and address, driver's license number, contact info, and two references, and
 - **information about each loan they want to consolidate**, including the loan code, loan holder/servicer + address/phone number, loan account number, and outstanding balance.
 - If applying online, some of this information will be filled in automatically, but double check it!
- On the application, the borrower must indicate whether they will be applying for **an IDR plan or making 3 on-time consecutive monthly payments** to consolidate out of default.
 - If applying online, the borrower should be able to complete the **online IDR application** during the process, but they can also submit a **paper IDR application**.

After the consolidation application is submitted

- The borrower should **carefully watch their mail and email** for notifications about the application.
- Once the borrower receives notice that the application is granted, they should **check** that all the loans they wanted in the consolidation loan were included.
 - If not (or if loans were included that the borrower did not want included) call the loan servicer right away to correct the mistake—**there is only a short window to fix any errors.**
- Make sure the borrower has **a plan to repay the loans moving forward**, so they don't risk defaulting again.

When does consolidation stop collections?

- If collections have not started on the loan, the borrower should respond to any default collection notices, **telling the Department of Education that they submitted a consolidation application** and requesting that collections be paused.
- If collections have already started, the collections may continue **until the consolidation application is granted and the new consolidation loan is disbursed**.



**Statutory
Discharges**

Loans are eligible for statutory discharges even if they're in default!

- This includes:
 - **Closed School Discharge**
 - **False Certification Discharge**
 - **Unpaid Refund**
 - **Borrower Defense**
 - **Total and Permanent Disability Discharge**
- Note: Defaulted loans are **not eligible for PSLF** (and time in default is not qualifying repayment for PSLF). But the borrower can be eligible for PSLF after putting loans back into good standing.

Screen for the statutory discharges!

- **Getting a borrower's loans canceled or forgiven through a statutory discharge program not only resolves the default, it makes the entire debt go away!**
- If you are working with a borrower who may be eligible for statutory discharge, you can start working with them on that right away.
- It's a good idea to also **consider a separate plan for removing borrower from default** even if an application for a discharge is pending, as the applications can take time to process.
 - Remember that **loan consolidation can change a borrower's options or path forward for certain discharge and cancellation programs**—consolidation resets the IDR forgiveness clock and may change the standard the borrower has to meet for a Borrower Defense application.

Screen for the statutory discharges!

- **Many borrowers aren't aware they're eligible for**
- **have their debts resolved this way. Some**
- **applications are fairly easy and quick to submit, such as the TPD application, so make sure to screen every borrower for these types of programs. We'll go over**
- **loan cancellation, forgiveness, and statutory discharge programs in more detail during our May webinar.**

Are you eligible to have your loans canceled, forgiven, or discharged?

See page 13 of the toolkit. Check the boxes below if any of these apply to you, and review your options for loan cancellation or forgiveness.

Total & Permanent Disability Discharge

- Are you unable to work due to an ongoing disability or a physical or mental condition?
- Do you receive some type of disability benefits, such as VA benefits, SSI benefits, or Social Security benefits?
- Are you retired and not able to go back to work due to a disability?

If you checked any of these boxes, you may be eligible to have your federal student loans canceled through the Total & Permanent Disability Discharge program.

Apply for Relief: Get information about how to apply for a Total & Permanent Disability Discharge at studentaid.gov/cancellation/discharge.

Public Service Loan Forgiveness (PSLF)

- Do you work full-time in a public service job (at least 30 hours or more per week)?
- Is your public service employer a government, 501(c)(3) nonprofit organization, or other nonprofit organization that provides a public service?

If you checked these boxes, you may be eligible to have your federal student loans (making 120 qualifying payments) while working in a public service job.

Only Direct Loans are eligible for PSLF, so if you have other federal student loans, you may need to consolidate them into a Direct Loan.

Apply for Relief: Start earning credit toward PSLF or apply for forgiveness using the Department of Education's online PSLF Help Tool at studentaid.gov/pslf.

Did you attend any of the following schools?

Check all that apply. If you attended any of the following schools, the Department of Education may have made eligibility findings for your school, or may have decided to automatically cancel the loans borrowed to attend these schools through the Borrower Defense to Repayment program. See page 13 of the toolkit, "Are You Eligible to Have Your Loans Canceled, Forgiven, or Discharged?"

