

Summary Contents

	Using the Digital Library	iii
	The Leading Resource for All Consumer Law	iv
	Contents	ix
Chapter 1	Getting Started	1
Chapter 2	Taking Out a Federal Student Loan: Basic Terms and Conditions	33
Chapter 3	Pre-Default Repayment Options	45
Chapter 4	Postponing Repayment on Federal Student Loans	63
Chapter 5	Pre-Default Servicing of Federal Student Loans	75
Chapter 6	Implications of Student Loan Defaults	87
Chapter 7	Repayment Strategies for Getting Out of Federal Student Loan Default	95
Chapter 8	Federal Student Loan Collection: The Federal Collection System, Private Collection Agencies, and Defenses to Collection Actions	113
Chapter 9	Seizures of Income and Assets to Collect Federal Student Loans	143
Chapter 10	Statutory Discharges of Federal Student Loans	167
Chapter 11	Discharging Student Loans in Bankruptcy	237
Chapter 12	Private Student Loans	311
Chapter 13	Predatory and For-Profit School Issues	345
Chapter 14	Affirmative Litigation Involving Student Loans and Schools	371

Appendix A	Federal Student Loan Statutes	431
Appendix B	Federal Regulations	495
Appendix C	Policy Guidance and Reports	671
Appendix D	Student Loan Forms	673
Appendix E	Sample Pleadings, Letters, and Discovery Requests	675
Appendix F	Directory of Guaranty Agencies	677
Appendix G	Student Loan Collection Agencies	683
Appendix H	NCLC’s Student Loan Borrower Assistance Website	685
Appendix I	Student Loans on the Web	687
	Index	689

Contents

Using the Digital Library	iii
---------------------------------	-----

The Leading Resource for All Consumer Law	iv
---	----

Chapter 1

Getting Started

1.1 Introduction	1
1.2 Using This Treatise	2
1.2.1 Print and Digital Versions	2
1.2.2 Road Map	2
1.2.3 Unreported Cases	3
1.2.4 Pleadings and Primary Sources	3
1.3 Brief History of Federal Student Loans	3
1.4 Types of Federal Student Assistance	4
1.4.1 Student Loans	4
1.4.1.1 Stafford Loans	4
1.4.1.2 PLUS Loans	5
1.4.1.3 Consolidation Loans	6
1.4.1.3.1 General	6
1.4.1.3.2 Limits on reconsolidation	7
1.4.1.3.3 Pros and cons of consolidation	8
1.4.1.3.4 Joint consolidation loans	9
1.4.1.4 Perkins Loans	10
1.4.1.5 Older Loans	10
1.4.2 Federal Grants	11
1.4.2.1 General	11
1.4.2.2 Pell Grants	11
1.4.2.2.1 Basics about Pell Grants	11
1.4.2.2.2 Pell Grant overpayments	12
1.4.2.3 TEACH and Other Grants	13
1.4.3 Seizure of Student Loan Funds Generally Prohibited	14
1.4.4 Educational Benefits for Military Servicemembers	14
1.4.4.1 The Post-9/11 GI Bill	14
1.4.4.2 Other Protections and Programs for Servicemembers	15
1.5 Financial Need; Applying for Federal Student Loans	16
1.5.1 General	16
1.5.2 Dependent and Independent Students	17
1.6 Individual Eligibility for Federal Student Loans	17
1.6.1 Academic Requirements	17
1.6.2 Satisfactory Academic Progress	18
1.6.3 Citizenship and Immigration Status Requirements	18
1.6.4 Drug Convictions	19
1.6.5 Incarcerated Students	20
1.6.6 Prior Student Aid History	20
1.7 Institutional Eligibility	20

1.7.1	Eligibility Criteria	20
1.7.1.1	Introduction	20
1.7.1.2	Different Types of Schools	20
1.7.1.3	Program Requirements	21
1.7.1.4	Distance Education	22
1.7.1.5	Admissions Standards	23
1.7.2	Consumer Information Requirements	23
1.8	Private Student Loans	24
1.9	Determining What Type of Loan a Client Has	25
1.10	Student Loan and Tax Deductions	26
1.11	Checklist for Handling Student Loan Issues	26
1.11.1	First Steps	26
1.11.2	Loan Cancellation	27
1.11.3	Repayment Options	28
1.11.4	Getting Out of Default Through Repayment	28
1.11.5	Postponing Payment	28
1.11.6	Challenging Collection	28
1.12	Assistance for Student Loan Borrowers	29
1.12.1	Ombudsman Programs	29
1.12.1.1	Federal Student Loan Ombudsman	29
1.12.1.2	Other Ombudsman Programs for Federal Student Loans	29
1.12.1.3	CFPB Student Loan Ombudsman	29
1.12.2	Additional Department of Education Resources	30
1.12.3	NCLC's Student Loan Borrower Assistance Project	30
1.12.4	Potential Problems with For-Profit Counselors	30

Chapter 2

Taking Out a Federal Student Loan: Basic Terms and Conditions

2.1	Introduction	33
2.2	Loan Limits	33
2.2.1	General	33
2.2.2	Stafford Loan Limits	33
2.2.3	PLUS Loan Limits	34
2.2.4	Perkins Loan Limits	34
2.2.5	Professional Judgment and Additional Limits on Borrowing	34
2.3	Federal Student Loan Interest Rates	35
2.3.1	General	35
2.3.2	Capitalization of Interest	36
2.3.3	Stafford Loan Interest Rates	36
2.3.4	PLUS and Perkins Interest Rates	37
2.3.5	Consolidation Interest Rates	37
2.4	Loan Fees	37
2.4.1	Origination Fees	37
2.4.2	Late Charges and Other Fees	38
2.5	Disclosures	38
2.5.1	General	38
2.5.2	Federal Loan Disclosures	38
2.5.3	Consolidation Loan Disclosures	39
2.6	Disbursement of Federal Student Loans	39
2.7	Cancellations and Refunds	41
2.8	Master Promissory Notes	42
2.9	Counseling Requirements	42

