Appendices A, B, C, and D are updated and adapted from the author’s work for the National Association of Student Financial Aid Administrators’ (NASFAA) Protecting Borrowers and Advancing Equity project. This content also directly appears in NASFAA’s May 2022 report.

**APPENDIX A: Who is most at risk of defaulting on a student loan?**

Several papers have shown that 29 percent of first-time students who borrowed and began school in the early 2000s defaulted on their loans within 12 years. And borrowers continue to default beyond this period. A Brookings analysis suggests that close to 40 percent of these borrowers may ultimately default on their loans. Research from the Pew Charitable Trusts using the same survey data used in this issue brief indicates that 31 percent of those who took out student loans between 1998 and 2018 defaulted at least once during that period.

The typical defaulter remains in that status for almost three years. Many borrowers default more than once. A recent study found that, within five years of defaulting, 25 percent of borrowers redefault. And the Pew analysis indicates that 66 percent of defaulters did so more than once.

Research over the last few decades, but especially as more data have become available recently, has highlighted a host of groups that are more likely to default. Many of these borrowers come from traditionally underserved communities which have been disproportionately bearing the brunt of the COVID-19 pandemic. Default can exacerbate existing financial insecurity and economic disparities. Those most likely to default include:

- **Borrowers of color, particularly Black borrowers:** Researchers found that, among those who started school in the early 2000s, approximately half of Black borrowers defaulted 12 years after entering college, compared to 21 percent of White and 36 percent of Hispanic or Latino borrowers (whose rates of default are also above the national average, 29 percent). In fact, this disparity exists even among those who complete a bachelor’s degree. According to one study, Black graduates default at higher rates than White borrowers who do not complete a degree or credential. The gap in rates of default by race has continued over time and remains significant even when researchers...
control for a host of demographic and background factors like income, wealth, and college completion. Native American students also default at disproportionately high rates.

- **Noncompleters:** Students who borrow for but do not complete a degree or credential default at higher rates than their peers who do. (Students who complete a certificate also have high rates of default.) One study found that, among the group of students who started school in the early 2000s, those who dropped or stopped out “are more than twice as likely to have defaulted within 12 years as those who completed a credential within six years... (23 percent vs. 11 percent) [and that] this trend is true across all school types and student characteristics.”

- **Low-balance borrowers:** Those with less than $10,000 in debt have the highest default rates, often because they spend short amounts of time in school and do not complete a degree or credential. The typical non-defaulting borrower takes out approximately twice as much student debt.

- **Nontraditional, older, and independent borrowers:** One analysis indicates that independent students default at high rates regardless of the amount borrowed. Another shows that borrowers over age 65, who might have decreased or fixed incomes in retirement, are also disproportionately struggling to repay.

- **Low-income, low-wealth, and low-resource students:** Borrowers with low incomes and fewer family resources are more likely to default no matter how much they borrow. Pell Grant recipients both borrow more and default at higher rates than those who do not use Pell. Defaulters also often experience other forms of financial insecurity, including unemployment or volatile incomes; use public benefits or have other forms of debt in collections.

- **For-profit college attendees:** Those who enroll at for-profits have higher default rates than those who attend public colleges (both two- and four-year) and private, nonprofit schools, often by several orders of magnitude. These trends persist even after controlling for demographic and other background characteristics.

- **Student parents, veterans, first-generation college students,** and **students with disabilities** also have above-average rates of default.

- Those most likely to default often experience **multiple risk factors.** For example, Pell recipients are more likely to be first generation students and independent students. And while Black students, for-profit students, and noncompleters each have high rates of default, an astounding 75 percent of Black students who drop out of for-profit schools default on their loans.
Several in-repayment behaviors, actions, and activities are also correlated with default.

- Borrowers using **income-driven repayment plans** have **lower rates of default** than their peers enrolled in the **Standard Repayment Plan**. Entering an income-driven plan often lowers borrowers’ monthly payments which contributes to lower levels of default. Another reason for the lower default rate may be that those who are less likely to default are also more likely to seek out and use these programs.

- Evidence is mixed on how often and when defaulters pause payments using **deferments and forbearances**, indicating that there are likely different repayment patterns among defaulters. Some do not make payments or use pauses and thus default quickly after entering repayment, signaling high levels of financial distress and/or difficulty using, lack of awareness of, or insufficiency of the tools available to help them avoid default. Others default several years (or more) after entering repayment, potentially signaling the same issues that arose for quick-defaulters even though they were able to make some payments or use (or were encouraged to use) tools to postpone default.

  A recent study from the Government Accountability Office also flagged the fact that when borrowers are encouraged (and/or choose) to use forbearances early in repayment, the **cohort default rate** becomes a less effective accountability tool. The Department of Education recently announced that an income-driven repayment plan-related account adjustment will address issues of incorrect application of forbearances, or “forbearance steering,” and increase oversight of forbearance usage among servicers (organizations responsible for collecting payments and helping borrowers manage their loans when they are in repayment).

