A Fresh Start for Borrowers with Federal Student Loans in Default

Borrowers with federal student loans in default have until Sept. 30, 2024, to reenter current repayment status and have other federal student aid benefits and protections restored that will increase their long-term repayment success.

Background

On April 6, 2022, the U.S. Department of Education (ED) announced in a **press release** it would eliminate the negative effects of default for borrowers with defaulted federal student loans. This will enable approximately 7.5 million borrowers with defaulted federal student loans to return to repayment without any past due balance, just like every other borrower. These borrowers are disproportionately likely to be first-generation college students, have received a Federal Pell Grant, and qualify for low monthly payments under affordable income-driven repayment (IDR) plans.

This initiative, called “Fresh Start,” will increase the long-term repayment success of borrowers with defaulted federal student loans, provide substantial benefits to borrowers over the coming months, and last for a period of one year from the end of the payment pause, as described below.

This fact sheet provides an overview about the Fresh Start initiative and steps borrowers must take to make payment arrangements that will keep them out of default long-term. ED intends to post specific guidance for postsecondary schools and guaranty agencies on the **Knowledge Center** on the FSA Partner Connect portal. ED posted preliminary information for borrowers at **StudentAid.gov/freshstart** and will provide specific communications to borrowers in the coming weeks and months.

Benefits of Fresh Start Initiative for Eligible Loans

- Restores access to repayment options—that could offer monthly payments as low as $0 through IDR plans— and provide opportunities for loan forgiveness
- Restores eligibility to receive federal student aid, including Federal Pell Grants and campus-based aid like Federal Work-Study, so borrowers can complete their course of study and increase long-term repayment success
- Protects borrowers from involuntary collection efforts and costly collection fees
- Restores eligibility for future rehabilitation for borrowers who rehabilitated a defaulted loan during the payment pause
- Provides credit reporting features—including removing borrowers from the federal Credit Alert Verification Reporting System (CAIVRS) —making it potentially easier and more affordable for student loan borrowers to afford living expenses

Loans Eligible for Fresh Start:

- Defaulted William D. Ford Federal Direct Loan (Direct Loan) Program loans
- Defaulted Federal Family Education Loan (FFEL) Program loans (both ED-held and commercial-held)
- Defaulted ED-held Perkins Loans

Commercial-held FFEL Program loans that defaulted after March 13, 2020, through the duration of the payment pause, will be returned to current standing through ED's action to expand COVID-19 flexibilities. Because these loans will be returned to current standing, they are not eligible for Fresh Start benefits.

Loans Not Eligible for Fresh Start

- Defaulted school-held Perkins Loans
- Defaulted Health Education Assistance Loan Program loans
- Student loans remaining with the U.S. Department of Justice (DOJ)
- Direct Loans and commercial-held FFEL Program loans that default after the end of the pause on student loan payments and collections

Access to Affordable Repayment Plans and Pathways to Forgiveness

Many borrowers with older loans will have access to repayment plans that provide more affordable monthly payments than when they first defaulted on their loans. Starting later this year, borrowers with defaulted federal student loans that are eligible for Fresh Start can find long-term repayment success by taking steps to enroll in affordable **IDR plans**—with monthly payments that could be as low as $0—and potentially qualify for loan forgiveness under IDR and the **Public Service Loan Forgiveness (PSLF) Program**.

Borrowers will receive counseling and communications about the potential benefits of enrolling in IDR plans. To enroll in an IDR plan, borrowers can provide the income information required for enrollment to the default loan servicer—through communications channels outlined below—including attesting to their annual income, family size, marital status, and spouse's annual income if married. This information will be used by the borrowers' new non-default loan servicer, who will enroll them in the IDR plan providing the lowest monthly payment amount once transferred.

Regain Access to Federal Student Aid to Continue College

Borrowers who do not complete their program of study are at a higher risk of default. Under the Fresh Start initiative, borrowers with eligible defaulted federal student loans can now apply for federal student aid to help them complete their credential or degree and increase their long-term repayment success.

Borrowers can apply for federal student grants, loans, or work-study funds through **the Free Application for Federal Student Aid (FAFSA®)** form and receive aid even before Fresh Start is fully implemented later this year.