- Ashford University
- CEHE Schools:
 - CollegeAmerica
 - Independence University
 - Stevens-Henager College

Use NCLC's Student Loan Toolkit to screen for cancellation & discharge programs and get information about applying!

- University of Phoenix
- Westwood College
- The Art Institutes

NOTE: For more information on automatic cancellation, visit studentaid.gov/announcements-events/borrower-defense-update.

When does a statutory discharge application stop collections?

- **This depends** on the regulations and subregulatory policies of each discharge program.
- But the borrower **can object to collections** if the borrower has submitted an application for a statutory discharge. The borrower must raise an objection in the time given to them on the collection notice.
- If the borrower's loans are ultimately discharged, canceled, or forgiven, the collections should not continue, as the **debt is no longer owed**.

Summing up & questions



Key takeaways

- **Millions of borrowers are in default** on their federal loans.
- The government can **take wages, tax refunds, social security benefits, and other federal benefits** to pay off the defaulted debt.
- **Collections are currently paused, but may begin again soon!**
- The **government will send notices** before it starts collection. If a borrower gets a notice, don't wait—**get those loans out of default or take other steps to prevent collection in the future.**
- Generally, a borrower can get out of default by **consolidating the defaulted loan or completing a loan rehabilitation agreement.**
- Getting a borrower's loans **discharged or canceled** will also resolve the default.
- If a borrower can't get out of default, they may be able to reduce or stop collections by **objecting or entering into a voluntary payment agreement.** One type of objection is that collections would cause the borrower financial hardship—**but this requires specific proof.**



QUESTIONS?



Additional Resources

Previous Training Materials

- All materials are available on the landing page here: studentloanborrowerassistance.org/for-advocates/training-upcoming-events/training-for-financial-counselors-other-professionals/
- ***The Ins and Outs of Student Loan Basics***, held on January 29, 2026:
 - Recording: vimeo.com/1169954605/3702fd52cd
 - Slides: studentloanborrowerassistance.org/wp-content/uploads/2026/03/Slides-The-Ins-and-Outs-of-Student-Loan-Basics-1.29.26-1.pdf
 - FAQs: studentloanborrowerassistance.org/wp-content/uploads/2026/03/Follow-Up-QA-Student-Loan-Basics.pdf

Today's Key Links

- [Studentaid.gov](#)
 - [Video on where to find student loan information on studentaid.gov](#)
 - [Video on loan types](#)
- [Online Consolidation Application](#)
- [Default Resolution Group \(DRG\) website](#)
- [Paper Consolidation Application](#)
 - [Instructions for application here](#) (with loan type codes)
 - [Additional loan listing sheet](#)
- [Paper Income Driven Repayment Application](#)

Relevant Links

Student Loan Basics

- [Federal Student Aid \(FSA\) Home Page](#)
- [FSA ID: Login, Reset, Create](#)
- [William D. Ford Direct Loan Program](#)
- [Federal Family Education Loan \(FFEL\) Program](#)
- [Perkins Loans](#)
- [Direct Plus Loans](#)
- [Direct Loan Servicers](#)
- [Borrowing Limits](#)
- [Federal Student Loan Interest Rates](#)

Relevant Links

Repayment Plans

- [Traditional Plans](#)
- [Income-Driven Repayment \(IDR\) Plans](#)
- [IDR Q&A](#) (comprehensive guide to IDR plans)

Relevant Links

Deferment & Forbearance

- [Deferment](#)
- [Forbearance](#)

Relevant Links

Forgiveness, Cancellation & Discharge Programs

- [Public Service Loan Forgiveness \(PSLF\)](#)
 - [PSLF Help Tool](#)
 - [PSLF Certification Form \(PDF\)](#)
- [Income Driven Repayment Forgiveness \(IDRF\)](#)
- [Teacher Loan Forgiveness \(TLF\)](#)
- [Total and Permanent Disability Discharge \(TPD\)](#)

Relevant Links

Forgiveness, Cancellation & Discharge Programs, (cont'd)

- [Borrower Defense to Repayment \(BDR\)](#)
- [Closed School Discharge](#)
- [Perkins Cancellation](#)

Relevant Links

Consolidation

- [Basics](#)
- [Payback periods in Traditional Plans for Consolidation Loans](#)

Relevant Links

Delinquency & Default

- [Delinquency](#)
- [Default](#)
- [Getting out of Default](#)

