

Reimagining and Improving Student Education (RISE)

Negotiated Rulemaking

Discussion Paper and Proposed Regulatory Text: Loan Deferment, Forbearance, and Rehabilitation Provisions

Session 1, September 29 – October 3, 2025

Discussion: William D. Ford Federal Direct Loan (Direct Loan), Federal Family Education Loan (FFEL), and Federal Perkins Loan Program Amendments

Legislative Action: On July 4, 2025, President Trump signed the One Big Beautiful Bill Act (Pub. L. 119-21) (OBBB) into law. Among a wide array of provisions, the OBBB included statutory changes that affect Title 34 of the Code of Federal Regulations. The OBBB introduces significant reforms to federal student loan programs, with the aim to streamline loan repayment, reduce borrower burden, and enhance accountability.

Statutory citation: Sections 428F(a); 455(d), (f) and (q); and 464(h) of the Higher Education Act of 1965, as amended (HEA).

Regulatory citation: 34 CFR 674.39, 34 CFR 682.405, 34 CFR 685.204, 34 CFR 685.205, 34 CFR 685.211(f)

Summary: To address the amendments under OBBB, the Department is proposing corresponding changes to the regulatory and statutory citations to the regulatory sections listed above, as well as proposing conforming amendments to the regulatory text to reflect the following statutory provisions:

- Expand the ability of borrowers to rehabilitate their Direct, FFEL, or Perkins Loans from once to twice, effective on or after July 1, 2027
- Sunset economic hardship and unemployment deferments for Direct Loans disbursed on or after July 1, 2027
- Limit the total period borrowers may receive general forbearances for Direct Loans disbursed on or after July 1, 2027, to nine months within a 24-month period

- Establish a minimum monthly payment of \$10 to rehabilitate a defaulted Direct Loan that was made on or after July 1, 2027

Proposed amendatory text in redlines represents additions, edits, and paragraph restructuring in the following sections:

Amend § 674.39 by revising subsection (e) to read as follows:

§ 674.39 Loan rehabilitation.

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(e) (1) On or before June 30, 2027, ~~the~~ borrower may rehabilitate a defaulted loan only one time.

(2) On or after July 1, 2027, the borrower may rehabilitate a defaulted loan a maximum of two times.

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Amend § 682.405 by revising subsections (a) (3) and (4) to read as follows:

§ 682.405 Loan rehabilitation agreement.

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(a) * * *

(3) * * *

(iii) On or after July 1, 2027, a borrower may only obtain the benefit of a suspension of administrative wage garnishment one time per each ~~while also attempting~~ to rehabilitate a defaulted loan ~~once~~.

(4) (i) After the loan has been rehabilitated, the borrower regains all benefits of the program, including any remaining deferment eligibility under section 428(b) (1) (M) of the Act, from the date of the rehabilitation.

~~Effective for any loan that is rehabilitated on or after August 14, 2008, the borrower cannot rehabilitate the loan again if the loan returns to default status following the rehabilitation.~~

(ii) A loan may only be rehabilitated once between August 14, 2008, through June 30, 2027. On or after July 1, 2027, a loan may only be rehabilitated a maximum of two times over the loan's lifetime, regardless of when the loan was made.

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Amend § 685.204 by revising subsections (f) and (g) to read as follows:

§ 685.204 Deferment.

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(f) ***Unemployment deferment.***

(1) (i) For loans disbursed before July 1, 2027, a~~A~~ Direct Loan borrower is eligible for a deferment during periods that, collectively, do not exceed three years in which the borrower is seeking and unable to find full-time employment.

(ii) For loans disbursed on or after July 1, 2027, a borrower may not receive an unemployment deferment.

(2) A borrower qualifies for an unemployment deferment by—

(i) Providing evidence of eligibility for unemployment benefits to the Secretary; or

(ii) Providing to the Secretary a written certification, or an equivalent as approved by the Secretary, that—

(A) The borrower has registered with a public or private employment agency, if one is available to the borrower within a 50-mile radius of the borrower's current address; and

(B) For all requests beyond the initial request, the borrower has made at least six diligent attempts during the preceding six-month period to secure full-time employment.

