

Expanding Access to Loan Rehabilitation

According to the U.S. Department of Education, more than 42 million Americans collectively owe nearly \$1.3 trillion in federal student loan debt. Of that amount, nearly \$133 billion, owed by 7.7 million borrowers, is in default. While a relatively small number of borrowers (less than 1 percent) have student loans over \$100,000, the average debt for those receiving a bachelor's degree is approximately \$30,000, an amount that has risen at more than twice the rate of inflation over the last decade. With college costs and student loan debt on the rise and high youth unemployment and underemployment, more borrowers are struggling to get a good job and repay their federal student loans on time.

According to the Department, approximately 53 percent of all federal student loans (\$691.3 billion, representing 26.1 million borrowers) are in repayment with the remaining borrowers still in school or in a deferment, forbearance, grace, or default status. But these figures do not tell the whole story. Many borrowers in repayment are struggling. For example, of the 16.9 million borrowers in repayment whose loans are managed by the Department:

- 8.28 percent (1.4 million borrowers) are 31 to 90 days delinquent;
- 5.62 percent (950,000 borrowers) are 91 to 180 days delinquent;
- 3.14 percent (530,000 borrowers) are 181 to 270 days delinquent; and
- 2.25 percent (380,000 borrowers) are 271-360 days delinquent.

As stated above, approximately 7.7 million borrowers, representing more than 10 percent of all federal student loan debt, are in default and have been transferred to collections, and this number is expected to continue to increase. Department data shows that, on average, 100,000 student loan borrowers default each month. Clearly, many Americans are in need of assistance in managing their student loan debt.

The federal government's main program for assisting defaulted borrowers struggling to repay their student loans is loan rehabilitation. Under this program, student and parent borrowers work with the Department, guaranty agencies, and their agents to agree on reasonable and affordable payment plans. After making nine voluntary, on-time payments within ten consecutive months, the defaulted loans are rehabilitated and borrowers regain all benefits of the federal student loan program, including eligibility for additional federal grants and loans. Just as important, the default status is removed from the borrowers' credit reports and borrowers are no longer subject to wage garnishment or tax refund offset.

NCHER Reform Proposals

The National Council of Higher Education Resources (NCHER) believes defaulted borrowers need additional help to repay their student loans. We urge Congress to assist struggling borrowers by:

- Expanding access to loan rehabilitation. The Higher Education Act provides all defaulted borrowers the opportunity to rehabilitate their student loans, so they can repay their financial obligations and repair their tarnished credit histories. Unfortunately, the law restricts loan rehabilitation to one-time per loan. As college costs continue to rise, many federal student loan borrowers continue to struggle to repay their loans, and re-defaults are at record highs. Congress should recognize that some individuals need additional help and allow defaulted borrowers to rehabilitate their loans more than once under certain circumstances.
- Allowing access to the NDNH. The National Directory of New Hires (NDNH) is an employment database maintained by the U.S. Department of Health and Human Services (HHS) to assist state

child support enforcement agencies in locating non-custodial parents and establishing and enforcing child support orders. In 1999, as part of the Consolidated Appropriations Act of 2000, Congress expanded the permissible uses of the NDNH so the Department of Education and guaranty agencies could use information contained in the database to locate student loan borrowers who are employed but not making payments on their defaulted student loans. Unfortunately, HHS has suspended access to the NDNH for student loan collections. Congress should require HHS to allow the Department of Education and guaranty agencies access to the NDNH to locate struggling borrowers so that they can be counseled on their repayment options and offered the opportunity to rehabilitate their defaulted loans.

- Improving Access to NSLDS. The National Student Loan Data System (NSLDS) is the Department of Education's central database for student aid. It receives data from schools, guaranty agencies, the Direct Loan program, and other Departmental programs. Congress should allow federal student loan servicers and collection agencies view-only access to the NSLDS so they can accurately and effectively counsel student and parent borrowers. These entities are already required to meet federal data security standards.

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