

Federal Student Loan Debt Basics: Delinquency and Default

This fact sheet refers only to federal student loans.

To determine your loan type, visit www.nslds.ed.gov and click on Financial Aid Review. If a loan appears on this report, it is most likely a federal loan.

If you have missed 8 or fewer monthly payments, you are **delinquent**.

You are still eligible to switch repayment plans or seek deferment or forbearance. See “Loan Management” for more details. (Private loans do not usually have a delinquency period— they go into default after your first missed payment. See your loan contract for more information.)

If you have missed 9 or more monthly payments, you are in **default**.

Default procedures are different for federal and private student loans. When you default on private loans, your creditor may sue you in Civil Court within a specific time frame (6 years in New York). The government has broader collection powers, and does not need to file a lawsuit and obtain a judgment in order to collect federal student loan debts.

Potential Consequences of Default:

I defaulted on my payments for my federal student loans.

What can happen now?

- Tax refunds withheld
- Garnished wages
 - Government can take up to 15% of income
 - Must leave you at least \$217.50/week
- Social Security benefits withheld
 - Government can take up to 15% of benefits
 - Must leave you at least \$750/month
- Cannot receive new federal student loans
- Credit score lowered

However:

- SSI and Veterans Benefits **cannot** be withheld

Updated 3/16

Getting out of Default

Loan Rehabilitation

Get out of federal student loan default by making payments.

How it works:

1. Contact your loan provider or the collection agency.
 - For the phone number/address of the agency who holds your loan:
Call 1-800-433-3243
 - For Department of Education loans:
Call 1-800-621-3115
2. Negotiate a reasonable & affordable monthly payment.
 - Using an income-based repayment formula
 - No higher than 15% of discretionary income
3. In ten months, you must make nine payments.
 - Payments must be on-time
 - Must be voluntary, not garnished wages
 - Only ONE payment can be missed/late
4. After rehabilitation, FFEL loans are resold, while Direct loans are returned to the Direct Loan Servicing Center.

You can only rehabilitate a loan once. Make sure you can make the payments before entering rehabilitation!

Pros and Cons:

- Default notation removed from credit report
- Resale of FFEL loans can take a long time
- Loan may then become eligible for forbearance or deferment again.

Loan Consolidation

Get out of default by combining multiple federal student loans into one "new" loan.

How it works:

1. You must have at least one FFEL or Direct loan.
2. Apply to have your loan(s) consolidated.
 - Collect all loan documents.
 - Go to loanconsolidation.ed.gov and click on "Apply Online" OR
 - Call 1-800-557-7392 (if you have only Direct Loans)
3. Get the details of the new loan.
 - New interest rate will be average of old ones, not higher than 8.25%.
 - May pay under Income Based or Income Contingent Repayment Plans (See "Loan Management" fact sheet for more info)
 - Make only one payment per month
4. Sign a new promissory note.

You can choose to consolidate multiple loans even if none of them are in default.

Pros and Cons:

- Original default still appears on credit report
- Can be done in about 6 weeks
- New loan may then become eligible for forbearance or

For online information about Consolidation:

Go to: studentaid.ed.gov

Click on "Repaying Your Loans"

Click on "Loan Repayment"

Then click on "Loan Consolidation" on the far right

Printable forms are located at dl.ed.gov

For online information about Rehabilitation:

Go to: www2.ed.gov/offices/OSFAP/DCS/rehabilitation.html

CDP-Urban Justice Center

123 William St. 16th floor

New York, NY 10038

Tel: 646-602-5200
