



Ask

Consumer Ed®

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*Answers to actual problems and questions from Georgia consumers.
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Q: *I have paid on a defaulted student loan for three years, but it is not reflected on my credit report. The collection agency is requesting an additional \$50 a month for a Rehabilitation Program in hopes that my loan will be purchased by another lender, this in addition to the \$500 a month that is being garnished from my payroll check. My payments so far total \$13,585.47 with the collection company receiving \$2,248.78. My loan interest rate is 2.4% on one of the loans and 3.52% on the other; the collection agency is collecting 15%, and tells me that this will increase to 18.5% once a lender is found. Is there any way I can have the garnishment removed, and am I still required to pay the collection agency even though my loan will be back with a lender? If so, why would I still have to pay the collection agency if my loan is out of default?*

A: You should try to make regular payments on your loans on top of the money that is garnished from your payroll check every month. While it's wonderful that some of your loans have been paid off through wage garnishment, the loans will actually remain in default until you either pay them off in full, consolidate them through an approved lender, or complete a loan rehabilitation program. If you remain in default, your credit report will not improve until the item expires, and your wages can be garnished until you've paid the rest of your loans in their entirety.

First, however, it's important to confirm that your loans are from the U.S. Department of Education (DOE). The most common loans people receive from the DoE are Direct Loans, FFEL Loans, or Perkins Loans. If you're not sure what type of loans you have, you can look them up through the National Student Loan Data System (www.nslds.ed.gov). If you can't find information about one or both of your loans on this system, your student loans are likely with a private lender. You can find out more about some of the most popular private student loan programs by visiting www.finaid.org/loans/privatestudentloans.phtml/.

Based on the fact that your wages are being garnished and you've been encouraged to participate in a loan rehabilitation program, it sounds like your loans are from the DOE. When a borrower goes into default, the DOE commonly hires specific collection agencies to collect those student loans (for a list of these agencies, visit www.myeddebt.com/borrower/myoptions_collectionAgencies). The DOE (or collection agency hired to collect your loan) probably initiated the Administrative Wage Garnishment (AWG)

process. Before any garnishment began, you should have received a notice of garnishment, giving you the opportunity to request a hearing before officially entering into AWG. If you have any questions about this process you can either call 1-800-4-FED-AID, or visit <https://www.myeddebt.com/borrower/>. Once selected for AWG, your employer is required to withhold up to 15% of your disposable pay.

Loan rehabilitation is an option you should consider, because once you've completed this process, your default will permanently be removed from your credit report. While the exact process varies depending on what type of loan you have, generally, you must make nine on-time monthly payments, and then the collection agency that is currently assigned your loan will sell it to a lender. It's important to note that involuntary payments, such as wage garnishments, don't count towards completion of the rehabilitation process. (This would also be why you haven't seen these payments reflected on your credit report.) Once you complete rehabilitation, you'll no longer be in default, the default status will be removed from your credit report, and your employer will stop garnishing your wages. For more information about rehabilitation options, visit https://www.myeddebt.com/borrower/myoptions_rehabilitate.

Once you're out of default, you'll need to continue making payments to your new lender. Your monthly payments after rehabilitation might be more than what you paid during the rehabilitation period, in part because collection costs and interest that were outstanding at the time of rehabilitation may be added onto the total amount that you owe.

If you're having problems with the collection agency handling your default, you should file complaints with the Department of Education, the collection agency, and with the Office of the Inspector General. To file a written complaint with the Department of Education, you should send a letter and copies of any communications between you and the collection agency to:

Chief of Contract Analysis and Compliance
US Department of Education
61 Forsyth Street, SW 19T89
Atlanta, GA 30303

Do you have a consumer question? Go to ConsumerEd.com to submit your question and read additional consumer tips. Remember...we do not give legal advice. Always consult a lawyer about legal issues.