TALLADEGA COLLEGE	**Financial Aid Office** **2018-2019 Getting Out of Default**

The Financial Aid Office, 627 West Battle Street, Talladega, AL 35160 Fax: (256) 761-6462

What Is Default?

Direct Federal student loans go into default after 270 days of non-payment. Defaulting on a federal student loan carries severe consequences, often worse than defaulting on a credit card or any other bill payment. Default happens when a student fails to repay a loan(s) according to the terms agreed upon when he/she signs a promissory note or makes payment arrangements with the lender.

Who sends the Default notification?

Notification of default comes from any of the agencies that track student loan history – the **National Student Loan Default System (NSLDS) and the U. S. Department of Education.** A student loan can be placed into default at any time. By Federal regulation, the Financial Aid Office is required to investigate a student's default status.

What should I do if my loan is in default?

Contact the lender to set up a payment plan for the loan(s) in default. It is the student's responsibility to resolve a defaulted loan(s).

How does default affect my financial aid?

If the U.S. Department of Education determines that you are in default before your Title IV financial aid funds have been disbursed to your student account for the semester, you will not be eligible to receive this money and all financial aid disbursed will be promptly returned to the U.S. Department of Education.

What if I know I paid my loan in full?

If your loan status is listed as default and you have paid the loan in full, contact your lender (the company that handles your loan) and request a Default Resolution Letter for each loan to submit as verification of your **Paid-in-Full** status. Also, ask the lender to update your status with the NSLDS database. The Financial Aid Office must review each letter to determine if it is satisfactory according to Federal Regulations. Each Default Resolution Letter is subject to approval by the Financial Aid Administrator; this can take approximately two weeks. The Default Resolution Letter must clearly state that the loan is not in default and the date the loan was cleared. If you do not know the lender, call the U.S. Department of Education's Default Hotline: **(800) 621-3115**.
You must have a Default Resolution Letter for each loan.

What must the Default Resolution Letter contain?

- ☐ Your Social Security Number
- ☐ List the loan information (loan period and amount)
- ☐ State ***specifically*** that you have paid your loan in full
- ☐ Date the loan was paid in full
- ☐ State ***clearly*** that you are eligible for Title IV funds (Federal)
- ☐ Letter must clear your current default status **prior** to the financial aid disbursement date

Getting Out of Default:

You have three options for getting your loan out of default. These include ①Repayment in Full, ②Loan Rehabilitation, and ③Loan Consolidation:

1. Repayment in Full

One option for getting out of default is to repay the full amount of what you owe on your defaulted student loan. The U.S. Department of Education will accept payment in the form of checks, money order or credit or debt cards.

2. Loan Rehabilitation

A second option for getting out of default is loan rehabilitation. To rehabilitate a defaulted Federal Direct Loan, you must agree in writing:

- To rehabilitate the loan, which is a 9 month program where the borrower makes agreed upon payments with the lender, and
- After all 9 payments are made on time, the default status is removed from the loan.

Depending on your income, your monthly payment under a loan rehabilitation agreement could be as low as $5. You will need to provide documentation of your income. If you fail to make one payment, the rehabilitation program will be restarted from the beginning. After your defaulted loan has been rehabilitated, you will be eligible to receive Title IV federal student aid. There are some positives and negatives in regards to loan rehabilitation that the borrower should fully understand prior to starting the loan rehabilitation.

3. Loan Consolidation

A third option for getting out of default is to consolidate your loan(s) into the Direct Consolidation Loan program. Loan consolidation allows you to pay off one or more of your federal student loans with a single new loan that has a fixed interest rate. To consolidate a defaulted federal student loan into a new Direct Consolidation Loan, you must either:

- Agree to repay the new Direct Consolidation Loan under an income-driven repayment plan or
- Make three consecutive, voluntary, on-time, full monthly payments on the defaulted loan before you consolidate it.

If you choose the first option (repaying under an income-driven plan), at the time you apply for the Direct Consolidation Loan you must select one of the available income-driven repayment plans and provide documentation of your income. If you choose the second option (making three consecutive, voluntary, on-time, full monthly payments), you may repay the new Direct Consolidation Loan under any repayment plan you are eligible for. After your defaulted loan has been consolidated, you will be eligible to receive Title IV federal student aid. However, consolidation of a defaulted loan does not remove the record of the default from your credit history. Much like the rehabilitation program, there are some positives and negatives with the loan consolidation as well that the borrower should fully understand prior to going through the loan consolidation process.