

<b>CONSEQUENCES OF DEFAULTING</b>		<b>WHAT IT MEANS:</b>
<b>Damaged Credit Rating</b>	The borrower's credit rating may be damaged for at least 7 years after the date the loan defaults.	Guaranty agencies are required to report student loan defaults to all national credit bureaus. A poor credit rating may mean that a bank will require the borrower to pay a higher interest rate for loans and credit cards than other customers. It may also prevent the bank from agreeing to make a mortgage or car loan to a borrower. Poor credit could possibly prevent the borrower from obtaining desired jobs because many employers now run credit checks on prospective employees, especially those who will handle cash and financial transactions.
<b>Loss of Options to Suspend Repayment</b>	The borrower loses any remaining forbearance and deferment options	One of the benefits of the FFELP is the availability of options to temporarily postpone student loan payments due to hardship. Once the loan has defaulted, however, these options no longer exist. Thus, a borrower should be encouraged to work with their lender to resolve any repayment problems long before the loan defaults.
<b>Seized Federal Income Tax Refunds</b>	The borrower's federal income tax refund or other payments made by the Federal Government may be seized.	Guaranty agencies are required to provide the United States Treasury Department with a listing of borrowers who do not make arrangements to pay their defaulted loans. This has a significant impact on a borrower who files for a federal income tax refund. Instead of receiving a refund check from the Internal Revenue Service, the borrower will receive a letter from the Treasury Department stating that the income tax refund was intercepted and applied (net of a surcharge) to the borrower's defaulted student loan balance.
<b>Collection Agency Referral</b>	The borrower's defaulted account may be turned over to a collection agency	As noted above (under Loss of Options to Suspend Repayment), the borrower will no longer have any options to postpone payments. The collection agency has one agenda: to collect the amount due. This means the entire loan balance (principle and interest) will become due immediately and you may be charged reasonable attorney's fees and other costs of collecting your debt.
<b>Additional Fee Assessments</b>	The borrower may be assessed collection fees of up to 24% on each and every payment made after default.	Guaranty agencies are required to charge collection fees on defaulted loans. The addition of collection fees to the outstanding principal and interest balance dramatically increases the total amount needed to pay a defaulted loan in full. Assuming a 24% collection fee, a defaulted borrower who makes a monthly payment of \$100 will pay \$24 in collection costs. The remaining \$76 will be applied to outstanding principal and interest. If the borrower made the \$100 payment before defaulting, the entire \$100 would be split between principal and interest. To better illustrate this example, the assessment of collection fees means that a defaulted borrower with a principal and interest balance of \$20,000 will be required to make payments totaling \$24,800 in order to pay the loan in full.
<b>Garnished Wages</b>	The borrower's wages may be garnished.	Guaranty agencies are required to initiate wage garnishment proceedings against borrowers who do not make arrangements to pay their defaulted loans. This means that the borrower's employer may deduct between 10% and 15% of the borrower's pay from every paycheck and forward that amount to the guaranty agency to be applied toward the defaulted loan balance. This is not only inconvenient to the borrower (who will receive a smaller paycheck), but it's also embarrassing because the employer will know the borrower has a defaulted student loan.
<b>Loss of Further Financial Aid Eligibility</b>	The borrower will lose eligibility to obtain additional financial aid while in default.	If defaulted borrowers choose to go back to school, they may not be able to obtain additional financial aid. In order to regain eligibility, borrowers must either pay the defaulted loan in full or make a payment each month for six consecutive months.
<b>Suspension of your professional license</b>	The borrower not be able to obtain or retain a professional license if their loan defaults	For careers that require professional licenses such as teachers or nurses; the default could cause non-renewal, revocation, or suspension of a professional license, jeopardizing your chances of employment.