Chapter 3	<p>Pre-Default Repayment Options</p> <ul style="list-style-type: none"> 3.1 General 45 3.2 Standard, Graduated, and Extended Repayment Plans 45 3.3 Income-Driven Repayment Plans 46 <ul style="list-style-type: none"> 3.3.1 General 46 3.3.2 History of Income-Driven Repayment Plans 48 3.3.3 Income-Based Repayment (IBR), Pay As You Earn (PAYE), and Revised Pay As You Earn (REPAYE) 48 <ul style="list-style-type: none"> 3.3.3.1 Introduction 48 3.3.3.2 Eligibility for IBR, PAYE, and REPAYE 49 3.3.3.3 Calculating the IBR, PAYE, or REPAYE Repayment Amount . . . 50 <ul style="list-style-type: none"> 3.3.3.3.1 General 50 3.3.3.3.2 Calculating payment for married borrowers 51 3.3.3.4 Application of Payments, Overpayment Concerns, and Treatment of Interest 52 3.3.3.5 Applying for IBR, PAYE, or REPAYE 53 <ul style="list-style-type: none"> 3.3.3.5.1 General 53 3.3.3.5.2 Certifying household income and size 53 3.3.3.5.3 Switching between income-driven repayment plans . . 54 3.3.3.6 Annual Review of Financial Circumstances 54 <ul style="list-style-type: none"> 3.3.3.6.1 Annual review process and deadlines 54 3.3.3.6.2 Consequences of late or missed income documentation under IBR/PAYE 55 3.3.3.6.3 Consequences of late or missed income documentation under REPAYE 55 3.3.3.7 Leaving IBR/PAYE/REPAYE 56 3.3.3.8 IBR/PAYE/REPAYE Forgiveness 56 3.3.3.9 Considerations for Borrowers Eligible for Multiple Income-Driven Plans 58 3.3.4 Income-Contingent Repayment (ICR) Plans 59 <ul style="list-style-type: none"> 3.3.4.1 ICR Eligibility 59 3.3.4.2 Calculating the Monthly Payment Under ICR 59 3.3.4.3 ICR Forgiveness 60 3.3.5 Income-Sensitive Repayment (ISR) Plans 61 3.3.6 Alternative Repayment Plans 61 3.4 Perkins Loan Repayment 61 3.5 How Payments Are Applied 61
Chapter 4	<p>Postponing Repayment on Federal Student Loans</p> <ul style="list-style-type: none"> 4.1 Introduction 63 4.2 Grace Periods 63 4.3 Deferments 63 <ul style="list-style-type: none"> 4.3.1 Benefits of Deferral 63 4.3.2 Borrower’s Default Limits Eligibility for Deferral 64 4.3.3 General Eligibility Requirements for Deferments 64 4.3.4 Applying for Deferments 65 4.3.5 Deferments for Direct Loans, FFEL Program Loans, and Consolidation Loans Extended After July 1, 1993 65 <ul style="list-style-type: none"> 4.3.5.1 General 65 4.3.5.2 FFEL and Direct Loan Economic Hardship Deferments 65 4.3.5.3 Unemployment Deferral 66

4.3.5.4	Military Deferment	66
4.3.5.5	Post-Active-Duty Deferment	67
4.3.6	PLUS Loan Deferments	68
4.3.7	Grounds for FFEL Deferments Extended Before July 1, 1993	68
4.3.8	Grounds for Perkins Loan Deferments	69
4.3.9	Ending Deferments	69
4.4	Forbearances	69
4.4.1	General	69
4.4.2	Applying for Forbearances	70
4.4.3	Forbearances Post-270 Days Delinquent and Prior to Default Claim or Collection Status	70
4.4.4	Discretionary and Administrative Forbearances	71
4.4.5	Mandatory Forbearances	72
4.4.6	Perkins Loan Program Provisions	73

Chapter 5

Pre-Default Servicing of Federal Student Loans

5.1	Introduction to Federal Student Loan Servicing	75
5.2	Structure of Federal Student Loan Servicing	75
5.2.1	Direct Loans	75
5.2.1.1	Contract System	75
5.2.1.2	Direct Loan Performance Metrics	76
5.2.2	FFEL Servicing	78
5.2.3	Perkins Loans	78
5.3	Common Servicing Problems	78
5.4	Servicer Due Diligence Requirements	80
5.4.1	FFEL Program and Direct Loan Program	80
5.4.2	Perkins Loan Program Due Diligence Provisions	82
5.5	Borrower Protections	83
5.5.1	General	83
5.5.2	Higher Education Act Loan Servicing Requirements	83
5.5.3	State Servicing Laws	84
5.6	Public Oversight of Servicers	85
5.6.1	General	85
5.6.2	Public Enforcement	85
5.6.3	Complaint Procedures	86

Chapter 6

Implications of Student Loan Defaults

6.1	Introduction	87
6.2	Defining Default	87
6.2.1	Federal Student Loan Default	87
6.2.2	Private Loan Default	87
6.3	Consequences of Default	88
6.3.1	Consequences of Default on Federal Loans	88
6.3.2	Consequences of Default on Private Loans	88
6.4	Measuring Default Rates	88
6.4.1	Cohort Default Rates	88
6.4.2	Problems with the Cohort Default Rate Measure	89
6.4.3	Other Federal Default Measures	91
6.5	The Scope of the Student Loan Default Problem	91
6.5.1	Overview	91
6.5.2	Default Risk Factors and Racial Disparities	91

