

# Dangerous Default Student Loan Pitfalls



**Tips and Advice to Avoid Problems**

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An advertisement for collegeCONNECTING. The top section has a logo on the left consisting of a green stylized figure with blue and green dots connected by lines, resembling a network or a person. To the right of the logo, the word "college" is in a grey sans-serif font, and "CONNECTING" is in a larger, bold, green sans-serif font. Below this, the tagline "Choose a Career. Start Your Life." is written in a smaller, orange sans-serif font. The bottom section features a photograph of a smiling woman with blonde hair, wearing a white striped shirt, holding a black clipboard and a pen. To her right, the text "Get connected with the colleges that fit your lifes needs and the career you have been searching for." is displayed in a black sans-serif font. Below this text is a grey rectangular box containing the text "Find accredited colleges &amp; universities near you." in bold black font, with an orange rounded rectangular button below it that says "go" in white lowercase letters. At the very bottom, a green horizontal bar contains the text "A New Career is Waiting. Are you Ready?" in white bold sans-serif font.

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# **Student Loan Pitfalls: Dangerous Default**

## **Introduction**

The student loans just like the other forms of financial aid are a service that is subject for repayment. However, although aware of such fact, many borrowers still fall to the trap of walking away from student loan debt which then results to series of consequences. They tend to ignore their being summoned to enter repayment usually either 90 or 120 days after separating from school or after dropping below half-time enrollment. With this, the loans remain delinquent for 270 days or become 270 days past due at any time, leading the loans to “default” status.

## **Student Loan Default, Defined**

Defaulted student loans are actually defaults made by the borrower to the creditor of the terms and conditions of the student loan contract. It is usually caused by the act of escaping from debts, leading to unfavorable consequences on the part of the borrower.

Basically, prior to the declaration of student loan default is the delinquency period. At this period, the lenders of student loans authorized under Title IV of the Higher Education Act will exhaust all efforts to find and contact the borrower. If the lender’s efforts of locating the debtor are unsuccessful, the loan will then be placed in default. It will be turned over to either the state guaranty agency or the Department of Education. And, once the loan enters the default status, the maturity date is accelerated, making the overall payment in full due right away.

## **The Consequences of Student Loan Default**

When the loan enters the default status, several consequences are connected to it. Some of them are mentioned below:

- The loans may be turned over to a collection agency.
- The borrower will be liable for all the costs associated with collecting the loan. This may even include the court costs as well as attorney fees.
- The borrower can be sued for the entire amount of the loan.
- The wages may be garnished.
- The federal and state income tax refunds may be intercepted.
- That federal government may withhold part of the Social Security benefit payments.
- On the credit record, the defaulted loans will be mentioned, making it difficult for the borrower to get an auto loan, mortgage and even credit cards. Note that having a bad credit record can harm your ability to find a job.
- The borrower's chance to receive federal financial aid will now be impossible to happen until he repays the loan in full or make arrangements to repay what he already owe and make at least six consecutive, on time, monthly payments.
- Federal interest benefits will be denied.

Aside from the above mentioned consequences, there is also some other less-obvious consequences that are oftentimes omitted from consideration. One of those could be the rule that the federal student loan borrowers holding defaulted student loans are no longer entitled to any deferments or forbearances. Subsequently, there are some instances when the loan default may force the individual to consider or take a semester off. This must be taken due to his or her inability to qualify for federal student aid as well as to afford the cost of higher education independently.

What's more, there is a great possibility for those borrowers who defaulted on their student loans to lose their professional licenses. For instance, the lawyers who possess defaulted loans may be subject to have their license to practice law

disavowed. The doctors and certified public accountants would also fall into this category.

Lastly, the borrowers who just ignored summons for loan repayments will become liable for all fees associated with collecting the federally financed loan. This means that the borrowers will end up repaying their outstanding debt, plus up to 25 percent in contingent fees in order to satisfy the student loan debt. Note that this rule is actually consistent with the Higher Education Act as well as on the terms of most borrowers' promissory notes.

