

Defaulted Student Loans and the CARES Act—A Unique Opportunity

When the CARES Act passed in March of 2020, it provided borrowers with federally held loans numerous benefits. While some of those benefits have been at the forefront of the student loan conversation, benefits for those with federally held student loans in default have not been. Around 20% of federally held loans are in default. This post explores the unique opportunities borrowers with those defaulted loans can take advantage of, what it means for them once certain provisions of the CARES Act inevitably end, and what you can do about it.

CARES Act Background

When the CARES Act passed, it offered temporary, widespread relief for borrowers with federally held student loans. This relief includes:

- 0% interest accrual
- Suspended monthly payments
- Suspension of all collection activities



These flexibilities will last through at least September 2021.

Which Loans are Considered Federally Held?

All Direct Loans and Federal Family Education Loans (FFEL) owned by the U.S. Department of Education.

What it Means for Defaulted Loans

While the conditions of the suspension were enacted to allow borrowers a complete hands-off period, these same conditions also create a beneficial opportunity for borrowers to act on their loans. This holds especially true for those borrowers with defaulted federally held loans.



While borrowers with defaulted federally held loans **do not** have to take any action right now, borrowers that are seeking to rehabilitate out of default have a unique opportunity to utilize the pandemic flexibilities to work to their advantage.

- There isn't any interest accruing on defaulted federally held loans. Once borrowers have paid off any outstanding interest, any payments they make will go directly towards principal. This can go a long way towards reducing future interest and fees.
- For all borrowers with federally held loans in default that are enrolled in rehabilitation during the suspension period, credit will be given as though the borrower is making payments even if a borrower misses a payment. This is a great advantage during months when unexpected hardships may arise and interfere with borrowers' ability to make payments consistently.
- For borrowers seeking to consolidate their defaulted federally held loans during the suspension period, The Department of Education will not treat any payment a borrower fails to make as missed in the string of three consecutive, on-time voluntary full monthly payments normally required to establish eligibility to consolidate a defaulted loan.

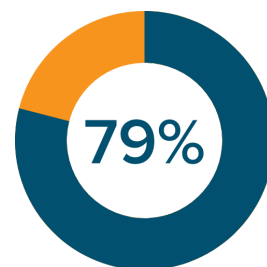
The period of suspension allows substantial relief from the many requirements generally faced by borrowers with defaulted federally held loans. But the relief is only temporary. With the possibility of wage garnishment, tax offset, ineligibility for additional federal financial aid, and negative credit reporting all looming on the not-to-distant horizon, borrowers with the ability to act on their defaulted loans now are encouraged to consider the many advantages of doing so. They could find their student loans in a better place than when the CARES Act's student loan provisions began.

Provide the Support Defaulted Borrowers Need

If you're interested in ways to help your students, employees, or customers get their student loans in a better place during and after this period of relief, consider offering a trustworthy and established student loan counseling service staffed with experts trained to help borrowers effectively manage defaulted student loans.

Our research shows borrowers want and need this type of support. 10,000 student loan borrowers responded to our survey as reported in our whitepaper published late last year. Here's some of the insight we share:

- 79% indicated they would use a counseling service if one was offered by their school, employer or bank
- 2 out of 3 borrowers don't know how to implement an alternative payment plan when needed
- Only 21% believe they will be prepared to reenter active repayment when required to do so



If you would like to offer student loan counseling to those you serve or employ, contact us. We have the expertise, resources, and solutions to make it happen.

Learn more at attigo.com