



# HOW TO<sup>®</sup>

## Rehabilitate Your Student Loan

Federal regulations define **default** as “the failure of a borrower to make an installment payment when due or to comply with other terms of the promissory note or written repayment agreement.” Unfortunately, those who default on federal student loans eventually find that their credit has been adversely affected.

The cause of default varies. In some circumstances, people who are having trouble making payments are simply too embarrassed to call their lender and ask for help. Occasionally, borrowers realize they are missing payments but assume everything will be fine as long as they bring their loan current upon becoming financially stable. Others are not aware of the provision in their promissory note which states you must contact your lender every time you have a change of address in order for your lender to get your bill sent to you in a timely manner. Not receiving a bill in the mail does not justify missing payment.

The good news is that damage done to your credit is repairable. All it takes is communication with your lender and a commitment to make all future payments on time.

### What is Rehabilitation?

**Rehabilitation** is a process by which a borrower may bring a Federal Loan out of default by complying with specified federal repayment requirements. A loan is rehabilitated if the borrower *requests* rehabilitation and then makes an on-time, monthly payment as determined by the lending institution each month for twelve consecutive months.

Within thirty days of receiving the borrower’s last on-time, consecutive, monthly payment the institution must:

- Return the borrower to regular repayment status.
- Treat the first payment made under the twelve consecutive payments as the first payment under the ten-year repayment maximum.
- Instruct any credit bureau to which the default was reported to remove the default from the borrower’s credit history.

In accordance with federal regulations, a borrower is allowed to rehabilitate a defaulted loan *one time only*.

## How do I rehabilitate my student loan?

Here are basic steps a borrower should take to rehabilitate a student loan that has gone into default:

- ▶ STEP 1: Contact your lender and request loan rehabilitation.
- ▶ STEP 2: Read the rehabilitation payment agreement your lender sends you, then sign and return it by the given deadline.
- ▶ STEP 3: Send all payments on time, during the twelve-month loan rehabilitation period.
- ▶ STEP 4: Sign and return a new promissory note if your lender requests this of you.

Following the rehabilitation of your loan, send all future payments on time. You will not be allowed to rehabilitate the same loan twice.

## Is loan rehabilitation possible if I have been placed with a collection agency?

Yes. Simply contact the agency handling your account and tell them that you would like to rehabilitate your loan. If you are not aware of what collection agency you have been placed with, contact your lender and they will provide you with this information.

As previously stated, rehabilitation is dependant on the borrower making twelve consecutive, monthly on-time payments. Be aware that even if your account is with a collection agency, federal regulations state the amount of the monthly payment is completely at the discretion of the lender.

## Can I rehabilitate a loan once a court judgment has been rendered?

No. Federal regulations exclude rehabilitation on a loan which a judgment has been obtained.

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