

To: RISE Rulemaking Committee  
From: Ashley Naporlee and Tamar Hoffman  
Date: October 1, 2025  
Memo: Proposal to streamline IDR enrollment for defaulted borrowers in rehabilitation agreements.

Streamlining IDR enrollment via the rehabilitation agreement process would significantly reduce the numbers of borrowers that re-default after rehabilitating their defaulted loan. Government data shows that "[n]early one in three borrowers who exited default through rehabilitation defaulted for a second time within 24 months, and over 40 percent of borrowers redefaulted within three years," and "borrowers who did not enroll in IDR [after completing a rehabilitation agreement] were five times more likely to default for a second time."<sup>1</sup> The Department already receives documentation of borrowers' income when agreeing to allow a borrower to enter a rehabilitation agreement. It currently uses the IBR formula as the presumptive rehabilitation agreement payment amount. Department can, and should, allow borrowers to enroll in an IDR plan when they are entering into a rehabilitation agreement, and to automatically continue repaying in an IDR plan after they finish rehabilitation. Doing so would ensure that after borrowers reenter repayment their payments would continue to be affordable and would ensure that such borrowers do not re-default, but instead continue to repay their loans.

We are proposing to amend the Direct Loan and FFEL rehabilitation regulations to make clear that the presumed rehabilitation agreement calculation will be based on what the borrower's payment amount would be in RAP or IBR, whichever the borrower's loans are eligible for and is lower, that rehabilitation payments calculated through RAP or IBR count as qualifying payments under either plan, and to streamline a rehabilitation agreement borrower's enrollment into either plan.

In the alternative, the Department could also amend the IDR regulations to make clear that payments made through a rehabilitation agreement that are equal to or greater than the minimum payment a borrower would need to make in IBR or RAP will count as qualifying payments under either plan and that the borrower will be enrolled in either plan after completing their rehabilitation agreement. We have proposed alternative regulatory language to that effect below, as well.

**Proposed 34 CFR 685.211(f)(1)(i) (Direct Loans) (Legal aid/consumer/civil rights proposed text is blue, Department proposal is red):**

**(f) *Rehabilitation of defaulted loans.***

- (1) **Beginning on or after July 1, 2027**, a defaulted Direct Loan, except for a loan on which a judgment has been obtained, is rehabilitated if the

---

<sup>1</sup> CFPB Student Loan Ombudsman, Transitioning from Default to an Income-Driven Repayment Plan, (May 16, 2017), available at [https://files.consumerfinance.gov/f/documents/201705\\_cfpb\\_Update-from-Student-Loan-Ombudsman-on-Redefaults.pdf](https://files.consumerfinance.gov/f/documents/201705_cfpb_Update-from-Student-Loan-Ombudsman-on-Redefaults.pdf).

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. ~~If a borrower received a loan disbursed after July 1, 2027 the and a borrower's monthly payment may not be less than \$10. If a borrower received no loans disbursed after July 1, 2027, the borrower's monthly payment may not be less than \$5.~~

(i) The Secretary initially considers the borrower's reasonable and affordable payment amount to be an amount equal to the minimum payment required ~~for that borrower's income and family size, or number of dependants as applicable, under the IBR plan or RAP plan, whichever is less and will apply after rehabilitation is completed.~~, ~~except that if this amount is less than \$5, the borrower's monthly payment is \$5. If the borrower only has loans disbursed prior to July 1, 2027, if this amount is less than \$5, the borrower's monthly payment is \$5. If the borrower has any loan disbursed on or after July 1, 2027, if this amount is less than \$10, the borrower's monthly payment is \$10.~~

(A) Payments that are equal or greater to the minimum payment required under the IBR or RAP plans shall count as qualifying payments towards Income-Driven Repayment forgiveness under 34 CFR 685.209. If a borrower enters a rehabilitation agreement based on an amount calculated under IBR or RAP, they will also be enrolled in that plan after the rehabilitation agreement is completed.

(B) If the amount would result in the borrower paying the loan in full prior to completing the rehabilitation period, the payment be reduced to an amount that would repay the loan in full after nine consecutive payments within a ten month period or

(C) That the borrower would have considered to have fulfilled the rehabilitation agreement once the loan was paid in full based on the calculated loan rehabilitation payment amount.

**34 CFR 682.405(b)(1)(iii) (FFEL section):**

(iii) The guaranty agency initially considers the borrower's reasonable and affordable payment amount to be an amount equal to 15 percent of the amount by which the borrower's Adjusted Gross Income (AGI) exceeds 150 percent of the poverty guideline amount applicable to the borrower's family size and State, divided by 12, except that if this amount is less than \$5, the borrower's monthly rehabilitation payment is \$5. ~~Payments that~~

are equal to or greater than this amount will count as qualifying payments towards Income-Driven Repayment forgiveness under 34 CFR 685.209 and 34 CFR 682.215. If a borrower enters a rehabilitation agreement based on an amount calculated under this section, they will also be enrolled in the IBR plan after the rehabilitation agreement is completed.

- (A) If the amount would result in the borrower paying the loan in full prior to completing the rehabilitation period, the payment be reduced to an amount that would repay the loan in full after nine consecutive payments within a ten month period or
- (B) That the borrower would have considered to have fulfilled the rehabilitation agreement once the loan was paid in full based on the calculated loan rehabilitation payment amount

**Proposed alternative language to amend 34 CFR § 685.209 to include borrowers enrolled in a rehabilitation agreement into automatic IDR enrollment, even if collection activity has been initiated:**

(m) Automatic enrollment in an IDR plan.

(i) The Secretary places a borrower on the IDR plan under this section that results in the lowest monthly payment based on the borrower's income and family size, **or based on the borrower's income and the number of dependents for the Repayment Assistance Plan**, if—

- (1) The borrower is otherwise eligible for the plan;
- (2) The borrower has approved the disclosure of tax information under paragraph (l)(1) of this section;
- (3) The borrower has not made a scheduled payment on the loan for at least 75 days, ~~or~~ is in default on the loan and is not subject to a Federal offset, administrative wage garnishment under section 488A of the Act, or to a judgment secured through litigation, **or have consolidated their loan out of default**; and
- (4) The Secretary determines that the borrower's payment under the IDR plan would be lower than or equal to the payment on the plan in which the borrower is enrolled.

(ii) At the point the borrower enrolls in a rehabilitation agreement, the Secretary will use the borrowers' income and family size information, and the number of dependents for the Repayment Assistance Plan, to automatically enroll the borrower into an IDR plan that results in the lowest monthly payment based on the borrower's income and family size, or income and the number of dependents for the Repayment Assistance Plan before the borrower completes their rehabilitation agreement. Upon removal of default through rehabilitation, the borrower will continue to be enrolled in the same IDR plan unless they select a different repayment plan.