Chapter 7	<p>Repayment Strategies for Getting Out of Federal Student Loan Default</p> <ul style="list-style-type: none"> 7.1 Introduction 95 7.2 Consolidation As a Way Out of Default 95 <ul style="list-style-type: none"> 7.2.1 General. 95 7.2.2 Eligibility for Consolidation 95 7.2.3 Risks of Consolidating Certain Eligible Loans 96 7.2.4 Applying for Direct Loan Consolidation. 97 <ul style="list-style-type: none"> 7.2.4.1 General 97 7.2.4.2 Choosing a Servicer 97 7.2.4.3 Payments Are Not Required to Get Out of Default Through Consolidation 98 7.2.4.4 Repayment Plan Selection for Consolidation. 98 7.2.4.5 Completing the Consolidation Process. 99 7.2.4.6 Potential Problems Applying for Consolidation. 99 7.2.5 Costs Associated with Consolidation. 100 7.3 Loan Rehabilitation 100 <ul style="list-style-type: none"> 7.3.1 General. 100 7.3.2 Eligibility for Rehabilitation 101 7.3.3 Process for Requesting and Completing FFEL and Direct Loan Rehabilitation. 101 <ul style="list-style-type: none"> 7.3.3.1 Overview. 101 7.3.3.2 Determining the Reasonable and Affordable Payment Amount 102 <ul style="list-style-type: none"> 7.3.3.2.1 Payment amount must be based on borrower’s financial circumstances 102 7.3.3.2.2 Initial payment determination using AGI and 15% of discretionary income 102 7.3.3.2.3 Alternative payment amount based on income and expenses. 103 7.3.3.3 Written Rehabilitation Statement Required 104 7.3.3.4 Requirement That Rehabilitation Payments Be Voluntary 104 7.3.3.5 Rehabilitation Payment Timing Requirements 105 7.3.3.6 Completing the Rehabilitation and Credit Report Impact 105 7.3.4 Costs Associated with Rehabilitation 106 7.3.5 Perkins Rehabilitation 107 7.4 Advantages and Disadvantages of Loan Rehabilitation and Consolidation 107 7.5 Renewing Eligibility for Federal Student Aid 108 7.6 Compromise and Write-Off Authority. 109 <ul style="list-style-type: none"> 7.6.1 General. 109 7.6.2 Compromises with the Department of Education 109 7.6.3 Compromises with Guaranty Agencies 111 7.6.4 Guaranty Agency Write-Off Procedures 112
-----------	---

Chapter 8	<p>Federal Student Loan Collection: The Federal Collection System, Private Collection Agencies, and Defenses to Collection Actions</p> <ul style="list-style-type: none"> 8.1 Introduction to Federal Student Loan Collections. 113 8.2 The Federal Student Loan Collection Process. 114 <ul style="list-style-type: none"> 8.2.1 The Various Collection Entities: Figuring Out Who Is Collecting the Loan. 114 8.2.2 Post-Default Collection 116 8.2.3 Credit Bureau Reporting 118
-----------	--

8.2.3.1	General	118
8.2.3.2	How Long Does Information Remain in the Consumer’s File?	119
8.2.3.3	Cleaning Up the Consumer’s Credit Record	119
8.3	Collection Fees and Penalties	121
8.3.1	General	121
8.3.2	Amount of Collection Fees and How Fees Are Calculated	122
8.3.2.1	“Reasonable” Collection Fees	122
8.3.2.2	Fees for Rehabilitation and Consolidation	125
8.3.2.3	Perkins Loan Collection Fees	125
8.3.3	Avoiding Collection Fees	126
8.3.4	United States Collection of Other Fees and Penalties	127
8.4	Deceptive and Abusive Debt Collection Tactics and Legal Violations	128
8.4.1	Factors That Foster Deception and Abuse in Student Loan Collections	128
8.4.1.1	General	128
8.4.1.2	Commission Structure Fosters Abuses	129
8.4.2	Submitting Complaints About Collection Agencies	131
8.5	Defenses to Federal Student Loan Collection Actions	133
8.5.1	General	133
8.5.2	Standing and Other Procedural Issues	133
8.5.3	Statute of Limitations Is Not a Defense to Federal Student Loan Collection Action	134
8.5.3.1	Statute of Limitations Generally Eliminated	134
8.5.3.2	Exclusions from the General Rule Eliminating the Statute of Limitations	135
8.5.3.3	Laches	136
8.5.3.3.1	Barriers to applying the laches doctrine in student loan cases	136
8.5.3.3.2	Exceptions to the rule barring laches	136
8.5.3.3.3	FISL collection	137
8.5.4	Other Defenses to Loan Enforceability	137
8.5.4.1	Forgery, Mistake, Infancy, and Other Contract Defenses	137
8.5.4.2	Connection Between Contract Defenses and Statutory Discharges	139
8.5.4.3	Raising Defenses When FFEL Program Loans Have Lost Their Guaranteed Status	139
8.5.4.4	Raising Defenses After a Loan Has Been Consolidated	140
8.5.4.5	Defenses for Servicemembers	140
8.6	Vacating Collection Judgments	142

Chapter 9

Seizures of Income and Assets to Collect Federal Student Loans

9.1	Introduction	143
9.2	Tax Refund Offsets	143
9.2.1	General	143
9.2.2	Notice Requirements	144
9.2.3	Grounds to Contest a Tax Offset	144
9.2.4	Repayment Plan in Lieu of Offset	145
9.2.5	The Review Process	146
9.2.6	Post-Offset Challenges	147
9.2.7	Preventing Tax Offsets	147
9.2.8	Bankruptcy and Tax Offsets	148
9.2.9	Rights of Non-Obligated Spouses	148

