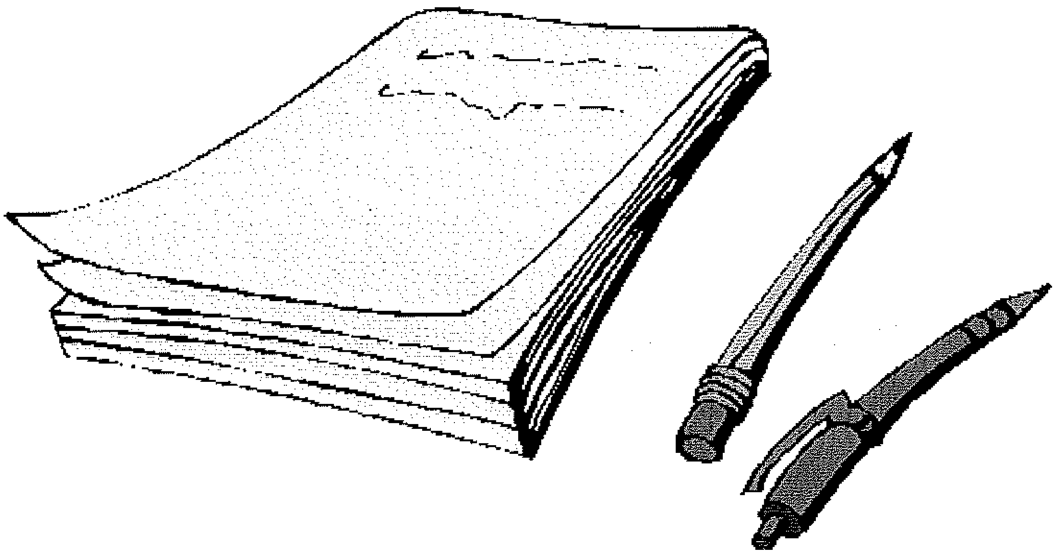
PCA Procedures Manual:
2009 ED Collections Contract



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CHAPTER 9: REHABILITATION

Rehabilitation is an ED "payment" program whereby an eligible borrower can, through appropriate and timely monthly payments, "rehabilitate" their defaulted loan(s) into good standing. Through the borrower's efforts of making consistent payments on-time, the borrower is able to receive certain benefits based upon a showing of good faith and a commitment to pay off their debt. Benefits include – reduced collection costs, removal from credit bureau report and ability to take advantage of appropriate program benefits such as deferments.

This Chapter will discuss rehabilitations within Direct Loans, Federal Family Education Loans (FFEL) and the Federal Perkins Loan Program (formerly NDSL).

1. DIRECT LOAN REHABILITATION

C. Acceptable Payment Amounts

- **"Reasonable and Affordable Minimmum Payment Percentage" Qualifying Payments**
  - Must be based on the amount owed and on the borrower's "total financial circumstances."
  - Based on the balance to be rehabilitated, monthly payments equal to a certain percentage of that balance may automatically be considered "reasonable and affordable", based on the table in *Section 1, Subsection I* of this Chapter (minimum payment amounts).
  - The PCA does not need to obtain a statement of financial status if the borrower's payments meet the minimum percentages in Section 1, subsection I of this Chapter.
- **"Reasonable and Affordable Income Based Repayment" Qualifying Payments**
  - If a borrower can prove through the normal processes used to gather financial information that they **cannot** meet the R&A minimums based on the percentage amounts, the PCA should then use the financial information in the IBR Calculator.

  - IBR Calculator http://studentaid.ed.gov/PORTALSWebApp/students/english/IBRCalc.jsp

  - The PCA must collect and keep copies of the financial information that is taken over the phone for all R&A repayment amounts that are done using the IBR calculator. The PCA shall submit the documentation to the DMCS Servicer so it can be scanned in with the borrower's account information.

➢

➢ **Obtaining a completed statement of financial status**
- o The PCA must obtain a statement if
  - ▪ The *PCA approves a monthly payment amount that is lower than the percentages stated in Section 1, subsection I of this Chapter AND if the borrower's payments are less than the greater of:*
    - $50.00, or
    - The amount of interest that accrues each month on the loan(s) being rehabilitated
  - The PCA approves monthly payments that are less than the percentages stated in Section 1, Subsection I of this Chapter, the PCA will be paid an administrative resolution fee, rather than a commission, for the rehabilitation unless it is made under the R&A IBR. Rehabilitations made pursuant to the R&A IBR will be paid the Final Rehabilitation Commission.
  - The R&A IBR plan is used

➢ **Wage garnishment (or other monthly involuntary payment situation)**
- o Borrower *may* qualify for rehabilitation by making voluntary payments *in addition to* his/her garnishment payments.
- o The voluntary payments must meet all requirements as stated in this document; the fact and amount of the garnishment (or other involuntary) payments do not affect the requirements for rehabilitation.

➢ **Accounts with loans from multiple programs**
- o Since every loan program (Direct, FFEL & FISL, NDSL-Perkins) has its own rehabilitation program, a borrower's total monthly payment should be calculated as the aggregate of the minimum payments for each program's cohort of loans in the account.
  - ▪ Example: if the borrower has a one $5000 FFEL and one $5000 Direct Loan, for a total account balance of $10,000, his monthly minimum *should not* be figured by using the minimum percent for a $10,000 balance in Section 1, subsection I of this Chapter. Instead, a separate payment amount for the Direct Loan and FFEL should be calculated and added together. In this example, the borrower's total monthly payment would be $129, whereas it would be $114 if he owed $10,000 of a single program type loan.
  - ▪ This is because the loans will be split up at the time of rehab, and the new loan holder will be calculating a new payment amount based only on the amount assigned to that loan holder

- **Additional considerations**
  - ED strongly recommends that PCAs establish payment amounts rounded up to the nearest five or ten dollars. It is easy for a borrower to transpose the digits on "precise" payment amounts—e.g., $101.28—but the rehab evaluation programs will count a payment as missed even if it is one penny short.
  - The minimum acceptable payment percentages are just that—minimums, not necessarily the most desirable amount. Borrowers should pay the maximum they can afford, and PCAs should always build in a "cushion" above the calculated minimum to anticipate interest rate increases, etc.

I. Minimum Payment Amounts Table – Direct Loans

The following table shows payment amounts (as a percentage of the balance to be rehabilitated) that may automatically be considered reasonable and affordable under the minimum payment percentage qualifying payment plan *and* that will entitle the PCA to a commission on the rehabilitation balance transferred to Direct Loans. If the borrower's payment amount is pursuant to the Income Based Repayment Plan or less than the greater of

- $50, or
- The amount of interest accrued each month on the loans to be rehabilitated

then the PCA must obtain from the borrower a completed statement of financial status (and associated supporting documentation) that justifies the payment is "reasonable and affordable".

If the balance to be rehabilitated[4] is:	The minimum payment percentage is:
<= $7500	1.29%
>$7500 and <=$10,000	1.14%
>$10,000 and <=$20,000	1.00%
>$20,000 and <=$40,000	0.87%
>$40,000	0.76%

Example: if the borrower owes $10,000 at the time of rehabilitation, his monthly payments must have been at least $114 in order to be automatically considered "reasonable and affordable" and for the PCA to earn a commission.

[4] The "balance to be rehabilitated" includes principal and interest, as well as any fees and collection costs that ED decides to charge. As of the writing of this document, ED does not include any fees or collection costs in the rehabilitation balance. This is subject to change, however, and note that collection costs may total as much as 18.5% of combined principal and interest.