(3) For the purposes of obtaining an unemployment deferment under paragraph (f)(2)(ii) of this section, the following rules apply:

(i) A borrower may qualify for an unemployment deferment whether or not the borrower has been previously employed.

(ii) An unemployment deferment is not justified if the borrower refuses to seek or accept employment in kinds of positions or at salary and responsibility levels for which the borrower feels overqualified by virtue of education or previous experience.

(iii) Full-time employment involves at least 30 hours of work a week and is expected to last at least three months.

(iv) The initial period of unemployment deferment may be granted for a period of unemployment beginning up to six months before the date the Secretary receives the borrower's request and may be granted for up to six months after that date.

(4) The Secretary does not grant an unemployment deferment beyond the date that is six months after the date the borrower provides evidence of the borrower's eligibility for unemployment insurance benefits under paragraph (f)(2)(i) of this section or the date the borrower provides the written certification, or an

approved equivalent, under paragraph (f) (2) (ii) of this section.

(g) **Economic hardship deferment.**

(1)

(i) For loans disbursed before July 1, 2027, Aa Direct Loan borrower who has experienced or will experience an economic hardship in accordance with paragraph (g) (2) of this section, is eligible for a deferment during periods that, collectively, do not exceed three years ~~in which the borrower has experienced or will experience an economic hardship in accordance with paragraph (g) (2) of this section.~~

(ii) For loans disbursed on or after July 1, 2027, a borrower may not receive an economic hardship deferment under paragraph (g) of this section. —

(iii) An economic hardship deferment is granted for periods of up to one year at a time, except that a borrower who receives a deferment under paragraph (g) (2) (iv) of this section may receive an economic hardship deferment for the lesser of the borrower's full term of service in the Peace Corps or the borrower's remaining period of economic hardship deferment eligibility under the 3-year maximum.

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Amend § 685.205 by revising subsections (a), (b), and (c) to read as follows:

§ 685.205 Forbearance.

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(a) **General.** * * * * *

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(b) **Administrative forbearance.** * * * * *

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(c) **Period of forbearance.**

(1) (i) The Secretary grants forbearance for a period of up to one year.

(ii) For loans disbursed on or after July 1, 2027, and notwithstanding paragraph (c)(1)(i) of this section, the Secretary grants forbearance for a period that does not exceed nine months within a 24-month period for forbearances under paragraph (a)(1) of this section. The forbearance under this paragraph (c)(1)(ii) begins on the first month for which the forbearance is granted.

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Amend § 685.211 by revising subsection (f) to read as follows:

§ 685.211 Miscellaneous payment provisions

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(f) * * *

(1) A defaulted Direct Loan, except for a loan on which a judgment has been obtained, is rehabilitated if the borrower makes 9 voluntary, reasonable and affordable monthly payments within 20 days of the due date during 10 consecutive months. The Secretary determines the amount of a borrower's reasonable and affordable payment on the basis of a borrower's total financial circumstances.

(i)  Minimum Payment Amounts.

(A) Before July 1, 2027, the Secretary initially considers the borrower's reasonable and affordable payment amount to be an amount equal to the minimum payment required under the IBR plan, except that if this amount is less than \$5, the borrower's monthly payment is \$5.

(B) Beginning on and after July 1, 2027, the Secretary initially considers the borrower's reasonable and affordable payment amount to be an amount equal to the minimum payment required under the IBR plan, except that if this amount is less than \$10, the borrower's monthly payment is \$10.

* * *

(11) (iii) (A) Before July 1, 2027, Aa borrower may only obtain the benefit of a suspension of administrative wage garnishment while also attempting to rehabilitate a defaulted loan once.

(B) On or after July 1, 2027, a borrower may only obtain the benefit of a suspension of administrative wage garnishment while also attempting to rehabilitate a defaulted loan a maximum of twice per loan.

(12) (i) Effective for any defaulted Direct Loan that is rehabilitated on or after August 14, 2008, and before July 1, 2027, the borrower cannot rehabilitate the loan again if the loan returns to default status following the rehabilitation.

(ii) Effective for any defaulted Direct Loan on or after July 1, 2027, the borrower may not rehabilitate the loan again if the loan returns to default status following the second rehabilitation.

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