

STUDENT LOAN REPAYMENT RETURNS: Millions Face a Credit Crunch as Collections Restart

The grace period is over.

After a five-year pause, the U.S. Department of Education has resumed collection efforts on defaulted federal student loans, ending pandemic-era forbearance policies that offered temporary relief to over 40 million borrowers. With credit reporting back in full swing, many Americans are learning that time does not heal credit wounds—especially when the government starts collecting.

Delinquency rates are surging. Student debt that once sat silently in forbearance is now triggering credit score drops, wage garnishments, and even withheld Social Security payments for borrowers who've fallen behind.

According to the New York Federal Reserve's latest data, nearly 6 million borrowers are either past due or in default. The ripple effects are substantial: economists warn that continued defaults could reduce consumer spending and knock an estimated \$63 billion off the U.S. GDP.

Education Secretary Linda McMahon made the administration's position clear last month: "For those people who have borrowed money and have not been paying that's just not to be punitive! when they're in default, they can't buy a car, their credit scores go down."

So who is falling behind—and what happens next?
By The Numbers

National Impact:

- \$1.63 trillion: Total U.S. student loan debt.
- 4.3%: Share of all U.S. household debt now in some stage of delinquency, up from 3.6% in late 2024.
- 8%: Delinquency rate for student loans specifically, up from under 1% last year.

Credit Score Fallout:

- 2.2 million borrowers lost 100+ credit score points.
 - Borrowers with 720+ scores dropped by an average of 177 points after becoming delinquent.
 - 35.9% of newly delinquent borrowers had "fair" scores (620–719) and now face sharply limited credit access.
- Delinquency by Age:

• 11.23% of borrowers over age 50 are now seriously delinquent, tying a 10-year record.

• Average age of delinquent borrower: 40.4 years.

• Borrowers under 30 have the lowest delinquency rates.
State Hot Spots:

State

Delinquency Rate

Mississippi

44.6%

Alabama

34.1%

West Virginia

34.0%

Kentucky

33.6%

Oklahoma

33.6%

Arkansas

33.5%

Louisiana

31.8%

Who's at Risk?

Borrowers in repayment plans but unable to meet obligations are the most vulnerable. Nearly 24% of those required to make payments are now behind. Older borrowers, many of whom co-signed for children or returned to school later in life, are disproportionately affected.

What Happens If You Don't Pay?

The consequences of default can be severe and swift:

- **Wage Garnishment:** Your employer may be required to withhold part of your paycheck.
- **Tax Refund Seizure:** The IRS can divert your refund to repay student debt.
- **Social Security Offsets:** Even retirees aren't safe—benefits can be docked.
- **Credit Access:** Delinquency can kill your chances of qualifying for a mortgage, auto loan, or even a rental lease.

For many, the solution lies in acting now. The Department of Education offers income-based repayment plans, some with payments as low as \$0 per month. Rehabilitation programs can also remove defaults from credit reports if borrowers enroll before more serious consequences take hold.

But as payments resume and the safety net disappears, the window to act is closing. For millions, the time to get ahead of the debt is now—before the debt gets ahead of them.

by Jim Malmberg

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