THE “HOOK”
Getting a college degree seems essential these days. The easy money available after the great recession for student loans looked to many people as a panacea for unemployment, and a great way to get a degree that would increase your chances of getting a good paying job. This was true if you got good grades, got a degree in a field where there was a growing need, or you got a real skill from a trade school. Unfortunately, many borrowers got general liberal arts degrees in areas that did not increase their chances of getting a good job. The joke for those unfortunates was: “How do you like your fries?” The food service industries are now loaded with college graduates struggling to make ends meet. The inability of many students to repay their student loans is a looming crisis in America. Now an increasing number of student loan borrowers are defaulting on their loans.

Consumer Federation of America added up the statistics and crunched the numbers to find out that over a million students defaulted on their student loans in 2015 and 2016, and the numbers are increasing. When a default occurs, many young people are unaware how serious the ramifications are. And many think that it is no worse than defaulting on any other loan and that they can discharge the debt in bankruptcy. Wrong! When a Federal student loan defaults, the Government has ways of making sure it gets its money paid back eventually.

THE LESSON
Here is what you need to know about defaulting on your student loan.

1. Your chances to access credit become none existent
If you go 270 days without making any sort of payment, or communicating with the loan servicer, that servicer will quickly jump into action. This automatically is noted on your credit report, which will mean no other lender will consider you for a loan, you may not be able to rent a house, buy a car or any sort of cool toy you’ve had your eye on without a co-signer. Ouch!

2. Your phone becomes bombarded with debt collectors
The moment your loan goes to collection, you’re going to wish you hadn’t defaulted just from the stand point of annoyance. Debt collectors can legally call you at any hour of the day. They might even call your family, friends and possibly your place of work to get through to you. Talk about embarrassing.

3. Your wages get garnished
The Government has the right to garnish your wages from work, social security benefits, and maybe even your tax refund. Nearly 15% of your disposable income could possibly be garnished and put towards your student loan. Unfortunately more often than not this garnishment only pays the interest on your loan while the loan principal is unaffected, consequently your debt continues to increase because of compound interest. Like we said, the government will always get its money.
What can you do to prevent your loan going into default:

- **Income driven payments**: Most students who end up into default, don’t make enough money to take care of their loan payments. On average, the amount of student Federal debt has grown to $30,000 per person, which is an increase of 16.5% since 2013. That can be a huge barrier for any student who finds just an entry level job. Often, lenders will accept what is called an “income driven re-payment plan”. Programs such as income-based repayment (IBR) or a (PAYE) pay as you earn, can limit your monthly payments at 10 or 15%. After 20-25 year history of payments that are on time, the remaining student loans are then forgiven, and while you are making those payments you avoid a loan default.

- **Loan forbearance**: Depending on your circumstance and your income, there are plans which would allow you to put your loans on hold and in some cases not accumulate interest until a later date when you can make a significant payment, or when you can get a job where you actually use your degree so you can be paid a larger salary. Another option would be forbearance, which, if qualified for, could put your loans on hold for 12 months, however during that time they would continue to generate interest.

- **Loan forgiveness programs**: There are in fact some careers that qualify for loan forgiveness in the public service realm. Under this program, loans can be forgiven after 120 consecutive payments. This program started after October in 2007, but requires work for a government agency, or a qualified nonprofit organization. Often times, individual States offer different types of forgiveness programs for different types of occupations, such as a nurse or a teacher. Furthermore, different types of professions in the medical field offer loan forgiveness as a way of getting graduates to work in rural areas, public health, or on Indian Reservations. It is certainly worth looking into, but if you are already in default, they will not offer that option to you.

Student loan defaults are more common than ever, so if you are getting close, make sure to consult with your lender and make some sort of arrangement so you can avoid defaulting at all costs. The decision to default has huge consequences.