9.3	Non-Judicial Wage Garnishment	148
9.3.1	Introduction	148
9.3.2	DCIA Garnishment by the Department of Education	149
9.3.2.1	Allowable Garnishment Amounts	149
9.3.2.2	Notice of Garnishment	151
9.3.2.3	Grounds to Contest Garnishment	151
9.3.2.3.1	Overview of defenses and objections	151
9.3.2.3.2	Unemployment	151
9.3.2.3.3	Statutory discharges and borrower defenses	152
9.3.2.3.4	Financial hardship	153
9.3.2.3.5	Special rules for active servicemembers and merchant seamen	153
9.3.2.3.6	The role of the debtor’s employer	153
9.3.2.4	Repayment in Lieu of Garnishment	154
9.3.2.4.1	Repayment agreements	154
9.3.2.4.2	Rehabilitation or consolidation as an option	154
9.3.2.5	The Review Process	155
9.3.3	Guaranty Agency Wage Garnishment Program	157
9.3.3.1	General	157
9.3.3.2	Guaranty Agency Garnishment Hearing	159
9.3.4	Participation of Private Collection Agencies in Garnishment	160
9.4	Seizure of Federal Benefits	161
9.4.1	General	161
9.4.2	Amount of Offset	162
9.4.3	Challenges to Offset	163
9.4.3.1	Notice and Hearing Rights	163
9.4.3.2	Hardship Reductions	163
9.4.3.3	No Time Limit on Administrative Offsets	165
9.5	Federal Salary Offsets	165
9.6	Professional License Suspensions and Revocations	165
9.7	Seizure of Student Loan Funds Generally Prohibited	166
9.8	Withholding Transcripts	166

Chapter 10

Statutory Discharges of Federal Student Loans

10.1	Introduction	167
10.2	Loans Eligible for Discharge	167
10.3	Closed-School Discharge	168
10.3.1	General	168
10.3.2	The Official School Closure Date	169
10.3.3	Withdrawals and Leaves of Absence Prior to Closure	170
10.3.3.1	Withdrawals Prior to Closure Generally	170
10.3.3.2	Examples of Extended Withdrawal Periods	170
10.3.3.3	Leaves of Absence	171
10.3.4	Teach-Outs and Credit Transfers	171
10.3.5	Relief for Those Obtaining a Closed-School Discharge	172
10.3.6	How to Obtain a Closed-School Discharge	173
10.3.6.1	Student Notification and Forbearance Requirements	173
10.3.6.2	Written Application for Discharge	173
10.3.6.3	Discharges Without a Written Application and Group Discharges	174
10.3.6.4	Time Limits and Appeal Rights	174
10.3.7	Effect of School Closure on FISLs and Older FFEL Program Loans	175

10.4	False-Certification Discharge	175
10.4.1	General	175
10.4.2	Discharge Based on Ability-to-Benefit (ATB) or High School Diploma Falsification.	176
10.4.2.1	ATB Falsification Defined: Students Who First Enrolled Before July 1, 2012	176
10.4.2.2	Common ATB Test Violations	177
10.4.2.3	ATB Tests and Language Issues	178
10.4.2.4	ATB False-Certification: Students Who First Enrolled After July 1, 2012	178
10.4.2.5	The Use of Fake High School Diplomas and False Self- Certifications of High School Graduation	179
10.4.2.6	Using Independent Evidence to Prove ATB or High School Diploma Falsification	180
10.4.2.6.1	Why supporting evidence is important	180
10.4.2.6.2	Challenging Department denials based on lack of corroborating evidence	180
10.4.2.6.3	Cohort default rates in lieu of corroborating evidence	183
10.4.2.6.4	Obtaining evidence through Freedom of Information Act requests	184
10.4.2.6.5	School files	184
10.4.2.6.6	Testing company information	185
10.4.2.6.7	Information on specific schools	185
10.4.2.6.8	Other evidence of ATB fraud or high school diploma falsification	185
10.4.2.6.9	Evidence to support borrower credibility	185
10.4.2.7	Group Discharges	186
10.4.2.8	Discharges Without Applications	187
10.4.3	Discharge Based on Student’s Inability to Meet Minimum State Job Requirements (Disqualifying Status).	188
10.4.4	Discharge Based on Forgery by School.	189
10.4.5	Discharge Based on Identity Theft or Forgeries by Third Parties	189
10.4.6	Relief Available for Those Obtaining a False-Certification Discharge	191
10.4.7	How to Apply for a False-Certification Discharge.	191
10.5	Unpaid-Refund Discharge	192
10.5.1	General.	192
10.5.2	Criteria for Unpaid-Refund Discharge.	192
10.5.3	Determining Amount of Discharge	192
10.5.4	Applying for the Discharge	193
10.5.5	Relief Available for Those Obtaining an Unpaid-Refund Discharge.	193
10.6	Borrower Defense Discharge and Related Defenses to Federal Student Loan Collection.	194
10.6.1	General.	194
10.6.2	Direct Loan Borrower Defense Discharges	195
10.6.2.1	Background	195
10.6.2.2	Eligible Loans	197
10.6.2.3	Standard for Relief	197
10.6.2.4	Relief and Time Limits	198
10.6.2.5	How to Obtain A Borrower Defense Discharge	199
10.6.2.5.1	Individual application process	199
10.6.2.5.2	Process for certain Corinthian borrowers	200

