



# EdFed

Federal Lender Code 834241

America's Top Student Loan Consolidator

175 South Lake Ave, Suite 200, Pasadena, California 91101

Tel: (800) 821.5659

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[www.Edfed.com](http://www.Edfed.com)

## Student Loan Default and Guarantee Agencies

*By Amit Agarwal*

A student loan is a type of borrowing which is subject to repayment. In case of default, the government guarantees the federal loans that students borrow for their higher educations. These loans are guaranteed by guaranty agencies or student loan guarantors. For every disbursement, the agencies are paid a default fee that goes toward insurance on the loan amount.

This fee is normally one percent of the loan amount; however, a number of guaranty agencies who have accumulated enough reserve are charging less or even waiving the fees. If a borrower defaults, becomes permanently disabled, or dies, the guarantee agency pays the remaining debt to the lender.

Prior to a student loan default is the delinquency period. During this period, the lender, authorized by Title IV of the Higher Education Act, will try to contact the borrower. If the lender cannot locate the borrower, the loan will enter default status. This is when the guaranty agency steps in and pays the dues to the lender.

### Collection Procedures of Guaranty Agencies

Guaranty agencies have stringent collection procedures which have steadily reduced the number of student loan defaults. Currently, student default rates are at an all-time low. Those who do not make loan repayments may have to face a few consequences:

- **Garnishment of administrative wages:** The Higher Education Act of 1965 states that the Department of Education and state guaranty agencies may ask employers to take away 10 to 15% of the disposable income of employees with student loans in default.
- **Federal offset of income tax refunds:** The Department of Education can ask the Treasury Department to offset the defaulted borrower's federal income tax refunds.
- **Legal action:** The Department of Education or state guaranty agencies may resort to litigation in order to recover defaulted loans. However, this is a last resort used only after prior notices.

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## Consequences of Student Loan Default

It is easy to forgo monthly payments, but the consequences can be daunting and may carry long-term effects. The future chances of a defunct borrower getting federal financial aid are almost nonexistent. He or she would first have to repay the loan in full and make at least six consecutive monthly payments on a timely basis. His or her credit record would be tarnished—getting an auto loan, mortgage, and even credit cards would be difficult. A bad credit record can also reduce the possibility of getting a well-paying job. Furthermore, it is possible that defaulters may lose their professional licenses; therefore, lawyers and doctors may have their licenses annulled.

## Preventing Loan Default

There are simple ways to prevent a student loan default:

- Prior to taking on the loan, try to work out your options and your payback capacity.
- Keep track of the dates of the payment and maintain proper updated records pertaining to your student loans.
- Keep your lender informed of any changes in address and/or name, termination of studies, or transfer to another college, etc.
- If you have problems making payments, get in touch with the lender to find out your options. Such options include graduated repayment, income-sensitive repayment, and income-contingent repayment. However, these payment options depend on the loan program—FFELP, FDSL, or Direct student loan programs.
- You can choose to consolidate your numerous education loans and make payments to one single lender. You can also reduce your monthly payments by extending the term of your loan.

It is important that one understands the importance of making timely payments. A student loan default carries long-term effects that can be damaging to a student's career.

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## On the Net

Guarantee Agencies

[www.finaid.org/loans/guaranteeagencies.phtml](http://www.finaid.org/loans/guaranteeagencies.phtml)

Defaulted Student Loans: The Dangerous Pitfalls

[www.financeguide101.com/finance-reports/defaulted-student-loans-the-dangerous-pitfalls.html](http://www.financeguide101.com/finance-reports/defaulted-student-loans-the-dangerous-pitfalls.html)

Facing Loan Default

[www.ed.gov/offices/OSFAP/DCS/default.html](http://www.ed.gov/offices/OSFAP/DCS/default.html)

National Student Loan Default Rate Hits All-Time Low

[www.ed.gov/PressReleases/01-1996/def96.html](http://www.ed.gov/PressReleases/01-1996/def96.html)

Top Ten Ways to Prevent Defaulting on a Student Loan

[www.tgslc.org/students/default.cfm](http://www.tgslc.org/students/default.cfm)