

# How To

## Process a Loan Rehabilitation

Loan rehabilitation for Perkins loan borrowers became available on July 1, 2000. Now borrowers who request the opportunity to rehabilitate their loans must be granted that option. To successfully rehabilitate a defaulted loan, a borrower must make 12 consecutive, on-time monthly payments in the amount agreed to by the borrower and the lending institution.

When a borrower requests loan rehabilitation and agrees to a monthly payment amount, send us this information so we can record it in our system. System III<sup>SM</sup> tracks the borrower's rehabilitation success or failure by using the "Special Billing" transaction as a tracking tool. In order to input the rehabilitation agreement in our system, you must provide us with the following information:

- the amount of the monthly rehabilitation payment;
- the existence of a written agreement with the borrower;
- the number of days a payment may be past due without voiding the rehabilitation agreement (no more than 15 days is recommended);
- the 12 month rehabilitation period that you and your borrower agreed upon; and
- the installment amount and frequency that the borrower should be billed following a successful rehabilitation.



After we receive this information, we will update System III with the appropriate rehabilitation flag and special billing information. We will record the post-rehabilitation billing requirements in the loan history for use after a successful rehabilitation and mail a *QuikLetter* to the borrower to confirm the processing of the rehabilitation. If you are a DataLink<sup>SM</sup> customer, you may enter this information on-line on the MAIN and LN5 screens.

**If the rehabilitation agreement is between your collection agency and the borrower, the collection agency should monitor the success or failure of the rehabilitation.** Notify us of the existence of this agreement, so we can input the appropriate rehabilitation flag, which appears on the monthly reports sent to the collection agency. Since the collection agency monitors the receipt of payments to determine success or failure, special billing transactions should not be entered on System III. Delays in processing payments received by collection agencies on System III make it impossible for rehabilitation tracking to be accurate and efficient on System III.

**? Below are some of the most frequently asked questions about rehabilitation. ?**

### **What is an on-time, consecutive monthly payment?**

On-time, consecutive monthly payments must meet the following requirements:

- the payment (transaction) date is not more than 20 days prior to the due date;
- the payment (transaction) date is not more than 15 days after the due date;
- the payment frequency is monthly;
- the payment amount is equal to or greater than the amount billed (for that specific month); and
- the payment is voluntary (not a tax offset or judgment payment).

**Questions about Rehabilitation?  
Call your Customer Service Representative.**

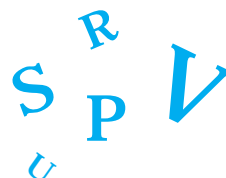
### **What if the borrower is already making regular monthly payments prior to requesting rehabilitation?**

We interpret regulations to indicate that payments made by the borrower prior to the actual request for rehabilitation should count toward the requirement of twelve. Of course, these payments would have to meet the criteria stated on the previous page. For example, if three payments have been received that met the criteria to count as on-time, consecutive monthly payments, the next on-time, consecutive monthly payment received will count as the fourth payment. At least one payment must have been made on or after July 1, 2000.

### **How does Campus Partners identify borrowers in rehabilitation?**

These borrowers are identified by a “rehabilitation” flag on System III. This is a one-digit field that is displayed on the LN5 screen. Values for this field include:

- P – loan pending rehabilitation;
- R – 12<sup>th</sup> payment received/loan rehabilitation completed (**this month**);
- S – rehabilitation report sent to credit bureau\*;
- U – rehabilitation attempt unsuccessful (payment missed or late); and
- V – rehabilitation voided by subsequent default.



\*A rehabilitation flag of “S” is updated by System III in the month following the actual completion of the rehabilitation. The rehabilitation flag value of “R” prompts the removal of negative information from the credit bureau. Once the request is sent to the credit bureau, the rehabilitation flag is updated to “S” to indicate the notice of completed rehabilitation has been sent to the credit bureaus. The flag will remain “S” for the remainder of the loan repayment period unless the borrower subsequently defaults.

### **How is the rehabilitation agreement recorded on System III?**

Since most rehabilitation agreements contain specific requirements related to the monthly payment amount, these agreements are entered on System III as “special billing” agreements. System III’s special billing transaction will also aid in the tracking of delinquent payments during the special billing/rehabilitation period. A “consecutive payment counter” allows payments to be up to 15 days late and still be counted as on-time. Also, our internal procedures require that we indicate how many days a special billing payment may be past due before the loan is removed from special billing (i.e., 15 days past due on a “special billing” bill). If you want stricter requirements related to delinquency, you may choose to have the special billing terminated at a “number of days past-due less than 15.” When the special billing is terminated, the rehabilitation flag will automatically change to “U” - attempt unsuccessful.

### **What happens if the borrower is late with a payment?**

As stated in the answer above, if the borrower’s payment is not received within the allowable number of special billing days past due, System III automatically removes (drops) the loan from special billing status. The special billing drop transaction will change the rehabilitation flag to “U,” indicating the rehabilitation attempt was unsuccessful. The consecutive payment counter will also be reset to zero indicating that the payment was missed.



### **What will appear on the borrowers credit report when the loan has been rehabilitated?**

We will submit a request to credit bureaus to delete the existing loan record at the end of the calendar month in which the borrower’s 12<sup>th</sup> payment was received. The rehabilitation flag will be set to “S” to indicate that the rehabilitation has been reported to the credit bureau. We will resume reporting the loan the following month as if it were a new loan. The rehabilitation flag will remain “S” for the remainder of the repayment term unless the borrower returns to a default status, which will void the rehabilitation.

### **What happens to amounts that remain past due on the borrower’s loan after the 12<sup>th</sup> payment is received?**

In order to comply with regulatory requirements to return the borrower to “regular payment status”, we will:

- remove all past due amounts (customer adjustment type Y);
- reschedule the loan as necessary, based on the agreement between the school and the borrower; and
- extend the repayment term (if necessary) to allow the borrower the full nine years of post-rehabilitation repayment term.