



EdFed

Federal Lender Code 834241

America's Top Student Loan Consolidator

175 South Lake Ave, Suite 200, Pasadena, California 91101

Tel: (800) 821.5659

Fax: (213) 895.7306

www.Edfed.com

About Loan Rehabilitation Programs

As an alternative to loan consolidation, you can begin making payments on that old student loan debt. If you can't afford your regularly scheduled payments, you will be able to enter a loan rehabilitation program. Loan rehabilitation is available for most loans, including FFEL, federal Stafford loans, and federal PLUS loans. Defaulted loans in this category have likely been placed with a state guaranty agency. If you had a direct loan that went into default, then those loans are sent right to the Department of Education's debt collection services. If you had a Perkins loan, it could have either remained with the school or been sent to the Department of Education for collection. By now you should've tracked down your loans to find out where they are. But as a reminder, you can call 1-800-4-FED-AID (1-800-433-3243) if you need help locating your defaulted loans.

To rehabilitate a defaulted loan, you previously had to make 12 consecutive, on-time payments in order to bring that loan out of default status. As of July 1, 2006, the rules governing loan rehabilitation softened a bit. Now you only need to make nine consecutive payments in any ten-month period to bring your loan out of default. Perkins loans require 12 months worth of payments.

Again, remember you don't even have to make your normal monthly payment, or what the lender originally said you should be paying. In loan rehabilitation, you get a chance to show what you can really afford to pay. You and the lender ultimately agree on what's fair and reasonable, and then your new payments begin.

Once you've gone through loan rehabilitation, and you've made your nine consecutive payments, your loan gets reinsured. You are then eligible to have the loan purchased by a lending institution. After rehabilitation, your loan not only gets taken out of default, but the Department of Education will notify all the credit bureaus that you've paid up. The negative information will even be completely deleted from your credit file. How's that for getting a fresh start?

At this point, you will continue repaying your loan over a set time period – specifically, you'll have about nine years worth of payments remaining. The problem with this part of loan rehabilitation is that you might have made payments that were reasonable and affordable during that 9- or 12-month period, but all of a sudden, once your loans are out of default status and you've completed the rehabilitation process, the loan gets thrown into the standard ten-year repayment cycle.

This could cause your payments to surge astronomically. So this is the time at which you should complete a Statement of Financial Status, submit it to the Department of Education, and request lower monthly payments. And here's the kicker: you tell the department what you can afford to pay. You show them your true monthly bills – like your rent, electricity food costs, child care,

continued on back



EdFed

Federal Lender Code 834241

America's Top Student Loan Consolidator

175 South Lake Ave, Suite 200, Pasadena, California 91101

Tel: (800) 821.5659

Fax: (213) 895.7306

www.Edfed.com

and so on. And then you demonstrate that, even though your lender may want \$500 a month, you can only pay \$50 – or whatever amount is possible given your circumstance. I can't stress enough how big a lifesaver this strategy can be for someone struggling with student loan debt.

Unfortunately, one of the problems with the student loan universe is that critical alternatives like this – where you only pay what you can afford and don't have to worry about defaulting – are rarely told to college grads.