



## EDUCATION FINANCE COUNCIL

### **Federal Student Loans: Avoiding Default**

Default for Federal Student Loans (FFELP or DL) occurs if you become 270 days delinquent if you're making monthly payments or 330 days delinquent if you pay less often than monthly.

#### **Consequences of Default**

It never pays to delay payment. Your lender and loan servicer are there to help if you have difficulties making your payments. The consequences of default are serious and may affect your credit rating and your financial well being for years.

Consider the following consequences of default:

- The entire loan balance (principal and interest) can be immediately due and payable.
- You lose your loan forbearance and deferment options.
- You may not be eligible for additional federal student aid in the future.
- Your account will be reported to national credit bureaus, and your credit rating will be damaged.
- Once you've defaulted you might find it very difficult to receive other types of credit – such as credit cards, car loans, or mortgages. Furthermore, because many landlords do credit checks, it might be hard to rent an apartment. Some employers check to see if you're responsible by looking at your credit rating, so bad credit could even affect getting a job.
- Your federal income tax refunds (and in some states, your state income tax refunds) might be withheld and applied toward your loan repayment.
- Your employer, at the request of the loan holder, may withhold (garnish) part of your wages.
- You may not be able to obtain a professional license in some states.

Maintain a relationship with your loan holder. Don't wait to call your loan holder if you have any questions or concerns.

#### **How to prevent default**

It is important for you to take the necessary steps to protect yourself by avoiding default. The tips below will assist you as you make a plan to avoid defaulting on your student loan(s):

- Communicate with your loan holder for advice about your repayment plan options when you run into financial difficulties.
- Know what your monthly loan payments will be.
- Send in loan payments when due each month, in the full amount.
- Develop and maintain a realistic budget. Review your current and projected income and then establish financial goals to take into account all of your "needs" and your occasional "wants."
- Track your monthly spending to help you uphold your financial obligations.
- Minimize your credit card debt.