

Default of Federal Student Loans Frequently Asked Questions (FAQ's)

Q. What options are available to resolve my student loan default?

- A. There are several options for resolution of your defaulted student loan. You can [pay your loan in full](#), make arrangements to begin a [repayment schedule](#), participate in the [Federal Loan Rehabilitation program](#) or [consolidate](#) your defaulted loan(s).

In all instances, contact the holder of your loan for information about how to start the process.

Q. How do I [reinstate](#) eligibility for federal and state financial aid if I return to college after defaulting on a student loan?

- A. Financial aid eligibility will be reinstated to defaulted borrowers who enter into a repayment arrangement and make a minimum of six (6) consecutive on-time monthly payments. You must make a telephone or written request for reinstatement, and you must continue to make these monthly payments in order to retain eligibility for future federal and state financial aid. Reinstatement is a one-time opportunity, and the process cannot be restarted once begun.

Q. If I've made repayment arrangements for my defaulted student loan held by ISAC, will I receive a statement to use when making payments?

- A. If you have entered into a repayment agreement with ISAC, you will receive monthly statements, which are mailed 15 days prior to your payment due date. Statements, however, are only a courtesy and not receiving one does not exempt you from making the required payments. Never delay making your payment when due even if a statement isn't received.

Payments for defaulted loans being collected by ISAC are to be mailed to:

ISAC
P.O. Box 235
Deerfield, IL 60015

Include your name, address, telephone number and Social Security number on all payments to ensure your payment is credited to your loan.

If your account was assigned to a collection agency and you entered into a repayment arrangement with that agency, you must contact them regarding their policy for statements or payment booklets.

Q. I think my loan may have defaulted in error; can my lender repurchase my loan?

- A. If you feel your loan defaulted in error, you must request that your previous lender consider repurchasing your account, and provide the following documentation:
- proof that payments were made during the delinquency period prior to default
 - documentation that you applied for and received an approved deferment or forbearance prior to default and/or
 - other evidence of a servicing error(s).

Because collection activities are not suspended while your account is being reviewed for possible repurchase, you will need to continue/begin making payments on your loan.

Q. How is my credit rating affected by a defaulted student loan?

- A. ISAC reports your defaulted loan to all national credit reporting companies as a "collection account." Once the defaulted loan is paid in full, the classification will change to "paid collection account," but record of the default will remain on your credit report for seven years after the account is paid in full.

If you believe that your loan information is being reported incorrectly, you may file a consumer complaint with the credit bureau.

Q. How can I obtain a copy of my credit report for review?

- A. Each of the national consumer credit reporting companies is required by the Federal Trade Commission to provide consumers with a free copy of their credit report on an annual basis. Access annualcreditreport.com for information about obtaining a report.

Q. How do I remove a defaulted student loan from my credit report?

- A. Student loan guarantors are required by law to report the default to the credit bureaus. If you feel the student loan default was reported in error, you must file a consumer complaint with the appropriate credit bureau disputing the information.

If the loan is paid in full, the default will remain on your credit report for seven years following the final payment date, but your report will reflect a zero balance. If you rehabilitate your loan, the default will be removed from your credit report.

Q. What if I am unable to make payments on my defaulted student loan?

- A. If you are unable to make payment toward your defaulted student loan(s) held by ISAC, contact an ISAC Debt Management representative at (800) 934-3572. The representative may request that you complete and submit a Credit and Financial Statement, on which you must provide documentation of your income and expenses. This information will be used to determine an acceptable and affordable repayment plan.

If your loan is being handled by a collection agency, contact the agency servicing your account to discuss repayment arrangements.

Q. What if I am disabled and unable to pay my loan?

- A. Federal regulations provide for the discharge of student loans due to a borrower's total and permanent disability. In order to qualify for loan discharge, you must complete the Loan Discharge Application: Total and Permanent Disability and have it certified by a physician licensed to practice medicine. In order to be considered totally and permanently disabled, you must be unable to work and earn money because of an impairment that is expected to continue indefinitely or result in death, or unable to attend school for the same reason.

Be advised that the standard for determining eligibility for cancellation of a student loan due to disability may be different from standards used under other public and private programs with occupational disability or eligibility for social services benefits.

Q. I declared bankruptcy; why do I still receive demands for payment?

- A. Guaranteed student loans are not dischargeable under bankruptcy unless the court specifically grants a discharge due to undue hardship in a separate adversary proceeding. If you're unsure whether your student loan was discharged in bankruptcy, contact the holder of your loan.

Q. Do I qualify for a deferment or forbearance on a defaulted loan?

- A. No. Defaulted student loans are not eligible for deferment or forbearance.

Q. How are payments applied to my account?

- A. Payment is first applied to collection costs; the remaining amount is then applied to accrued interest and finally to principal.

Q. Will my tax refund(s) be seized?

- A. If your account meets specific selection criteria, ISAC has legal authority to intercept federal and state tax refunds and apply those refunds to the balance of your defaulted loan.

Q. I just received a Notice Prior to Wage Withholding; how can I prevent my wages being garnished?

A. If you receive a Notice Prior to Wage Withholding, you can prevent your wages being garnished by contacting ISAC to establish satisfactory repayment arrangements or requesting a hearing or exemption by the deadline indicated on the Notice. If you don't respond to the Notice, ISAC will contact your employer to initiate garnishment of your wages. If a payment is not received by the time your employer is notified, the administrative wage garnishment may not be stopped until the account is paid in full.

Q. Why did my employer receive an Order of Withholding from Earnings even though I have made payments?

A. If you make a payment to stop administrative wage garnishment, a payment must be received every month to continue to the suspension of this process. You cannot make a double payment in one month and then skip the next month. Payments must continue to be received on a regular basis.

Q. How long am I legally liable for a defaulted student loan?

A. There is no legal limit or statute of limitations regarding the collection of defaulted student loans. Unless you qualify for a discharge, you are permanently liable for payment of your student loan until the account is paid in full.