

Defaulting on Student Loans Could Get You Sued by Your School

February 7, 2013 - As we reported late last month, federally backed student loan delinquencies are soaring. Among more recent loans, 15% of borrowers are currently in default. Until now, delinquent borrowers have had to worry predominantly about the federal government pursuing them. But that is changing. Colleges and universities are now starting to sue delinquent borrowers for failure to pay. And those being hit with these suits are actually people who borrowed under the federal Perkins loan program. That program is reserved for students who are among the most economically disadvantaged.

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It isn't a good idea to default on student loans. Not only will the default hurt your credit, but most borrowers will eventually find that they are facing government garnishments for repayment anyway. The reason for this is that student loans must be repaid by law. Even if you file for bankruptcy, your student loans can't be discharged by the court. You will still be responsible for paying them back.

But none of these facts seem to be impacting student loan default rates. And default rates among the poorest students seem to be rising faster than most. These students qualify for the federal Perkins loan program.

The Perkins program is essentially a revolving line of credit for colleges and universities. Universities determine how much borrowers can qualify for and then give them a loan. When borrowers make payments on their loans, the money goes back to the university that issued the loan and is to be used to make more loans to new students. So when borrowers default on these loans, the universities actually have less money that they can provide to students in the form of student aid. This gives them incentive to sue when other collection efforts fail.

But schools are also legally obligated to try to recover Perkins loans that are in default. Given this, the chances are that if you skip out repaying a Perkins loan that you will eventually be sued.

Ironically, unlike other student loans backed by the government, students who borrow under Perkins do not have multiple payment options available to them. In other programs, borrowers have the ability to enter into repayment programs that are based on actual income. Under Perkins, that option is unavailable. Even so, most schools will work with borrowers to get them onto a repayment plan that they can work with.

Any borrower who is dealing with delinquent student loans should attempt to start working with the government and/or their school on a repayment plan as soon as they realize that repaying their loans could be a problem. Ignoring the problem will simply hurt your credit and, in the case of Perkins loans, is likely to lead you right into a lawsuit.

by Jim Malmberg

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