	10.6.2.5.3 Other schools subject to special borrower defense processes	202
	10.6.2.5.4 Group discharges without application.	202
10.6.3	Using the Direct Loan Borrower Defense Process for Consolidation, FFEL, and Perkins Loans.	203
10.6.4	Asserting School-Related Claims and Defenses Against Repayment for Other Types of Student Loans	204
	10.6.4.1 Generally	204
	10.6.4.2 Perkins Loans	205
	10.6.4.3 FFEL Program Loans Originated On or After January 1, 1994	205
	10.6.4.3.1 General	205
	10.6.4.3.2 Legal bases and standard for FFEL borrower defenses on FFEL Program loans disbursed since 1994	206
	10.6.4.3.3 Additional considerations for FFEL Program loans originated between Oct. 1, 2003, and July 1, 2009.	207
	10.6.4.4 FFEL Program Loans Originated Before 1994	207
	10.6.4.4.1 General	207
	10.6.4.4.2 Origination relationship	208
	10.6.4.4.3 Private remedy for failure to include FTC Holder Notice	209
	10.6.4.4.4 State lender liability statutes	210
	10.6.4.4.5 Agency and other common law theories.	211
	10.6.4.5 Federally Insured Student Loans (Older Loan Type)	212
10.7	Relationship Between Closed-School, False-Certification, Unpaid-Refund, Borrower Defense, and Disability Discharges.	212
10.8	Disability Discharge	213
	10.8.1 General.	213
	10.8.2 Significant Changes to the Disability Discharge Process Over the Years.	214
	10.8.3 Eligible Loans	214
	10.8.4 Definition of Total and Permanent Disability	215
	10.8.5 Applying for Disability Discharge.	215
	10.8.5.1 General	215
	10.8.5.2 Applying Based on Physician Certification.	217
	10.8.5.3 Applying Based on SSA Determination	218
	10.8.5.4 Applying Based on VA Service-Connected Disability	219
	10.8.6 Effect of Discharge	219
	10.8.7 Reinstatement Period.	220
	10.8.7.1 General	220
	10.8.7.2 Earnings Cap During Reinstatement Period	221
	10.8.7.3 Bar on New Student Loans During Reinstatement Period	221
	10.8.7.4 Changes in SSA Disability Status	222
	10.8.7.5 Reinstatement of Obligation to Pay Discharged Loans.	222
	10.8.8 When Work Is Allowed	223
	10.8.9 Challenging Denials.	223
10.9	Discharge Based on Death.	223
10.10	Public Service Loan Forgiveness.	224
	10.10.1 General.	224
	10.10.2 Eligible Loans	224

10.10.3	Qualifying Repayment Plans and Payments	225
10.10.4	Qualifying Jobs	226
10.10.5	Applying for Public Service Cancellation	227
10.11	Teacher Loan Forgiveness	228
10.12	Other Profession-Related Cancellations	229
10.13	Perkins Loan Discharges	229
10.14	Cancellation for Certain Relatives of September 11 Victims	230
10.15	Tax Implications of Student Loan Discharges	231
10.15.1	Overview	231
10.15.2	Public Service Loan Forgiveness and Other Profession-Related Loan Forgiveness Not Taxable	231
10.15.3	Death and Disability Discharges Not Taxable as of January 1, 2018	231
10.15.4	Closed-School, False-Certification, and Unpaid-Refund Discharges Excluded from Income Under HEA	232
10.15.5	Tax Implications of Borrower Defense Discharge	232
10.15.6	Insolvency and Bankruptcy Exceptions to Taxable Income	233
10.15.7	Disputed Debt Doctrine As Exception to Taxable Income	233
10.16	Appealing Adverse Discharge Decisions	234
10.16.1	Seeking Administrative Review or Reconsideration	234
10.16.2	Appealing to Federal District Court	235

Chapter 11

Discharging Student Loans in Bankruptcy

11.1	Student Loans and Bankruptcy	237
11.1.1	About the Bankruptcy Option	237
11.1.2	The Automatic Stay and the Discharge Order	237
11.1.2.1	The Automatic Stay	237
11.1.2.2	The Discharge Order	238
11.1.2.3	Tuition Debts Are Dischargeable	238
11.2	When Can a Student Loan Be Discharged in Bankruptcy?	238
11.2.1	The Special Restriction on Dischargeability Applies to Most Student Loans	238
11.2.2	The Time-Limited Exceptions to Discharge for Cases Filed Before 1998	239
11.2.3	The Scope of the Discharge Exception: Parsing the Language of Section 523(a)(8)	239
11.2.3.1	Introduction	239
11.2.3.2	Loans Related to Government Units and Nonprofit Institutions: Section 523(a)(8)(A)(i)	239
11.2.3.3	Obligations to Repay Funds Received As Educational Benefits, Scholarships, or Stipends: Section 523(a)(8)(A)(ii)	240
11.2.3.4	Private Student Loans: Section 523(a)(8)(B)	242
11.2.4	Some Education Debts Should Be Dischargeable	245
11.2.4.1	Debts Incurred Through Employer-Sponsored Programs	245
11.2.4.2	Debts That Are Not Loans	246
11.2.5	Refinanced Student Loans in Bankruptcy	247
11.2.6	The Role of Programs Guaranteed or Insured by a Nonprofit or Government Entity in Cases Decided Under the Pre-2005 Version of Section 523(a)(8)	248
11.2.7	Applying the Time-Based Discharge Provisions for Cases Filed Before October 7, 1998	249
11.3	Burden of Proof and the Student Loan Dischargeability Exception	250

