



CATAWBA WIOA INSTRUCTION 23-13

Subject: Student Loan Default

Issuance Date: 9/12/23

State Guidance referenced: **STATE INSTRUCTION NUMBER 18-03**

Subject: WIOA Participation and Federal Student Loan Defaults

Issuance Date: July 23, 2018

Effective Date: Immediately

Purpose: To issue revised state policy regarding serving individuals who are in default on a federal student loan. This policy rescinds State Instruction 95-011.

References: Workforce Innovation and Opportunity Act, Public Law 113-128, Sections 134(c)(3) and 129(c)(2), 20 CFR Parts 680.230 and 681.460.

Background: The U.S. Department of Education released new data in October 2017 regarding student debt and repayment, which indicates student debt is at an all-time high. Based on trends over the past twenty years, the latest data suggests that 40% of new borrowers from 2003-2004 are likely to default by 2023.

Workforce Innovation and Opportunity Act (WIOA) programs provide resources and increase access to the services, education, and training that individuals need to succeed in the labor market. WIOA funding for training is limited to participants who are unable to obtain grant assistance from other sources to pay for the cost of training or require assistance beyond that available from other sources.

Policy: An individual who is in default on a federal student loan, but is otherwise eligible, may receive WIOA Title I services. WIOA funds may be used for classroom training for an individual in default on a federal student loan. However, prior to receiving WIOA-funded classroom training, the participant must enter into an agreement with the loan servicer to begin the process of curing the federal student loan default. Once the participant has provided evidence of the agreement, WIOA funds may be used to pay for training regardless of where the participant is in the process of fully curing the default. Documentation of the agreement must be saved in SC Works Online Services (SCWOS) with a corresponding case note.

When applicable, case managers must provide counseling on how to cure a student loan default. There are two ways to get out of default on a student loan in addition to payment in full: Loan Rehabilitation and Loan Consolidation. There are pros and cons to each and limitations on which option an individual may choose. Attached is a desk reference to assist case managers in providing information to a participant. This information is not exhaustive.

Case managers should provide any additional information as necessary to help the participant cure the default.

Action: Ensure that all appropriate staff receive and understand this policy.



Amanda Baker

Amanda Baker
WIOA Administrator

Serving Chester, Lancaster, Union, & York Counties

215 Hampton St. • P.o. Box 450 • Rock Hill, SC 29731 • Phone (803) 327-9041 • Fax (803) 327-1912 • E-mail crcog@catawbacog.org

Curing Federal Student Loan Defaults

Useful terms:	
Default	A borrower fails to make a loan payment in more than 270 days. A borrower is not eligible to receive additional financial aid, forbearance, or deferment until the default has been cured.
Payments	On-time payments—made within 20 days of the monthly payment due date
	Involuntary payments—made through wage garnishment or tax refund withholdings
	Voluntary payments—made through a written agreement with the loan holder
Types of federal student loans	Direct Student Loan (Subsidized or Unsubsidized)
	Direct PLUS Loan
	Direct Consolidation Loan
	Federal Family Education Loan (FFEL)
	Federal Perkins Loan

To cure a federal student loan default:	
Payment in full	This is the quickest method to cure a default, but may be unreasonable for the borrower depending on the size of the loan and the borrower's resources.
	<ol style="list-style-type: none"> 1) Request the full payoff amount from the loan holder 2) Pay the entire payoff amount by the date given by the loan holder
Loan Rehabilitation	<p>This is the longest method to cure a default, but the default will be removed from the borrower's credit history. A borrower may use this method only once.</p> <p>For this method, a borrower makes a written agreement with the loan holder to pay nine voluntary, reasonable, affordable, and on-time monthly payments. The borrower must then make all nine payments within a ten month period. Involuntary payments may continue until the loan is no longer in default or some of the nine voluntary payments are made.</p>
	<ol style="list-style-type: none"> 1) Request loan rehabilitation from the loan holder. 2) The loan holder determines what a reasonable monthly amount is. If the borrower cannot afford this amount, the borrower must request an alternative monthly payment from the loan holder. 3) The loan holder determines the alternative monthly payment amount based on the borrower's monthly income after monthly expenses have been taken out. The borrower must provide documentation of monthly income and expenses to the loan holder. This amount can be as low as \$5 per month. 4) The borrower then informs the loan holder of which monthly payment amount the borrower chooses to make.
Loan Consolidation	<p>This method will consolidate the loan(s) into a new Direct Consolidation Loan. The default is cured more quickly, but the default remains on the borrower's credit history.</p> <p>If a defaulted loan is being collected through garnishment of wages or in accordance with a court order, the borrower cannot consolidate the loan unless the wage garnishment order is lifted or the judgment vacated.</p> <p>There are some limitations on who can use this method based on the type of federal student loans the borrower has.</p>
Defaulted federal student loan that has not been consolidated:	<p>Choose one of the following options in order to consolidate the loan:</p> <ol style="list-style-type: none"> 1) Agree to repay the new, consolidated loan under an income-driven repayment plan[^] <p>OR</p> <ol style="list-style-type: none"> 2) Make three consecutive, voluntary, on-time, full monthly payments before consolidating the loan*

<p>Defaulted Direct Consolidation Loan:</p>	<p><u>The borrower has at least one other eligible loan to consolidate:</u> Choose one of the following options in order to consolidate the loan: 1) Agree to repay the new, consolidated loan under an income-driven repayment plan[^] OR 2) Make three consecutive, voluntary, on-time, full monthly payments before consolidating the loan*</p> <p><u>The borrower has no other eligible loans to consolidate:</u> Choose one of the following options to cure the default: a) Payment in full OR b) Loan Rehabilitation</p>
<p>Defaulted FFEL Consolidation Loan:</p>	<p><u>The borrower has at least one other eligible loan to consolidate:</u> Choose one of the following options in order to consolidate the loan: 1) Agree to repay the new, consolidated loan under an income-driven repayment plan[^] OR 2) Make three consecutive, voluntary, on-time, full monthly payments before consolidating the loan*</p> <p><u>The borrower has no other eligible loans to consolidate:</u> Agree to repay the new, consolidated loan under an income-driven repayment plan</p>

[^] Borrower must agree to one of the available income-driven repayment plans at the time of application to consolidate and must provide documentation of income.

* New payment amounts are determined by the loan holder, and cannot be more than what is reasonable and affordable based on borrower's total financial circumstances. All repayment plans for which the borrower is eligible are available to repay the new Direct Consolidation Loan.

For more information, see <https://studentaid.ed.gov>.

- *Getting Out of Default:* <https://studentaid.ed.gov/sa/repay-loans/default/get-out>
- *Federal Loans vs. Private Loans:* <https://studentaid.ed.gov/sa/types/loans/federal-vs-private>
- *Basic Eligibility Criteria:* <https://studentaid.ed.gov/sa/eligibility/basic-criteria>
- *Glossary:* <https://studentaid.ed.gov/sa/glossary>

For information on additional related topics:

- *Wage Garnishment:* <https://scllegal.org/brochures/wage-garnishment/>
- *Student Loan Forgiveness Programs:* <https://studentloanhero.com/featured/the-complete-list-of-student-loan-forgiveness-programs/>
- *Forgiveness, Cancellation, and Discharge:* <https://studentaid.ed.gov/sa/repay-loans/forgiveness-cancellation>
- *Total and Permanent Disability Discharge:* <https://studentaid.ed.gov/sa/repay-loans/forgiveness-cancellation/disability-discharge>