

Follow-Up Q&A: Default and Debt Collection

Below are general answers to questions we received during the webinar on February 26, 2026, that we were unable to address live.

WARNING: These responses are current as of **March 2026**. Due to ongoing regulatory changes, court decisions, and administrative updates affecting the federal student loan system, some information may change and could become outdated. Practitioners should verify current rules, deadlines, and eligibility requirements before advising borrowers.

For the most current guidance, please refer to:

- NCLC’s Student Loan Borrower Assistance website, at studentloanborrowerassistance.org, and NCLC’s student loan news blog at studentloanborrowerassistance.org/updates-news/latest-news/
- NCLC’s student loan listserv. To join, visit nclc.org/listservs.
- The U.S. Department of Education Federal Student Aid website at studentaid.gov

What are the ways to find out if someone is in default?

See the slides for more details on this, but generally, borrowers can find out if they are in default on their loans by:

- Logging into studentaid.gov to check their loan status;
- Downloading and reviewing their **.txt file** with their full loan data from their studentaid.gov account;
- Contacting the **Default Resolution Group or other loan servicer**;
 - *If the borrower has an active account on myeddebt.ed.gov, it's a likely indication that they have loans in default, as this is the online account system for the Default Resolution Group.*
- **Reviewing any notices** they received about their loans (borrowers should get a notice once they default);
- Reviewing their **credit reports** (though this information is not always on the credit report).

If a borrower hasn't made payments on their loans in more than 9 months, they are likely in default unless they are in a deferment, forbearance, or a \$0-per-month repayment plan.

Servicer says “good standing,” but StudentAid.gov shows past due — why?

Some possible reasons for the discrepancy:

- Timing lag between reporting systems;
- The data on studentaid.gov is not current or updated yet;
- This is an error either on studentaid.gov or on the servicer's part.

Studentaid.gov reflects federal database records and is often more comprehensive, but as the servicer manages repayment, borrowers should confirm their loan repayment status with their loan servicer. We have been hearing that some borrowers' studentaid.gov accounts are incorrectly showing them as in default. If a borrower has been making payments properly, they shouldn't be in default.

Do borrowers need to download the .txt file regularly?

Yes, this is a good idea to do at least once a year, and possibly more regularly if you are monitoring status changes. The file includes a field labeled “UpdtDt” that shows when the data was last updated.

Is there a cheat sheet for interpreting the .txt file?

The Department of Education has a layout guide that walks you through how to read the text file: <https://fsapartners.ed.gov/sites/default/files/2023-02/DownloadMyAidDataFileLayout.pdf>.

When does the collection pause end?

We don't know. There is currently no confirmed end date of the collection pause. Borrowers shouldn't wait and should take steps now to exit default and avoid collections when the pause ends.

Are collections on FFEL Loans paused as well?

Yes, collections on FFEL loans are paused as well. This means that borrowers with defaulted FFEL loans will not be subject to tax refund offset, Social Security benefits offset, or administrative wage garnishment. However, all other aspects of the default system are still operating, so FFEL borrowers with loans in default will still get notices about their defaulted loans, will still face negative credit reporting, and will still be transferred to default loan servicers.

Can FFEL loans be subject to the same collection actions as Direct Loans? Can tax refunds and Social Security benefits be taken to collect on defaulted FFEL loans?

Yes. When collections are turned back on, defaulted **FFEL loans** will be subject to the same federal collection tools as Direct Loans, but the borrower may be interacting with different entities depending on who holds their defaulted FFEL loans.

- **Same collection tools:** Defaulted FFEL loans are subject to the same federal collection actions, such as administrative wage garnishment, tax refund offset, and Social Security benefits offset.
- **Who collects/services defaulted FFEL loans:** The specific agency a borrower deals with depends on who holds the defaulted loan—it could be the Department of Education's Default Resolution Group (FFEL loans held by the Department of Education) or another collection servicer or agency (FFEL loans held by a guaranty agency and not the Department of Education). But no matter who holds these loans, they will still be subject to the same types of collection actions.

Although new FFEL loans have not been issued since 2010, many borrowers still have existing FFEL loans.

What is in the bucket of “other federal benefits” that the government can go after to collect a defaulted loan?