11.3.1	General	250
11.3.2	Parents and Other Co-Signors	252
11.3.3	Reimbursement Claims by Individuals Are Not Student Loans	253
11.4	Undue Hardship As Basis for Discharging Student Loan	254
11.4.1	General	254
11.4.1.1	Introduction	254
11.4.1.2	The <i>Brunner</i> Test	254
11.4.1.3	The “Totality of the Circumstances” Test	255
11.4.2	Applying the <i>Brunner</i> “Undue Hardship” Test	256
11.4.2.1	The First <i>Brunner</i> Prong: The Debtor’s Current Income and Expenses	256
11.4.2.1.1	General	256
11.4.2.1.2	Can the borrower afford to repay the loan?	257
11.4.2.1.3	The role of long-term repayment plans	258
11.4.2.1.4	What is a “minimal” standard of living?	258
11.4.2.1.5	Whose income and expenses count?	263
11.4.2.2	The Second <i>Brunner</i> Prong: Additional Circumstances Indicate Current Hardship Likely to Continue	264
11.4.2.2.1	General	264
11.4.2.2.2	The relevant time frame is a significant portion of the loan’s repayment term	264
11.4.2.2.3	Is it more likely than not that the current conditions will persist for the loan’s repayment term?	265
11.4.2.2.4	Proof of health-related impairments as “additional circumstances”	269
11.4.2.3	The Third <i>Brunner</i> Prong: Good Faith	270
11.4.2.3.1	General	270
11.4.2.3.2	Participation in a long-term income-driven repayment plan should play no significant role in applying section 523(a)(8)	273
11.4.2.3.3	Emphasis on income-driven plans conflicts with the bankruptcy code	275
11.4.2.3.4	Long-term income-driven plans often have little benefit for creditors and can be harmful for borrowers	276
11.4.2.3.5	Tax consequences of loan forgiveness	277
11.4.2.3.6	Long-term repayment plans are not available for all student loans	278
11.4.2.3.7	Not all borrowers with eligible loans are permitted to participate in income-driven plans	279
11.4.2.3.8	Many borrowers who commence long-term repayment plans will never obtain forgiveness	279
11.4.2.3.9	Responding to creditors’ claims regarding long-term repayment plans	280
11.4.3	Other Hardship Factors	281
11.5	Partial Discharge or Modification of Student Loan	283
11.6	Special Rule for HEAL Loans	285
11.7	The Dischargeability Determination	285
11.7.1	Procedure for Determining Dischargeability of Student Loan	285
11.7.2	Proper Parties and Service	286

11.7.3	The Timing of the Adversary Proceeding	286
11.7.4	Undue Hardship Determination in Chapter 13	288
11.7.4.1	The Timing of the Adversary Proceeding in Chapter 13	288
11.7.4.2	The Necessity for an Adversary Proceeding in Chapter 13	289
11.7.5	Use of Older Dischargeability Standards Today When Student’s Pre-1998 Bankruptcy Did Not Determine Student Loan’s Dischargeability	290
11.7.6	The Department of Education’s Undue Hardship Discharge Guidelines	291
11.7.7	The Relationship Between the Undue Hardship Discharge and Other Administrative Discharges	292
11.8	Discharge of Student Loans Owed to State Agencies	293
11.9	Treatment of Student Loans in Chapter 13 When the Loans Cannot Be Discharged	295
11.9.1	General	295
11.9.2	Separate Classification of Similar Claims Is Permitted in Chapter 13 Bankruptcy	296
11.9.3	Separate Classification of Student Loan Debts in Chapter 13 Bankruptcy	297
11.9.4	Cure of a Default on a Long-Term Student Loan Debt in Chapter 13 Bankruptcy	299
11.9.5	Chapter 13 Plans May Provide for Continued Participation in Long-Term Income-Driven Repayment Plans	301
11.9.6	Preferential Treatment Allowed for Debts with Co-Signors	302
11.9.7	Graduated Payment Structures for Student Loans in Chapter 13 Plans	302
11.9.8	Over-Median-Income Debtors May Designate All Their Discretionary Income for Student Loan Payments	302
11.10	Co-Debtor Stay	303
11.11	Raising Defenses in Response to Creditor Claims	303
11.12	Challenging Aspects of the Debt in Bankruptcy in the Absence of a Proof of Claim	305
11.13	Student Loan Payments As “Special Circumstances” Under the BAPCPA Means Test	305
11.14	Student’s Rights After Bankruptcy Discharge	308
11.15	Bankruptcy Default Clauses in Private Student Loan Agreements	309

Chapter 12

Private Student Loans		
12.1	The Private Student Loan Market	311
12.1.1	General	311
12.1.2	State Private Loan Products	312
12.1.3	School Products	312
12.1.4	Who Borrows Private Student Loans and Why	314
12.2	Private Loan Terms and Conditions	315
12.2.1	Comparing Private Loans and Federal Loans	315
12.2.2	How to Tell If a Loan Is Federal or Private	316
12.3	Oversight of Private Student Loans	316
12.3.1	Federal Agencies	316
12.3.2	State Agencies	318
12.4	Disclosures and Private Student Loans	318
12.4.1	Truth in Lending Disclosures for Closed-End Loans Required as of February 14, 2010	318
12.4.1.1	Introduction	318

