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 woundsâ€”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 whoâ€™ve fallen behind.

According to the New York Federal Reserveâ€™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 administrationâ€™s position clear last month: â€œFor those people who have borrowed money and have not been paying â€” thatâ€™s just not to be punitiveâ€¦ when theyâ€™re in default, they canâ€™t bu they canâ€™t buy a car, their credit scores go down.â€•

So who is falling behindâ€”and what happens next?
By The Numbers

National Impact:

Â· â€¢ $1.63 trillion: Total U.S. student loan debt.

Â· â€¢ 4.3%: Share of all U.S. household debt now in some stage of delinquency, up from 3.6% in late 2024.

Â· â€¢ 8%: Delinquency rate for student loans specifically, up from under 1% last year.

Credit Score Fallout:

Â· â€¢ 2.2 million borrowers lost 100+ credit score points.

Â· â€¢ Borrowers with 720+ scores dropped by an average of 177 points after becoming delinquent.

Â· â€¢ 35.9% of newly delinquent borrowers had â€œfairâ€• scores (620â€“719) and now face sharply limited credit access
Delinquency by Age:

Â· â€¢ 11.23% of borrowers over age 50 are now seriously delinquentâ€”tying a 10-year record.

Â· â€¢ Average age of delinquent borrower: 40.4 years.

Â· â€¢ 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%

Whoâ€™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 Donâ€™t Pay?
The consequences of default can be severe and swift:
Â· â€¢ Wage Garnishment: Your employer may be required to withhold part of your paycheck.
Â· â€¢ Tax Refund Seizure: The IRS can divert your refund to repay student debt.
Â· â€¢ Social Security Offsets: Even retirees arenâ€™t safeâ€"benefits can be docked.
Â· â€¢ 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 reportsâ€"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 nowâ€"before the debt gets ahead of them.

by Jim Malmberg
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