TAKE CHARGE AMERICA®
NONPROFIT FINANCIAL EDUCATION

What to Do If You Default on Your Student Loans

Student loan counseling agency Take Charge America provides borrowers with options to bring loans into good standing, restore financial health

PHOENIX – (March 24, 2016) – With student loan debt now totaling $1.3 trillion in the United States, the student loan crisis has reached a fever pitch and now affects more than 40 million Americans. To compound the crisis, the Consumer Financial Protection Bureau reports that one in four borrowers are in delinquency or default on their student loans.

Unlike other kinds of debt, student loans are rarely discharged in bankruptcy. And, the federal government has the power to garnish wages, tax refunds and even Social Security to recoup payment.

"Everyone knows the student loan problem is bad and getting worse, but few are aware of the options for repaying loans and restoring financial health – even for borrowers in default," said Sarah Hamilton, a student loan counseling supervisor with Take Charge America, a national nonprofit credit counseling and student loan counseling agency. "The most important – and perhaps the most difficult – tip for people who have defaulted on their loans is to address the problem head-on, no matter how painful it seems."

Hamilton offers borrowers advice on repaying student loans if they are in default, or headed there:

1. **Get clear:** If you're unsure which collection agency holds your loan, how much money you owe or other details about your student loan debt, contact the Department of Education's Default Resolution Group at (800) 621-3115 or visit myeddebt.ed.gov.
2. **Don't delay:** If you're in default, the government can garnish 15 percent of your paycheck and tap into your tax refund. What's more, the longer your loans sit in default, the higher the balances grow with collection fees, all the while damaging your credit rating. Contact your loan servicer to explain your situation, or reach out to a student loan counselor at a nonprofit agency for step-by-step guidance and a detailed review of all applicable repayment options.
3. **Rehab your loans:** If paying the loans in full isn't possible, rehabilitation may be a good option. Once you make nine consecutive payments, which are based on your discretionary income, the defaulted status is removed from your credit report. At that time, the loan is considered rehabilitated and may be eligible for other repayment programs.
4. **Consolidate your debt:** Loan consolidation allows you to pay off your loans and creates a new direct consolidation loan with a fixed interest rate. First, you must agree to the terms of the new direct loan, including repaying it under an income-driven plan. After three consecutive payments, you can select a different repayment option if income-driven isn't right for you. Consolidation doesn't remove the defaulted status from your credit report, but it does zero out old loans and reflects a new loan line item.

Borrowers seeking more information about student loan repayment options can visit Take Charge America at studentloans.takechargeamerica.org or call (877) 784-2008.

About Take Charge America, Inc.

Founded in 1987, Take Charge America, Inc. is a nonprofit agency offering financial education and counseling services including credit counseling, debt management, student loan counseling, housing counseling and bankruptcy counseling. It has helped more than 1.6 million consumers nationwide manage their personal finances and debts. To learn more, visit www.takechargeamerica.org or call (888) 822-9193.

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