12.4.1.2	Definitions and Scope	319
12.4.1.3	Timing of Disclosures	320
12.4.1.4	Form and Content of Disclosures	320
12.4.1.4.1	Application disclosures	320
12.4.1.4.2	Approval disclosures	321
12.4.1.4.3	Final disclosures	321
12.4.1.5	Self-Certification	321
12.4.1.6	Cancellation and Thirty-Day Waiting Period	322
12.4.1.7	Remedies	322
12.4.2	Disclosures Required for Closed-End Loans until February 14, 2010	322
12.4.3	Disclosures Required for Open-End Loans	323
12.4.4	HEA Disclosures and Private Loans	324
12.4.5	State Disclosures and Related Laws	324
12.5	Fair Billing and Other Servicing Issues	325
12.5.1	General	325
12.5.2	Payment Application Issues for Private Student Loans	326
12.6	Default and Delinquency and Private Student Loans	327
12.6.1	The Problem of Private Student Loan Defaults	327
12.6.2	Default Triggers for Private Loans	327
12.6.3	Collection of Defaulted Private Student Loans	328
12.7	Relief for Private Student Loan Borrowers	329
12.7.1	General	329
12.7.2	Deferments and Forbearances	330
12.7.3	Modifications and Refinancing	331
12.7.4	Cancellations	332
12.7.4.1	Death and Disability Cancellations	332
12.7.4.2	Relief Based on School Misconduct	333
12.7.4.2.1	Private loan relief in school bankruptcy cases	333
12.7.4.2.2	Student tuition recovery funds	333
12.7.5	CFPB Student Loan Ombudsman	333
12.8	Defenses in Private Student Loan Collection Actions	334
12.8.1	General Contract Defenses	334
12.8.2	Infancy	334
12.8.3	Statute of Limitations	335
12.8.3.1	Federal Elimination of Limitations Period Inapplicable	335
12.8.3.2	Determining Which State’s Law Applies	336
12.8.3.3	Differing Statutes of Limitation Within a State	337
12.8.3.4	Computing the Limitations Period	337
12.8.4	Defenses for Servicemembers	338
12.8.5	Defenses Against Loan Transferees	338
12.8.5.1	General	338
12.8.5.2	Business Entities Barred by State Law From Serving As Plaintiffs	339
12.8.5.3	Loan Holder’s Proof of Written Contract	339
12.8.5.4	Loan Holder As Real Party in Interest	340
12.8.5.5	Admissibility of Loan Holder’s Documents	341
12.8.5.6	Requirements for Negotiable Instruments	343

Chapter 13

Predatory and For-Profit School Issues

13.1	Introduction	345
13.2	Oversight of Schools Participating in Federal Assistance Programs	345
13.2.1	Overview	345

13.2.2	Federal Eligibility Criteria and Oversight	345
13.2.2.1	Introduction	345
13.2.2.2	Program Participation Agreements	345
13.2.2.2.1	General	345
13.2.2.2.2	The 90/10 rule and its manipulation	346
13.2.2.2.3	Limits on incentive compensation	347
13.2.2.2.4	Misrepresentations	348
13.2.2.2.5	Private education loan certifications and prohibited inducements	349
13.2.2.2.6	Predispute arbitration and class waivers	350
13.2.2.3	Administrative Capability	350
13.2.2.3.1	General	350
13.2.2.3.2	Cohort default-rate requirements	350
13.2.2.4	Financial Responsibility	352
13.2.2.5	Gainful Employment	353
13.2.3	State Authorization	355
13.2.3.1	General	355
13.2.3.2	Distance Education	355
13.2.4	Accreditation	357
13.2.5	Gaps in Federal Enforcement	358
13.2.6	Federal Student Aid Feedback System	359
13.2.7	Military and Veteran Benefit and For-Profit School Oversight	360
13.3	Predatory and For-Profit School Issues	362
13.3.1	Brief History	362
13.3.2	Common Abuses and Problems with For-Profit Schools	364
13.3.2.1	Introduction	364
13.3.2.2	Aggressive Recruiting and Marketing Practices	364
13.3.2.3	Deceptive Recruiting and Marketing Practices	365
13.3.2.4	Manipulation of Outcome Measures	366
13.3.2.5	Falsification of Student Eligibility for Financial Aid	367
13.3.2.6	Diploma Mills	368
13.3.2.7	Online and Distance Education	368
13.3.2.8	Private Loan Borrowing and Internal Loan Products	369
13.4	Government Discharge and Reimbursement Programs for School Misconduct	369
13.4.1	Federal Loan Discharges	369
13.4.2	Student Claims Against State Tuition Recovery Funds	369
13.4.2.1	General	369
13.4.2.2	Relationship of STRF to School-Related Discharges	370

Chapter 14

Affirmative Litigation Involving Student Loans and Schools

14.1	Overview	371
14.2	Litigation Involving Collection Abuses	371
14.2.1	Fair Debt Collection Practices Act Overview	371
14.2.2	Applicability of the FDCPA to Student Loan Collection Activity	371
14.2.2.1	General	371
14.2.2.2	Department of Education Employees	372
14.2.2.3	Independent Collection Agencies and Attorneys	372
14.2.2.4	Special Issues Involving Collection of Federal Student Loans	372
14.2.2.5	Servicers	373
14.2.2.6	Originating Lenders and Their Assignees	374
14.2.2.7	FDCPA Applicability to Guaranty Agencies	375

