

Federal Direct Loans

These proposed regulations provide additional flexibilities for Direct Loan borrowers and permit oral requests for forbearance, as well as allow a borrower to object to the initially established reasonable and affordable loan repayment amount. In addition, if the borrower incurs changes to his or her financial circumstances, the borrower can provide supporting documentation to change the amount of the reasonable and affordable loan monthly repayment amount.

Section 685.205 – Forbearance:

The proposed regulations amend the current Direct Loan regulations to authorize the Secretary to grant forbearance to a borrower or endorser who is in default on a loan, but prior to the loan being transferred to collections, based on the borrower's or endorser's oral request. The proposed regulations provide that a forbearance agreement in this situation must include a new agreement to repay the debt signed by the borrower or endorser (as required under the current regulations), or a written or oral affirmation of the borrower's or endorser's obligation to repay the debt. The proposed regulations also specify that if a forbearance in this situation is based on the borrower's or endorser's oral request and affirmation, the Secretary must orally review with the borrower the terms and conditions of the forbearance, and that the Secretary must send the borrower or endorser a notice that confirms the terms of the forbearance and the borrower's or endorser's affirmation of the obligation to repay the debt within 30 days of that agreement. The proposed regulations require the Secretary to retain a record of the terms and conditions of the forbearance and affirmation in the borrower's or endorser's file.

For the 2011 calendar year, 62,905 Direct Loan borrowers requested forbearance after defaulting on a loan. Of that number, we estimate that 25 percent (15,726 borrowers) would have exercised an option to orally acknowledge the debt and agree to repay the debt. On average, we estimate that it would take a borrower .17 hours (10 minutes) per oral acknowledgment to listen to the list of terms and conditions of the forbearance as they are reviewed with borrower. The burden associated with the completion of the General Forbearance Request form, OMB 1845-0031, is estimated to average 0.2 hours (12 minutes). Therefore, the net reduction in burden to provide an oral acknowledgement rather than complete the form is the difference of the two or 0.03 hours (0.20 hours minus .017 hours or 2 minutes) per oral forbearance.

We estimate that burden would decrease by 472 hours (15,726 borrowers multiplied by .03 hours per oral forbearance) under OMB Control Number 1845-NEW2.

Section 685.205 – New Burden:

# of Respondents	# of Responses	Hours/Response	Burden Hours
15,726	15,726	.03	-472

Section 685.211(f)(3) – Reasonable and affordable loan rehabilitation:

The proposed regulations would add new §685.211(f)(3) requiring the Secretary to base determinations of reasonable and affordable rehabilitation payment amounts of defaulted loans on information provided on an OMB-approved form, and, if requested, supporting documentation.

We estimate that 11,144 Direct Loan borrowers will raise an objection to the initial amount of the reasonable and affordable loan rehabilitation amount. We estimate that each objection will entail a phone conversation or e-mail that would span on average .17 hours (10 minutes). This would increase burden to the borrowers for a total of 1,894 hours (11,144 borrowers objecting to the initial reasonable and affordable amount multiplied by .17 hours per loan rehabilitation request) under OMB Control Number 1845-NEW2.

Section 685.211(f)(3) – New Burden:

# of Respondents	# of Responses	Hours/Response	Burden Hours
11,144	11,144	.17	1,894

Section 685.211(f)(5) – Reasonable and affordable loan rehabilitation:

Proposed §685.211(f)(5) would require a borrower who objects to the monthly repayment amount contained in the written repayment agreement to provide the Secretary the documentation needed to calculate a monthly payment amount under the income-based repayment plan formula. If the borrower does not provide this information to the Secretary, no rehabilitation agreement would exist with the borrower, and the Secretary would not proceed with the rehabilitation.

Of the 92,870 Direct Loan borrowers in calendar year 2011 that requested loan rehabilitation of their default loans, we estimate that 12 percent or 11,144 borrowers would need to submit documentation for a monthly payment plan under the income-based repayment plan formula to be calculated. We estimate that on average each borrower would take .33 hours (20 minutes) to collect, copy, and submit the required documentation. We estimate that burden would increase by 3,678 hours (11,144 borrowers required to submit documentation multiplied by .33 hours per loan rehabilitation request) under OMB Control Number 1845-NEW2.

Section 685.211(f)(5) – New Burden:

# of Respondents	# of Responses	Hours/Response	Burden Hours
	11,144	11,144	.33
			3,678

Section 685.211(f)(7) – Reasonable and affordable:

Proposed §685.211(f)(7) would require the Secretary to, upon request of a borrower, adjust the borrower's monthly rehabilitation payment due to a change in the borrower's financial circumstances. The borrower would be required to provide documentation supporting the request.

We estimate that 10 percent of Direct Loan borrowers who are rehabilitating their default loans (9,287 Direct Loan borrowers) would have a change in their financial circumstances in the initial year the proposed regulation is implemented. We estimate that on average each borrower would take .33 hours (20 minutes) to collect, copy, and submit the required documentation. We estimate that burden would increase by 3,065 hours (9,287 borrowers with changes in financial circumstances multiplied by 0.33 hours per loan rehabilitation request equals 3,065 hours) under OMB Control Number 1845-NEW2.

Section 685.211(f)(7) – New Burden:

# of Respondents	# of Responses	Hours/Response	Burden Hours
	9,287	9,287	.33
			3,065

TOTALS

Responses	47,301
Respondents	47,301
Burden Hours	8,165