### **The Collection Procedures Involved with Defaulted Student Loans**

Most of the guaranty agencies' stringent collection procedures have successfully deterred student loan neglect. One of the supports for this claim is the steady decrease and current all-time low of student loan default rates. However, although the collections department is highly committed to assisting those who are in default and making repayment as simple as possible, the non-response in the borrowers' side still opens up to one or more of the following collection approaches:

- ***Garnishment of Administrative Wage:*** Under the Higher Education Act of 1965, the Department of Education as well as the state guaranty agencies may require employers who employ individuals with defaulted student loans to take away 10 to 15 percent of the debtor's disposable income per pay period. The garnishment of the administrative wage is actually a resort taken only when the debtor refuses to voluntarily repay his or her defaulted debts and may persist until the total balance of the outstanding debt is paid back.
- ***Treasury Offset Payments:*** Aside from administrative wage garnishment, the Department of Education has the right to request the Treasury Department to perform a federal offset against the federal income tax refunds as a way of collecting defaulted student loan debt. To

simply put, the borrowers with loans in default status may forgo any federal tax refunds until he or she has repaid the defaulted loan.

- **Legal Action:** Litigation can be pursued by the Department of Education as well as state guaranty agencies as a means for collecting the defaulted loans. It means that if the debtor refuses to repay the debt voluntarily, he or she is subject to prosecution in a state or federal district court. The borrower is therefore sued for the outstanding debt as well as for the attorney and court fees. But, these methods are usually considered as last resorts, thus need prior notice of the proposed offset.

## **Preventing Default**

There are several ways that you can make to prevent the onset of student loan default. It is just somehow necessary for you to place your interest and efforts on preventing it. Here are the possible ways that you can consider:

1. Make sure that you understand your loan options as well as the related responsibilities prior to taking out a student loan.
2. Simply make your payments on time.
3. If possible, inform your lender or service provider promptly about any of the possible adjustments that may affect the repayment of your student loan. In case you move or change your address, let them know. Also, make sure that they know about the name changes, which are very possible because of marriage; graduation or termination of studies; leaves of absence as well as transfers to another institution.
4. If certain financial difficulties are encountered, try to consider applying for a deferment or forbearance on your loans. Many experts often suggest that it is much better to defer your payments than to go in to default status. Along with this, ask your lender or service provider about the available options while you are still making payments, before you enter the default status of your loan. Always note that after you default, you won't be able to get a deferment or forbearance anymore.

5. If for instance you are having trouble making your payments, try to contact your lender as they may be able to suggest an alternate repayment options for you. Some of the possible options include graduated repayment, income sensitive repayment, as well as income contingent repayment. Also note that the types of available repayment options currently depend on whether the student loan was issued under the FFELP or FDSLPL or Direct student loan programs.
6. A student loan consolidation can be considered as another way for preventing student loan default. Combine all of your educational loans into one big loan as this gives you the chance to send your payments to just one lender. What's more, you may be able to extend the term of the loan in order to lessen the size of your monthly payments.
7. Simply keep records regarding your student loans. If possible, try to back up copies of all your letters, canceled checks, promissory notes, disbursement notices, and some other necessary forms in a file folder. Just be organized.

### **Getting Out of Default**

In case your loan already entered the default status, don't worry. You still have hopes if you will just try to pay even just a little consideration on your debts. The first move to take to get out of debt is simply to make arrangements with your lender to repay the loan. It is commonly noted that once you have made six regular payments, there is a chance for you to be eligible for an additional Title IV aid. After you have completed twelve regular payments and applied for and received "rehabilitation", you will no longer be considered in default. It is also at this time when the record of the default will be eliminated from the reports to credit reporting bureaus.

And, for further information about the available repayment options that could suit your needs, just contact your lender. The financial aid office at your school should also be able to tell you the name, address as well as the contact number of

your lender. They can also give you supporting help and advice about your repayment problems.

### **Student Loan Rehabilitation**

As the phrase suggests, the loan rehabilitation is a program designed to rehabilitate the defaulted student loans and return such loans to a favorable status. This program actually requires 12 consecutive monthly payments of a predetermined agreeable amount.

It is often suggested that those borrowers in default status must contact their servicing agency to define the loan rehabilitation program that is reasonable to both parties. However, if a reasonable rehabilitation program cannot be reached with your lender, there is the office of the Federal Student Aid Ombudsman, which is a neutral party, designed to resolve any disputes.

### **Conclusion**

Having said all these, the defaulted student loans are no doubt a serious problem that must be healed as soon as possible. This is for the fact that when the case intensifies, certain damages not only on the person's credit rating, but other consequences as mentioned above will greatly result like a brush of fire.

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