Once new aid is disbursed to borrowers under the Fresh Start initiative, ED will transfer the borrower's eligible defaulted federal student loans to a non-default servicer, which will remove the default status of the loans from borrowers' credit reports. This action allows the borrower to remain eligible to receive federal student aid beyond the Fresh Start period.

No Collections Activity

For one year after student loan payments resume, borrowers with Fresh Start-eligible defaulted federal student loans will not be subject to any collection efforts, including involuntary collection tools like wage garnishment and offset of certain government payments (such as income tax refunds and Social Security benefits). During the initiative, ED does not charge collection costs and will not make any new referrals to the DOJ for litigation to recover defaulted debt. Simply put, eligible borrowers will have at least one year to make payment arrangements before defaulting on their debts and/or being subject to further collections efforts like most other borrowers eligible for the payment pause.

Restored Eligibility for Loan Rehabilitation

Typically, borrowers who rehabilitate a defaulted federal student loan and default on that loan again cannot rehabilitate it a second time. To ensure that borrowers who could have taken advantage of Fresh Start—but rehabilitated instead—are not harmed, borrowers who rehabilitated their loan during the payment pause will be able to rehabilitate again if they re-default.

Credit Reporting Features and Protections

Due to the Fair Credit Reporting Act, loans that have been delinquent for more than seven years generally do not appear on credit reports produced by credit reporting agencies. To ensure the maximum opportunity for borrowers with eligible defaulted federal student loans to get a fresh start, ED will

- delete reporting about loans that have been delinquent for more than seven years, even if the borrower enrolls in a repayment plan through the Fresh Start initiative;
- report all other defaulted loans to credit reporting agencies as “current” and not in a collection status; and
- use a loan’s original date of delinquency if borrowers become delinquent or go into default again after this Fresh Start opportunity, which will not reset the seven-year timeline for a borrower’s credit report.

Currently, borrowers with defaulted loans are reported to CAIVRS. Lenders, particularly those originating government-backed loans, deny loan applicants if they are flagged in CAIVRS. As of July 10, 2022, ED removed default notations in CAIVRS for borrowers with eligible defaulted federal student loans.

Negative credit reporting information can be a disqualifying factor for some federal employment. Additionally, consumers with negative credit reporting frequently pay more when renting and using insurance products. ED’s actions under the Fresh Start initiative will likely help reduce barriers to employment and keep more money in many borrowers’ pockets.

Steps Borrowers Must Take to Make Payment Arrangements

Under Fresh Start, all borrowers with eligible defaulted federal student loans will receive important benefits available to borrowers in good standing for the duration of the initiative. Most borrowers with Fresh Start-eligible loans must make long-term payment arrangements with ED or their guaranty agency. Similar to all borrowers when payments resume, borrowers who do not make payment arrangements during the Fresh Start initiative will again be subject to default collections one year after the payment pause ends.

Any borrower with eligible defaulted federal student loans can make payment arrangements during the initiative by visiting myeddebt.ed.gov, contacting their loan holder by phone or in writing, or calling the Default Resolution Group at 1-800-621-3115.

Borrowers who make payment arrangements will be transferred to a non-default loan servicer. When borrowers' eligible defaulted federal student loans are transferred to a non-default servicer, ED will remove the default status of the loans from borrowers' credit reports.

Borrowers will have one year from the end of the student loan payment pause to make payment arrangements or notify their loan holder that they would like to transfer to a non-default servicer. Similar to all borrowers when payments resume, borrowers who do not take advantage of this option or pay off their federal student loans during the Fresh Start initiative period will again be subject to default collections one year after the pause ends. In addition, borrowers will lose eligibility for federal student aid, and ED and guaranty agencies will resume reporting their loans as being in collections to credit reporting agencies. ED will closely monitor the repayment performance of borrowers with previously defaulted loans, including enrollment rates into IDR plans that can best support their long-term success.

