

SLCS

Helping Borrowers
Make Smart Choices...

STUDENT LOAN COUNSELING SERVICE, INC

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Frequently Asked
Questions**DON'T EVEN THINK ABOUT IT!****Defaulting, that is.**

We've heard some people say that it's not so bad if you default on your student loans. After all, nobody can repossess your education, right? Wrong! Let's take a look at what happens when you default on your student loans:

First, your lender files a default claim with your guarantor.
So? Big deal, right?

Here's what the guarantor will do to make you repay:

- ▶ **Report your default to all national credit bureaus.**
This will make it very hard, if not impossible, for you to get credit for anything decent (like a house, or a car, or even a new computer). If you do manage to get credit, the finance charges will be way more than what the rest of the world is paying.
- ▶ **Add collection charges.**
Your guarantor will start charging you for the privilege of having your loans collected. This can increase what you have to pay back by as much as 25%.
- ▶ **Garnish your wages.**
Your guarantor will contact your employer, let them know that you have defaulted on your student loans, and have them start taking money out of your paycheck until your debt (now with those pesky collection charges added) is paid in full. And you know what the kicker is? They don't even have to go to court to do this! It's called Administrative Wage Garnishment, and it's the law!
- ▶ **Offset your tax refunds.**
If you default, don't expect a federal or state tax refund. Your guarantor will see to it that it's applied to your loans. The same is probably true of any winnings you might have in your state's lottery. Federal Treasury offsets can also be applied, which can include Social Security and Veterans benefits.
- ▶ **Prevent You From Getting Additional Financial Aid.**
Students with defaulted loans are not able to receive additional financial aid if they decide to return to school.
- ▶ **Keep you from getting licensed.**
If you're looking to get a professional license from your state, your guarantor may be able to keep that from happening until you start paying your loans back. There is even one state, Montana, that has made it impossible to get a driver's license until you agree to repay! A lot of other states are thinking that's a pretty good idea, too.
- ▶ **Assign your loans to a collection agency.**
If you think your lender is being a pain in the neck, wait until you start hearing from a professional collection agency AND you will still owe the money you borrowed plus A LOT MORE.
- ▶ **Sue you.**
If all of the above doesn't work, your guarantor may haul you into court to get a judgment against you. Oh, yes. Those attorneys? Somebody has to pay them. Guess who that would be?

And if, for some unimaginable reason, all that doesn't work, your guarantor will assign your defaulted loans to the federal government. *The whole thing starts all over again, but this time at the federal level.*

So, you see, it's not a good idea to default on your student loans. Particularly because there are so many ways to avoid default. And, there are a lot of benefits to keeping up-to-date with your payments. Don't believe us? Visit [The Benefits of Staying Current](#).

What are the consequences of default?

The consequences of default can be severe:

- The entire unpaid balance of your loan and any interest is immediately due and payable.
- You lose eligibility for *deferment*, *forbearance*, and repayment plans.
- You lose eligibility for additional *federal student aid*.
- Your loan account is assigned to a collection agency.
- The loan will be reported as delinquent to credit bureaus, damaging your credit rating. This will affect your ability to buy a car or house or to get a credit card.
- Your federal and state taxes may be withheld through a *tax offset*. This means that the Internal Revenue Service can take your federal and state tax refund to collect any of your defaulted student loan debt.
- Your student loan debt will increase because of the late fees, additional interest, court costs, collection fees, attorney's fees, and any other costs associated with the collection process.
- Your employer (at the request of the federal government) can withhold money from your pay and send the money to the government. This process is called wage garnishment.
- The *loan holder* can take legal action against you, and you may not be able to purchase or sell assets such as real estate.
- Federal employees face the possibility of having 15% of their disposable pay offset by their employer toward repayment of their loan through Federal Salary Offset.
- It will take years to reestablish your credit and recover from default.

<https://studentaid.ed.gov/repay-loans/default#consequences>