14.2.3	Student Loan Collection Practices Violating the FDCPA	377
14.2.3.1	Violations Unique to Federal Student Loans	377
14.2.3.2	FDCPA Violations Involving Private Student Loans	378
14.2.3.3	Illegal Debt Collection Activity Not Unique to Student Loans	379
14.2.4	Applicability of State Debt Collection Law to Student Loans	381
14.2.4.1	Description of Applicable State Law	381
14.2.4.2	Preemption of State Debt Collection Claims with Respect to Federal Student Loans	381
14.2.5	Telephone Consumer Protection Act	383
14.2.6	Due Process Challenges	384
14.2.7	Other Federal Claims	386
14.2.8	Mandatory Arbitration of Debt Collection Claims	386
14.3	Litigation Involving Servicing Abuses	387
14.3.1	Servicing Abuses Described	387
14.3.2	Suing the Department of Education for Injunctive and Other Relief	387
14.3.3	State Claims Against Servicers	389
14.3.3.1	Breach of Contract Claims	389
14.3.3.2	UDAP Claims	389
14.3.3.3	Other State Claims	390
14.3.4	HEA Preemption of State Laws Applicable to Servicers	391
14.3.4.1	Introduction	391
14.3.4.2	Express Preemption	391
14.3.4.3	Conflict Preemption	392
14.3.5	Does Sovereign Immunity Apply to State-Affiliated Servicers?	394
14.3.6	Federal Claims Against Servicers	394
14.3.6.1	Enforcing the Higher Education Act	394
14.3.6.2	Fair Credit Reporting Act Claims	394
14.3.6.3	Other Federal Claims	395
14.3.7	Arbitration Requirements	395
14.4	Litigation Against Schools	396
14.4.1	Introduction	396
14.4.2	Schools As Private Lenders	396
14.4.3	Developing a Case	397
14.4.4	Adding Additional Defendants	398
14.4.4.1	Claims Against Private Accrediting Agencies	398
14.4.4.2	Claims Against State Licensing Agencies	399
14.4.4.3	Claims Against the Department of Education	399
14.4.5	Deciding Between Class and Individual Actions	400
14.4.6	Arbitration Requirements and Class Waivers	400
14.4.6.1	Introduction	400
14.4.6.2	Current Department of Education Rules Limiting Arbitration Requirements and Class Waivers	401
14.4.6.3	Where Arbitration Agreements Are Not Restricted	402
14.4.7	Federal Claims	402
14.4.7.1	The Higher Education Act	402
14.4.7.2	RICO	403
14.4.7.3	The False Claims Act	403
14.4.7.4	The FTC Act and FTC Guides for Private Vocational and Distance Education Schools	405
14.4.7.5	The Telephone Consumer Protection Act	405
14.4.8	UDAP Claims	406

14.4.8.1	General	406
14.4.8.2	School Practices Violating UDAP Statutes	407
14.4.8.3	Use of Government Standards to Show UDAP Violations	408
14.4.9	State Education Laws	409
14.4.9.1	General	409
14.4.9.2	State Agency Oversight and Minimum Standards	410
14.4.9.3	Required Disclosures and Prohibited Practices	410
14.4.9.4	Cancellation and Refund Rights	411
14.4.10	Common Law Claims	411
14.4.10.1	Intentional Torts	411
14.4.10.2	Contract Claims	413
14.4.10.3	Fiduciary Duty	415
14.4.11	State RICO Claims	416
14.4.12	Federal Preemption of State Claims	416
14.4.13	Proving Actual Damages	416
14.4.14	Collecting on a Judgment	416
14.5	Litigation Involving Private Lenders	418
14.5.1	Scope of This Section	418
14.5.2	Raising School-Related Claims and Defenses Against Private Lender	418
14.5.2.1	Importance of Raising School-Related Claims and Defenses	418
14.5.2.2	FTC Holder Rule Allows Students to Raise School-Related Claims and Defenses	418
14.5.2.3	When the Loan Agreement Contradicts the FTC Holder Notice	419
14.5.2.4	When the Holder Notice Is Omitted from the Credit Agreement	420
14.5.2.4.1	General	420
14.5.2.4.2	When the school is the originating lender	420
14.5.2.4.3	When the school arranges a Direct Loan with a third party	420
14.5.2.4.4	Lender liability for failure to include FTC Holder Notice	421
14.5.2.4.5	National Bank Act preemption of students' state law claims	421
14.5.2.4.6	Private lender's liability as aider and abettor of school practices	422
14.5.3	Federal Claims for Lender's Law Violations	423
14.5.3.1	The Truth in Lending Act	423
14.5.3.2	The Equal Credit Opportunity Act	423
14.5.3.3	Military Lending Act	424
14.5.3.4	Anti-Trust Claims	424
14.5.4	State Claims for Private Lender Violations	424
14.5.4.1	UDAP Claims	424
14.5.4.2	Usury and Other State Credit Claims	425
14.5.4.3	Other State Claims	425
14.5.5	Loan Cancellation As Taxable Income	425
14.5.6	Mandatory Arbitration Requirements	426
14.5.6.1	Introduction	426
14.5.6.2	Arbitration's Effect on Classwide Relief	426
14.5.6.3	Initial Steps to Challenge an Arbitration Agreement	427
14.5.6.4	Grounds to Challenge an Arbitration Agreement	427

	14.5.7 Raising Claims Against an Assignee of the Originating Lender	428
	14.5.8 Forum Selection Clauses	428
Appendix A	Federal Student Loan Statutes	
	A.1 Direct Loans	431
	A.2 FFEL	438
	A.3 Perkins Loans	462
	A.4 General Provisions	470
	A.5 Selected Debt Collection Statutes	486
	A.6 Private Loans	489
Appendix B	Federal Regulations	
	B.1 Direct Loan Regulations	495
	B.2 FFEL Regulations	538
	B.3 Perkins Loan Regulations	595
	B.4 Other Federal Financial Assistance Regulations	608
	B.4.1 Selected Institutional Eligibility Requirements	608
	B.4.2 Selected Student Assistance General Provisions	618
	B.5 Selected Debt Collection Procedures	650
	B.5.1 Administrative Offset	650
	B.5.2 Tax Refund Offset	654
	B.5.3 Administrative Wage Garnishment	655
	B.5.4 Collection Costs and Penalties	660
	B.5.5 Compromise of Debts	661
	B.5.6 Department of Treasury Debt Collection Regulations	662
	B.6 Selected Private Student Loan Regulations	665
Appendix C	Policy Guidance and Reports	671
Appendix D	Student Loan Forms	673
Appendix E	Sample Pleadings, Letters, and Discovery Requests	675
Appendix F	Directory of Guaranty Agencies	677
Appendix G	Student Loan Collection Agencies	683
Appendix H	NCLC’s Student Loan Borrower Assistance Website	685
Appendix I	Student Loans on the Web	687
	Index	689