While rates of default differ significantly across some population subgroups, **what is predictive of default entrance is not always predictive of default exit**. For example, completers and noncompleters exit default at similar rates, according to one study. And Black and White defaulters bring their loans back into **good standing** at similar speeds. Low-balance borrowers tend to exit default more quickly than those with higher balances, because they have less to repay.
APPENDIX B: What does it mean to default on a student loan?

When borrowers miss payments, they are considered delinquent on their loans, and if they become 270 days behind, they enter default.

Day 270-360
- While borrowers are technically in default when they have missed 270 days’ worth of payments, they remain with their (pre-default) servicer for approximately 90 days.
- During this time, the servicer can help borrowers bring their loans out of default by making payments or using deferments or forbearances.

Day 360-425
- After 360 days’ worth of missed payments, the servicer transfers the loan to the Department of Education’s Debt Management and Collections System (DMCS). The Default Resolution Group (DRG) manages collections for loans held by the Department that are in default. DMCS and the call centers operated by DRG are both managed by Maximus, the federally contracted loan servicer for borrowers in default. (Maximus also recently took over Navient’s federal student loan portfolio.)
- At this point, borrowers lose eligibility for income-driven repayment plans, deferments, and forbearances.
- According to the Department of Education, “during this period, the borrower is sent a due process notice and provided an opportunity [for approximately 60-65 days] to enter voluntary repayment or prove the debt should not be in collections.” Previously, if borrowers did so, their loans were not sent to a private collection agency, and they were not assessed collection fees. The Department contracted with these collection agencies to manage the loans of borrowers in default. Recently, it ended those contracts. While it is still unclear what this means for the future of the system, the Department does plan to have some existing contractors manage loans in default.
- Default-related notices are sent to borrowers’ last known addresses, and they are contacted using the most recent information on file. If a borrower has moved or the Department and its contractors do not have his or her most recent contact information, the borrower may miss or not receive this information. A government report published in January indicated that email addresses are missing for one-quarter of borrowers in default.

Day 425+
- The default is reported to national credit bureaus.
- Previously, loans would have been assigned to a private collection agency at this point.
- The processes for initiating withholding, or “offset,” of tax refunds and certain federal benefits and garnishing borrowers’ wages may begin. (See Appendix C for more information about consequences of default.)
- Borrowers may be charged collection fees.
- The Department may initiate litigation.
APPENDIX C: What are the consequences of default?

Borrowers face a host of severe financial consequences when they default. If they do not enter into an arrangement to voluntarily repay their defaulted loans, the government has vast powers of collection to compel payment (i.e., “involuntary” payments). There is no time limit for collection on federal student loans. There are a handful of (insufficient) protections built into this process, and borrowers can request hearings, account reviews, and exemptions or reductions for financial hardship. But borrowers can be compelled to pay more, and more quickly, while in default.

- **Debt (principal and interest) immediately becomes due in full.** This is called “acceleration,” and it allows the full value of the borrower’s debt to be collected simultaneously through multiple mechanisms.

- **Borrowers lose access to benefits, protections, and federal aid.** When borrowers default, they can no longer use income-driven repayment plans (or access the related debt forgiveness), deferments, or forbearances. They become ineligible for other federal financial aid under Title IV of the Higher Education Act (including Pell Grants and additional federal student loans) and other federal aid programs, such as some that help with homeownership.

- **Borrowers’ wages can be withheld via Administrative Wage Garnishment (AWG).** AWG is a process through which up to 15 percent of a borrower’s disposable income can be collected from his or her paycheck until a loan is paid off, a borrower exits default, or the wage garnishment is lifted (via rehabilitation, for example). Borrowers are permitted to keep garnishment-free, $217.50 per week, the equivalent of working 30 hours per week at the federal minimum wage of $7.25 per hour. Advocates, policymakers, and researchers have long indicated that the minimum wage is not a livable wage for families.

- **Federal tax refunds, benefits, and refundable tax credits can be withheld.** These resources are a lifeline for low-income families. Similar to wage garnishment, these funds can continue to be withheld—through the Treasury Offset Program (TOP)—until a loan is repaid in full or a borrower otherwise exits default. Benefits and tax credits can include the Child Tax Credit, the Earned Income Tax Credit, and Social Security payments (including retirement, survivor, and disability benefits), among other federal payments. In general, the government cannot take more than 15 percent of benefits and must leave Social Security recipients with at least $9,000 per year ($750 per month).

