

# Default 101: Understanding Federal Student Loan Default

**If your student loan is in default, you're not alone.** You may be one of the many who default on their federal student loans each year and you may not know how it happened or how to fix it. Let's explore what default means to you.

## What is default?

Default means you didn't meet the terms of the agreement you signed when you took out your student loan. You missed required payments for around a year and now your loan is in collections.

## What can happen in default?

- Your loan becomes due in full
- You may not get any more financial aid for school
- You could have your wages garnished and your tax refunds offset
- Your credit might be severely impacted and that could make it tough to get a car loan or housing
- Your loan balance may increase due to collection costs and fees

Even though default is a serious matter, it may not be as difficult to fix as you might expect.

### Three ways to get your student loan out of default:

- 1 You can pay off your loan**  
If you're able to, it's often the best and quickest way to get out of default
- 2 You can consolidate**  
If you're eligible, you can take out a new Federal Direct Consolidation loan that would pay off your defaulted loan
- 3 You can rehabilitate**  
You'd set up a signed agreement with your collection agency to make nine qualifying on-time monthly payments. Rehabilitation payments are based on your income and could be as low as \$5

## The path to rehabilitation



### Contact your collection agency to set up payments and rehabilitation

If you're unsure about who holds your loan, talk with your financial aid office or visit [NSLDS.ed.gov](https://www.nsls.ed.gov)



### Act quickly to avoid negative consequences

You may be able to avoid tax refund offset or wage garnishment if you're making rehabilitation payments



### Make your monthly rehabilitation payments

Ask about setting up recurring payments to stay on track



### After you complete rehabilitation

Your rehabilitated loan will be sent to a new servicer. Talk to them about starting an affordable payment plan

- You'll regain eligibility for additional federal financial aid
- You may even be able to get your eligibility back early, after your 6th on-time payment
- You can be sure that your wages won't be garnished or your tax refunds offset
- Your loan will be in good standing and the default will be permanently removed from your credit