THE INSTITUTE FOR COLLEGE
ACCESS & SUCCESS

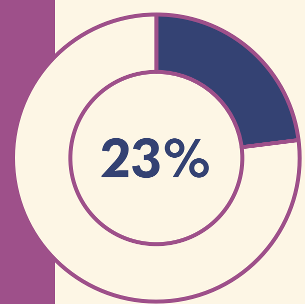
Reform the Student Loan Default System

Federal student loan default, defined as a borrower missing payments for at least 270 days, comes with severe consequences. The entire loan balance becomes immediately due, and borrowers face ongoing damage to their credit scores, along with a range of significant fees.

The federal government also wields vast extra-judicial powers to collect student debt, including garnishing wages and seizing Social Security payments and tax refunds based on the Child Tax Credit (CTC) and the Earned Income Tax Credit (EITC). By seizing these benefits, the federal government takes away critical financial lifelines that reduce poverty for millions of families.

By The Numbers

The vast majority of those who default on student loans have faced persistent economic and social vulnerability. Eighty-seven percent of students who entered college in 2003-04 and defaulted within 12 years had received a Pell Grant at some point, meaning they likely entered college with a household income of less than $40,000. **Those who were the first in their family to attend college were also more likely to default:** nearly a quarter (23%) of first-generation students defaulted on their loans within 12 years, compared to 14 percent of non-first-generation students.



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Who Is Most At Risk

Students who started school but never completed a degree or credential are at particular risk of default, as they've taken on debt but received none of the associated economic benefits. **Black students in particular face persistent repayment distress;** over the past 20 years, half of Black student loan borrowers have experienced loan default.

Alongside improvements to the repayment system to keep borrowers out of default, we urge Congress to make reforms to the student loan default system.

Congressional Action

- **Enact legislation to protect low-income borrowers** from having their wages, Social Security payments, and tax refunds—including Child Tax Credit and Earned Income Tax Credit refunds—seized, and limit collection fees.
- **Allow those in default to access income-based repayment plans.**
- **Prohibit colleges from withholding transcripts** if a student is in loan default.
- **Prohibit states from suspending, revoking, or denying professional and auto licenses** due to student loan default.