

# Student Loan Default Facts and Repayment Tips for Struggling Borrowers

## Consequences of Default

Default generally occurs on a federal student loan when a borrower doesn't make a payment for 270 days. During the delinquency period, the lender must make repeated efforts to locate and contact the borrower about repayment. If the lender is unsuccessful, steps will be taken to place the loan in default. Borrowers should avoid default at all costs because, unlike other consumer loans, student loans usually can't be discharged through bankruptcy and will likely stay with borrowers for the rest of their lives.

A borrower with a defaulted loan faces these consequences:

- Payment of entire loan balance (principal and interest) becomes due immediately
- Garnished wages and federal and/or state tax refunds
- Withheld Social Security retirement benefits and disability benefits
- Additional charges, late fees, and collection costs
- Lawsuits
- Ineligibility for additional student aid
- Damaged credit rating and lower credit score (which could prevent obtaining a mortgage, buying a car, or borrowing other consumer loans in the future)
- Loss of eligibility for loan deferments (such as for in-school, unemployment, etc.)

## Tips for Struggling Borrowers

Even if borrowers and schools do everything right to prevent default, unforeseen circumstances can sometimes make it difficult for borrowers to repay their federal loans. Borrowers who have difficulty making loan payments should contact the lender as soon as possible to see which options are available to them. Borrowers who try to avoid their lender could lose out on some readily available repayment benefits and options. Some of the options borrowers can take advantage of to avoid default are:

- alternative repayment plans to lower monthly payments (these can sometimes drive up the total cost of the loan)  
<http://studentaid.ed.gov/PORTALSWebApp/students/english/OtherFormsOfRepay.jsp>
- loan forgiveness and discharge programs that can cancel loan obligations  
<http://studentaid.ed.gov/PORTALSWebApp/students/english/repaying.jsp>
- deferments and forbearances to temporarily suspend monthly loan payments  
<http://studentaid.ed.gov/PORTALSWebApp/students/english/difficulty.jsp>

## Tips for Defaulted Borrowers

Borrowers with a defaulted loan can regain eligibility for federal student aid by contacting the loan holder, making **satisfactory repayment arrangements** and then making at least six voluntary on-time payments for six consecutive months. Satisfactory repayment arrangements are a step in the right direction, but do not clear the loan's default status.

Borrowers with a defaulted loan can **rehabilitate** their loan to bring the loan out of default, eliminate the default from their credit report, and regain eligibility for more student aid. To rehabilitate a loan, borrowers should contact their loan holder and begin making payments on the loan. Borrowers who make 9 full voluntary payments within 20 days of the monthly due dates within 10 consecutive months qualify to have the loan rehabilitated.

Borrowers may also be able to negotiate a **settlement** with the collection agency. This could reduce what the borrower owes, but it won't likely be a huge discount and it won't clear the default status. When settling, borrowers may be able to have collection charges waived and even get a reduction on the total amount owed. Borrowers who have been in default for many years and don't have the resources to repay the loan are more likely to be able to negotiate a settlement.

## Resources for Borrowers

Borrowers who experience problems or disputes with their federal student loan lenders or repayment servicers have several resources available to assist them, including:

- The U.S. Department of Education's Federal Student Aid Ombudsman (1-877-557-2575, [fsaombudsmanoffice@ed.gov](mailto:fsaombudsmanoffice@ed.gov))  
<http://www.ombudsman.ed.gov/>
- The Student Loan Borrower Assistance Project run by the National Consumer Law Center  
<http://www.studentloanborrowerassistance.org/>

A recently enacted financial reform law created an ombudsman for private student loans to mediate disputes between private loan borrowers and their lenders. This service has not been set up yet, but it will be a resource for borrowers in the future.



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