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America's Top Student Loan Consolidator

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Your Credit Report, Part 2

The permanence of student loan debt is not the only challenge you'll confront with a defaulted loan. When you have to pay the additional collection costs tacked onto a defaulted loan, it is not a small sum of money by any stretch of the imagination. The Department of Education allows for their contractors to be paid up to 25 percent more than the initial principal and interest that you incurred as a borrower. In other words, you are going to pay what they call a contingent fee, which is the collection agent's commission.

When you start repaying your defaulted loan, you pay the commission first, then you repay the interest on the loan, then you repay your principal. So, again, imagine how much all of that can add up if you let it go on year after year. So you definitely do not want to be in a default situation.

For those of you who may have tried to get transcripts released, either because you wanted to go to graduate school or just wanted to have a record of your grades, you probably know that your school may also refuse to release your transcript if your student loans are in default. Interestingly, there is no federal law that says that they can do this. However, each college campus may have its own institutional policy on this issue. And more often than not, the policy prohibits a student from getting a transcript released when the school has been notified by a guaranty agency or by the Department of Education that the student's loan is in default.