DoE to Begin Forced Debt Collection on Defaulted Student Loans

April 24, 2025 - Millions of Americans with defaulted federal student loans will soon face renewed collection efforts as the U.S. Department of Education resumes involuntary debt recovery on May 5, 2025. This marks the end of a five-year pause initiated during the COVID-19 pandemic, and borrowers now have a limited window of time to avoid severe consequences.

Currently, approximately 5.3 million borrowers are in default, a situation in which they have missed at least 270 days of payments. This group owes a staggering $110 billion in federal student loan debt, making up a significant portion of the more than $1.7 trillion in student loans in total. The Department of Education has warned that these individuals will soon be subject to involuntary collection actions if they do not take steps to address their default status.

Starting on May 5, 2025, the Department will begin using several collection methods, including:

- Wage Garnishment: Up to 15% of a borrowerâ€™s disposable income could be taken from their paycheck to satisfy loan obligations.
- Tax Refund Offsets: The government can seize tax refunds to apply toward the defaulted loan balance.
- Social Security Garnishment: Social Security benefits may be withheld to pay down the debt, with up to 15% of benefits potentially being taken.
- Other State Penalties: In some cases, states may also suspend or revoke driverâ€™s licenses or professional certifications until the debt is settled.

These methods are designed to push individuals toward repayment, but they can have severe financial consequences for borrowers who ignore their situation.

Borrowers who are currently in default have a narrow window of time to take action before the government's efforts begin. The Department of Education is encouraging those affected to make arrangements for repayment as soon as possible to avoid involuntary collections. Borrowers have until May 5, 2025, to engage with the Department and set up a repayment plan.

There are a number of ways borrowers can manage their loans before the government steps in:

- Loan Rehabilitation: Borrowers can enter into a rehabilitation program, which involves making a series of voluntary, on-time payments (usually nine) over a period of 10 months. This can remove the default status from the loan, allowing borrowers to regain eligibility for additional federal student aid and access lower interest rates.
- Income-Driven Repayment Plans: These plans adjust monthly payments based on the borrowerâ€™s income and family size, often resulting in lower payments for individuals facing financial hardship.

Additionally, the Department of Education is offering expanded support for borrowers through an AI-powered tool and extended call center hours. These resources can help borrowers better understand their options and find the best path forward.

While the involuntary collection process will undoubtedly impact millions of borrowers, acting proactively can prevent significant harm to both your financial well-being and your credit score. If you take the time to set up a repayment plan now, you can avoid the embarrassment and penalties that come with wage garnishment, tax offsets, and other collection measures.

The Department of Education's debt collection methods are tough, but they apparently need to be. According to the DoE, only 38% of student loans are current. And while those who are currently late on their payments may not be considered to be in default (again, meaning that they havenâ€™t made payment in at least 270 days), many in this group are at risk of entering that category.

There is still time to make voluntary arrangements before the DoE begins these new collection efforts. Borrowers who take the initiative to rehabilitate their loans or enter into an income-driven repayment plan will be in a better position to manage their debt and avoid severe financial consequences in the future. But the time to act is now. After collection efforts begin, it will be much more difficult for anyone caught up in them to make changes to the repayment plans that the government assigns to them.

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