- **Borrowers face (additional) negative credit bureau reporting.** When borrowers miss 90 days’ worth of payments, servicers report the delinquencies to the national credit bureaus. Defaults are also reported and can stay on a credit record for up to seven years. Having a low credit score can
make it difficult or more expensive to, for example, get a car loan, rent an apartment, and buy a house.

- In addition:
  - Borrowers can be charged **high collection fees**.
  - The government may **pursue litigation**.
  - **Interest continues to accrue** while a borrower is in default. This is not standard practice for other forms of credit.
  - Some states **suspend or cancel professional licenses** when borrowers default.
APPENDIX D: How can borrowers exit default?

Once in default, borrowers can exit by making voluntary payments (as described in this section) or having funds involuntarily withheld (as described in Appendix C). There are various ways to make voluntary payments:

- **Full loan payoff:** Borrowers can exit default by paying their full outstanding principal, interest, and any related collection fees. Such a large outlay of funds is likely to be a challenge for many who hold loans. Even with a full payoff, the history of a default remains on a borrower’s credit report for up to seven years.

- **Rehabilitation:** Borrowers can make nine payments within a 10-month period to exit default by entering a rehabilitation agreement. As noted in a recent analysis, “borrowers can typically rehabilitate a loan only once, and when loans are rehabilitated, the default is resolved on a borrower’s credit report, though delinquencies—periods of missed payment leading up to a default—remain.”

Payments can be as low as $5 per month and are based on:

- An income-based repayment plan formula of 15 percent of a borrower’s income that exceeds 150 percent of the poverty guideline for that borrower’s family size.
- A request to make payments based on borrower income and expenses. This process typically lowers payments while a borrower is working to exit default, but it can also mean that payments jump significantly when borrowers reenter repayment, since no repayment plans take expenses into account.

There are several additional, important notes about rehabilitation:

- For borrowers in default, each month of the current pandemic-related payment pause counts as a loan rehabilitation “payment” if borrowers are in rehabilitation agreements. This means that borrowers eligible for rehabilitation can currently bring their loans back into good standing without making any payments.
- Borrowers in default are ineligible for federal student aid, but borrowers can regain eligibility after making six months of rehabilitation payments, even though they will not exit default until completing all rehabilitation payments.
- Borrowers in default who are having their wages garnished are eligible, one time, to have the garnishment lifted after making five months of rehabilitation payments, and these payments are in addition to the existing wage garnishments. However, Treasury offsets will continue until the borrower has completed all rehabilitation payments.
• **Consolidation:** Borrowers can also [exit](#) default “by consolidating their existing loans into a new loan—which is considered non-defaulted—by entering an income-driven repayment plan or making three on-time payments. Like rehabilitation, borrowers can typically consolidate only once, and some loans may not be eligible.” Unlike with rehabilitation, the default is not removed from a borrower’s credit history after consolidation.

Borrowers with a new, consolidated loan may not be able to count previous payments toward an income-driven plan (and related forgiveness) or toward Public Service Loan Forgiveness. But, post-consolidation, they may [gain access](#) to “more generous income-driven plans, Public Service Loan Forgiveness, and other loan discharge options for those with older FFEL Program loans.” The Department of Education is considering changes to permanently address this consolidation payment counting issue through an ongoing [negotiated rulemaking](#) process. Recently announced Public Service Loan Forgiveness [waivers](#) and income-driven repayment plan [account adjustments](#) temporarily resolve the issue for many borrowers.

Borrowers are **not** permitted to consolidate defaulted loans that are being collected via wage garnishment or through a court order until those statuses have been lifted.

• **Settlement agreements:** Borrowers may [negotiate terms](#) to close out a loan, but the Department does not publish information about these [settlements](#).

• **Discharge or cancellation:** Borrowers in default may be eligible for existing loan cancellation options such as through the [borrower defense to repayment](#) process or a [Total and Permanent Disability](#) discharge.
APPENDIX E: Methodological notes

This analysis is based on aggregate data from an online survey conducted by NORC using its AmeriSpeak probability panel on behalf of The Pew Charitable Trusts. This nationally representative survey of borrowers, including an oversample of those who report defaulting on a loan, was conducted from June 18 to July 28, 2021. Responses from 1,609 borrowers were collected.

The survey examines the experiences of borrowers who took out their first federal student loans for their own undergraduate educations between 1998 and 2018. In this issue brief, “those who defaulted,” or “defaulters,” are borrowers who had at least one loan in default at some point over that period, even if they did not have outstanding federal student loan debt or federal loans in default at the time the survey was administered.

The margin of error for all respondents was +/- 3.5 percentage points at the 95 percent confidence level. The aggregate data do not allow disaggregation by demographic categories like race, gender, completion status, and school type. All reported percentages are weighted, and numbers may not add to 100 percent due to rounding. No data from questions asked to fewer than 100 respondents are reported.