File a Complaint

- [FSA Complaints Portal](#)
- [FSA Ombudsman](#)
- [Consumer Financial Protection Bureau](#)

Relevant Links

Federal Student Aid (FSA): Key Pages and Tools

- [Announcements](#)
- [Contact Information](#)
- [Forms Library](#)
- [Loan Simulator](#)
- [SAVE Plan Court Actions Updates](#)

NCLC's Student Loan Borrower Assistance Website

Changes Coming

Big changes may be coming to the student loan system. **Two court decisions** have temporarily blocked parts of the SAVE Plan from taking effect, which has also impacted borrowers' rights to other benefits and repayment plans. The Department of Education and Congress are also considering other changes to student loan repayment and discharge programs.

Sign up to receive the latest NCLC student loan news and updates via email. Borrowers can also get more information on the Department of Education's website: studentaid.gov.

Latest News

Big Bill Means Big Changes For Student Loan Borrowers: What You Need to Know

July 15, 2025

Student Loan Collections Are Back—Here's What You Need to Know

July 3, 2025

Screenshot Your IDR Progress Today

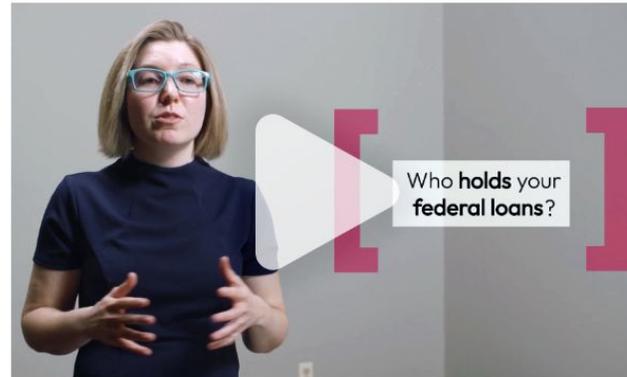
April 25, 2025

Common Issues

- [Understanding your loan situation](#) →
- [Help with repayment](#) →
- [Stop collections and get out of default](#) →
- [Cancellation and other relief](#) →
- [Get more help](#) →

Help Videos

Watch NCLC's **help videos** for tips on a number of student loan issues.



Share Your Story



Have issues with your student loans, loan servicers, or repayment? NCLC wants to hear from you! NCLC shares stories about borrower issues with lawmakers and policy advocates on a regular basis. [Share your story here!](#)

- studentloanborrowerassistance.org
- Learn the **latest student loan news** and what borrowers need to know.
- **Find answers** to common student loan questions.
- Get links to **applications for relief** and **referral information** for other help.
- Watch **help videos** from NCLC and the Department of Education.
- **Share stories** with NCLC to help make the student loan system work for borrowers.



STUDENT LOAN TOOLKIT

A GUIDE FOR ADVOCATES AND BORROWERS



May 2024
Updated March 2025

NCLC's Student Loan Toolkit

- A guide for advocates and borrowers.
- Includes **fillable pages** that can be used as a roadmap to:
 - **guide meetings** with borrowers,
 - **collect key information**, and
 - **document information** for the borrower to refer back to as needed.
- An updated version is coming in 2026.
- nclc.org/resources/student-loan-toolkit

Student Loan Video Series

These videos provide information that all borrowers should know:

- [Know what type of loan you have](#)
- [How to use studentaid.gov](#)
- [Who's Who in the Federal Student Loan System](#)
- [Federal Student Loan Repayment Options](#)
- [Do You Have FFEL or Perkins Loans?](#)
- [Parent PLUS Loans](#)
- [Loan Forgiveness and Relief Programs](#)
- [Dealing with Default](#)
- [Private Student Loans](#)





Student Loans Practice Suite

Navigating student loan debt can be confusing and stressful, especially as the landscape constantly changes. Resources for advocates defending student loan borrowers are below, including a number of helpful videos.

library.nclc.org/student-loan-practice-suite



Student Loans Practice Suite

Navigating student loan debt can be a challenge as the landscape constantly changes. Resources for borrowers are below, including:

Collection of all of these resources and more, including recorded webinars and trainings

library.nclc.org/student-loan-practice-suite

See you on May 7th for
a deep dive on loan
cancellation,
forgiveness, and
statutory discharge
programs