Through the Treasury Offset Program, to collect on defaulted federal student loans, the government may take:

- Federal tax refunds,

- Certain federal retirement payments,
- Social Security benefits, and
- Other federal payments owed to the borrower.

SSI and VA benefits are protected.

What is retroactive forbearance?

A **retroactive forbearance** is a temporary, backdated pause on loan payments that can be applied to cover a period when the loan was past due. Generally, you can only ask for a retroactive forbearance if the borrower's defaulted loans have not yet been transferred to the default loan servicer.

Key things to know:

- **How to get it:** The borrower must call the loan servicer and request it.
 - *Servicers will also automatically apply a retroactive forbearance if a borrower is delinquent when they are applying for IDR.*
 - **It's temporary:** It does not last forever, and the borrower will still need to choose a repayment plan that works for them—consider an Income-Driven Repayment (IDR) plan.
 - **Interest accrues:** Interest may continue to build up on the loan while in forbearance.
 - **Time doesn't count toward loan forgiveness:** The time spent in forbearance usually does not count toward loan forgiveness programs like Public Service Loan Forgiveness (PSLF) or IDR forgiveness.
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If the borrower misses a 65-day notice deadline but takes action during the collections pause, can they still avoid collections later?

Yes. Because collections are paused, borrowers have a short window to try to get out of default before collections resume. Even if a borrower missed a deadline to respond to the initial 65-day notice, they can still:

- Take steps to get out of default through a loan rehabilitation agreement, consolidation, or statutory discharge;
- Raise an objection to future collections (based on financial hardship or other reason),

- Enter a voluntary payment agreement (different from the loan rehabilitation agreement); or
- Pay the loan in full,

Taking these steps during the pause can help avoid wage garnishment or offset once collections resume.

What is the amount that can be taken in a wage garnishment once collection resumes?

When the government garnishes wages to collect a defaulted federal student loan (administrative wage garnishment), there are limits on how much they can take:

- **15% Limit:** They can only take up to **15% of disposable pay**. **Disposable pay** is the money left after deductions for things like taxes and health insurance.
- **Current Minimum Protection Amount is \$217/week:** The government must leave the borrower with an amount equal to **30 times the federal minimum wage** (which is currently \$217/week).

They will take **the smaller of the two amounts** (15% of your disposable pay or amount above the protected amount).

Does only rehab improve credit?

When a loan is in default, getting out of default will likely help improve the borrower's credit.

Keep in mind that credit score issues are very fact-specific, so there is no single answer that is right for everyone, but in some cases, the way the borrower exits default may make a slight difference:

- Loan Rehabilitation is sometimes, but not always, considered a better option as it removes the record of the default from the credit report (although the history of late payments will still be there and may still impact a borrower's credit).
- Consolidation ends the default, but it does not remove the prior default from the credit history. Consolidation creates a new federal loan that pays off the defaulted federal loan, creating two separate types of credit on a credit report. This means the record of default may continue to affect the borrower's credit, but again, it's hard to know how much of a difference this would impact a given borrower compared with a loan rehabilitation.

Does applying to consolidate Parent PLUS Loans by April 1st ensure access to legacy IDR plans?

Yes, for the most part, as long as they **do not** take out a new loan after July 1, 2026. To keep access to certain Income-Driven Repayment (IDR) plans, borrowers must **consolidate their Parent PLUS Loans** into a Direct Consolidation Loan by July 1, 2026.

- **Recommended deadline to apply: April 1, 2026**
 - Borrowers should apply by April 1, 2026, to ensure the consolidation loan is finalized on time, as the process can take 4–6 weeks (or longer).
- **Final deadline: July 1, 2026**
 - The new Consolidation Loan *must* be officially **issued** before July 1, 2026, to be eligible for an IDR plan.
- **Why should Parent PLUS borrowers do this? Maintain access to IDR:**
 - Parent PLUS Loans are **not eligible** for the new RAP plan.
 - After July 1, 2028, the **Income-Based Repayment (IBR) Plan** will be the *only* IDR plan available to Parent PLUS borrowers who consolidated and signed up on time. But, IBR will not be available to loans disbursed after July 1, 2026.
 - In addition to consolidating by July 1, 2026, they must also take a second step and sign up for an IDR plan by **July 1, 2028**. After the existing IDR plans are phased out, they should be transitioned to the IBR plan.
- **What happens if they miss the deadline?**
 - If Parent PLUS borrowers don't take these steps in time, their only option will be the Standard Repayment Plan, which is usually more expensive and does not include any loan forgiveness.