Illustrative Scenarios

1. Jane has a **defaulted ED-held student loan** that's been delinquent for **less than seven years** and wants to return to school to complete a degree. Jane applies for additional federal student aid. When Jane receives additional federal student aid, Jane's loan will be automatically transferred to a non-default servicer and receive an in-school deferment if Jane is enrolled at least half-time. ED will ask credit reporting agencies to delete the defaulted loan from the borrower's credit report, and ED will continue reporting the loan as current on credit reports.
2. Jane has a **defaulted ED-held student loan** that's been delinquent for **more than seven years**. Since the defaulted tradeline has been delinquent for more than seven years, it no longer appears on Jane's credit report for most inquiries. ED will ask credit reporting agencies to delete the loan tradeline while Jane remains with the default servicer. Additionally, if Jane makes payment arrangements and transfers to a non-default servicer during Fresh Start, ED will still not report the loan to credit reporting agencies while Jane's loan is with the non-default servicer, or if Jane defaults once more on the same loan.
3. Jane has a **defaulted ED-held student loan** that's been delinquent for **less than seven years**. ED will report the loan to credit reporting agencies as current. If Jane desires to transfer to a non-default servicer, ED will ask credit reporting agencies to delete the defaulted loan from Jane's credit report, and ED will continue reporting the loan as current on credit reports. If Jane does not transfer to a non-default servicer within one year of the payment pause ending and Jane redefaults, the loan will be reported as in collections on credit reports— with Jane's original date of delinquency— which will not reset the seven-year timeline on Jane's credit report.
4. Jane has a **defaulted commercial-held FFEL Program loan** that's been delinquent for **more than seven years**, which no longer appears on Jane's credit reports for most inquiries. The guaranty agency will ask credit reporting agencies to delete the loan from credit reports while Jane's loan is with the guaranty agency. Additionally, if Jane makes payment arrangements and transfers to a non-default servicer during Fresh Start, ED will still not report the loan to credit reporting agencies while Jane's loan is with the non-default servicer, or if Jane defaults once more on the same loan.
5. Jane has a **defaulted commercial-held FFEL Program loan** that's been delinquent for less than seven years and defaulted **before March 2020.** The guaranty agency will report the loan to credit reporting agencies as current on credit reports. If Jane transfers to a non-default servicer, the guaranty agency will ask credit reporting agencies to delete the defaulted loan from Jane's credit report and transfer the loan to ED. Then, ED will transfer Jane's account to a non-default loan servicer. Jane's new loan servicer will continue reporting the loan as current on credit reports. If Jane

does not transfer to a non-default servicer within one year of the payment pause ending and Jane redefaults, the loan will be reported as in collections on credit reports—with Jane's original date of delinquency—which will not reset the seven-year timeline on Jane's credit report.

6. Jane has a **defaulted commercial-held FFEL Program** loan that went into default **after March 2020**, but before the end of the payment pause. Jane's loan is covered by ED's actions to protect borrowers with commercial-held FFEL Program loans, not the Fresh Start initiative. The guaranty agency will ask credit reporting agencies to delete the tradeline from credit reports. ED will transfer Jane's account to a non-default loan servicer. Jane's new loan servicer will continue reporting the loan as current on credit reports. If Jane redefaults, the loan will be reported as in collections on credit reports. ED will report the loan to credit reporting agencies with Jane's new date of delinquency, which will reset the seven-year timeline on Jane's credit report.

Outreach to Borrowers About Fresh Start

ED is committed to ensuring that as many borrowers as possible know about and benefit from the Fresh Start initiative. ED will conduct extensive, proactive outreach to borrowers via email, postal mail, and social media. Information for borrowers also will be posted on **StudentAid.gov**.

Additional Efforts to Reduce Defaults in the Loan Program

In addition to Fresh Start, ED has taken steps to help every student loan borrower successfully manage their payments and avoid possible default so these borrowers will return to a more flexible repayment system than when they first defaulted. This includes improving student loan servicing, strengthening IDR plans, and discharging debts of borrowers who were defrauded by their college or are eligible for other forms of loan forgiveness. Starting in April 2024, ED is allowing borrowers who are incarcerated to **consolidate** their federal student loans to take advantage of benefits, such as income-driven repayment plans, lowered monthly payments, and access to student loan forgiveness options. Additionally, ED is taking action to support and protect students and taxpayers from poor-performing programs. ED actions include reestablishing the Federal Student Aid Enforcement Office, coordinating with state and federal partners to uphold civil law and promote borrower protection, and holding investors of proprietary colleges accountable. Collectively, these initiatives will reduce defaults in the federal student loan programs.