

# Understanding the Consequences of Default

## What is default?

Default is the failure to repay a loan according to the terms agreed to in the loan's promissory note. For student loans under the Federal Family Education Loan Program (FFELP) and the North Carolina EXTRA Education Loan Program, a borrower defaults if he or she has not made a payment in more than 270 days.

If your loans with the lender College Foundation, Inc. (CFI) default, CFI transfers the loans to the North Carolina State Education Assistance Authority (NCSEAA). Federal and state laws provide NCSEAA with special collection powers to compel the repayment of a defaulted student loan debt.

## Consequences of default

There are many negative consequences if one defaults on student loans. Those consequences can affect one for many years.

- **Adverse credit reporting.** NCSEAA is required by federal law to report a borrower's default status to all nationwide consumer reporting agencies ("credit bureaus"), thereby seriously damaging the borrower's credit rating and their ability to obtain additional consumer credit in the future. NCSEAA will report the defaulted borrower's account on a monthly basis for up to seven years and will report each loan in the account as a separate defaulted item. Once NCSEAA begins reporting the account to the nationwide consumer reporting agencies, those agencies are required to reflect the default status in the borrower's credit history for a full 7-year period, even if the loans subsequently are paid in full. NCSEAA is prohibited from requesting this default notation to be deleted from the borrower's credit record.
- **Collection costs.** All costs incurred to collect this loan debt will be charged to the defaulted borrower. Federal regulations require that NCSEAA assess the borrower an additional amount for costs incurred in collecting the debt. These collection costs could add up to 25% more to the amount that the borrower otherwise owes for loan principal and interest. Collection costs are prorated as a portion of each payment made. Payments are applied first towards collection costs owed, then to interest accrued, and, lastly, to the loan principal.
- **Loss of eligibility for additional Title IV federal student aid.** A defaulted FFELP borrower immediately loses eligibility for any additional federal student aid to attend college. Schools nationwide are put on notice of the defaulted student-borrower's ineligibility.

- **Loss of eligibility for deferment or forbearance.** A borrower loses all eligibility for deferment or forbearance on the loans that have defaulted.
- **Collection activity.** NCSEAA is empowered by federal and state law to perform intensive collection activities against borrowers with defaulted loans. These activities include:

#### Wage Garnishment

NCSEAA can instruct a defaulted borrower's current and future employers to **withhold 15% of the borrower's disposable pay** through administrative wage garnishment proceedings. State employees face potential termination of their state jobs under the State Employee Debt Collection Act.

Seizure of federal and state income tax refunds, other federal payments and state lottery winnings.

#### Litigation

NCSEAA employs the North Carolina Attorney General's office to obtain legal judgments against defaulted student loan borrowers.

#### Collection Agency

NCSEAA contracts with several national collection agencies to perform intensive collection contact with defaulted borrowers.

#### Assignment

NCSEAA may assign defaulted student loan accounts to the U.S. Department of Education for federal litigation.