For more information on what Parent PLUS borrowers need to know now, see our blog on this at: studentloanborrowerassistance.org/do-you-have-parent-plus-loans-act-now-to-lower-your-payments-before-options-disappear/.

Do Parent PLUS consolidations need to be finalized by July 1?

To keep Income-Driven Repayment (IDR) eligibility, Parent PLUS Loan consolidation must be **completed** (finalized) by the **July 1st deadline**, not just applied for. Because timing is critical, we recommend that Parent PLUS borrowers apply to consolidate by **April 1, 2026**.

What's the difference in payment amounts for the 3 consolidation payments vs. the 9 rehabilitation payments?

The payment amount for the 3 voluntary payments to consolidate out of default is generally the same as the payment amount required under IBR or a loan rehabilitation agreement. We are not aware of any changes to how this payment amount is calculated.

Generally, it is better for a borrower to submit an application for an IDR plan when applying for consolidation. If the borrower submits an application for IDR, they are not subject to the 3 voluntary payment requirement

Can you give examples of a borrower defense claim?

We'll discuss these types of loan discharges in more detail during our May webinar. Generally, a borrower may be able to get their loans discharged under the Borrower Defense to Repayment program if their school engaged in certain misconduct to get the borrower to enroll, which caused the borrower harm. Some examples include:

- Misrepresenting borrowers about job placement rates;
- Making false claims about program accreditation;
- Misleading statements about the transferability of credits;
- Deceptive recruitment practices

See studentaid.gov/manage-loans/forgiveness-cancellation/borrower-defense for more information.

If TPD borrowers return to school within 3 years, will their loans be reinstated?

Yes, if they take out new federal loans. If a borrower takes new federal loans within the 3-year monitoring period, their previously discharged loans may be reinstated. If they don't take out any loans or other federal student aid, their loans will not be reinstated.

Are forgiven loans taxable?

Whether a forgiven loan is taxable **depends on the type of forgiveness and the year it was forgiven.**

- **Not Taxable (Generally):** Loans forgiven through most statutory discharge programs, such as Public Service Loan Forgiveness (PSLF) and Total and Permanent Disability (TPD) discharge, are **not considered taxable** for federal taxes.
- **Potentially Taxable (IDR):** Loans forgiven through the Income-Driven Repayment (IDR) cancellation program **after the end of 2025** are considered **taxable** for federal taxes. If the loan was eligible for forgiveness before the end of 2025, the government has said it won't treat it as taxable income, even if the actual discharge came later.
- **State Taxes:** A few states may consider forgiven loans taxable for state tax purposes, regardless of the federal rules.

Speak with a tax advisor for more information.

Is bankruptcy truly a way out?

Yes, student loans **can** be canceled (discharged) in bankruptcy, but it is not a simple process.

- **Requirement:** Borrowers typically have to prove "undue hardship" to the court, meaning they can't pay their loans and maintain a minimal standard of living, and that this financial hardship is likely to continue for a long time. This is very specific to a borrower's situation.
- **Process:** The process to get a student loan discharged in bankruptcy is separate from the main bankruptcy case. This process, called an "adversary proceeding" is complicated and can be expensive.
- **Recent changes in federal guidance** have made it easier, in some cases, to obtain student loan discharges in bankruptcy.
- **Recommendation:** Because this process is complex, borrowers should consult a bankruptcy attorney experienced in student loan debt discharges for advice on their situation.

For more information, visit our website at:

studentloanborrowerassistance.org/for-borrowers/dealing-with-student-loan-debt/loan-cancellation-forgiveness-bankruptcy/bankruptcy/

Are there free legal resources available for student loan borrowers?

Yes. Borrowers may be able to get free legal help from a legal aid organization. Additionally, state consumer protection or state student loan ombudsman offices may be able to provide additional help.

For information on finding legal help, visit our website at studentloanborrowerassistance.org/for-borrowers/find-help/help-with-your-student-loans/.