

Consequences of Defaulting on A Federal Student Loan

Definition of Default

Default is a legal term which describes a borrower's failure to repay a loan according to the terms agreed to when he/she signed a promissory note. For the Federal Stafford Loan Program, default occurs when a borrower fails to make a payment for 270 days under the normal monthly repayment plan.

Consequences of Default

The consequences of default are severe. The University of Tennessee at Chattanooga, the lender or agency that holds your loan, the state and the federal government will normally all take action to recover the money you owe, including:

- Notifying national credit bureaus of your default. This may affect your credit rating for as long as seven years. For example, you might find it difficult to borrow money from a bank to buy a car;
- The Internal Revenue Service can withhold you U.S. Individual Tax Refund and apply it to the amount you owe;
- The agency holding your loan might ask your employer to deduct payments from your paycheck;
- You generally will be liable for loan collection costs;
- If you return to school, you generally will not be eligible for additional federal aid.

Change in Definition of an Institution's "Default Rate"

The **Higher Education Opportunity Act ("HEOA") of 2008** made a number of changes to federal student financial aid programs, including changes to the calculation of Federal Stafford Loan cohort default rates. An institution's cohort default rate is the percentage of the school's borrowers who enter repayment during a fiscal year and default before the end of the next fiscal year. Currently, the cohort default rate is calculated based on borrowers who default during a two year window after they go into repayment on their student loan. HEOA changes this window to three years, adding an extra year for borrowers to potentially default on their loans. It is predicted that cohort default rates will increase at institutions nationwide.

On December 7, 2009, the Department of Education forwarded to institutions preliminary calculations of their cohort default rate using the new three year calculation. UTC's **trial Fiscal Year 2007** three year rate is calculated as the percentage of the institution's borrowers who entered repayment between October 1, 2006 and September 30, 2007 **AND** who subsequently defaulted on or before September 30, 2009. The new calculation would increase UTC's default rate from the current 6.5% to 9.7%.

Questions about UTC's cohort default rate should be addressed to Dianne Cox, Director of Financial Aid – Dianne.cox@utc.edu or (423) 425-4677.

Updated December 15, 2009