

When it comes to student loans, what does a default mean to credit scores?

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Q: I have been reading your column and wanted your feedback on Student loan defaults. How will my credit be affected if I default on my student loan?

A: Education loans are a very different breed of credit since each time a student applies for more funding, it shows up on credit as a new and individual account.

What will eventually occur as time passes and semesters start to pile up is a series of separate student loan accounts showing up on credit.

What becomes a problem is when you are late; it will post on credit reports as multiple accounts with

the same late payment. This means if you had been approved for student loan financing 10 times, and you were late in June of this year you would wind up with 10 individual accounts each showing a late payment from June 2012.

This means you would have 10 delinquent accounts in total, which will have a devastating effect on credit scores. Besides the one recent late payment

dropping your credit score dramatically, the fact that you have multiple account occurrences of delinquency will also reduce the score further.

Once you default on federally guaranteed student loans that default can update negatively on the credit profile for seven years from the date the loans are paid off.

Most negative information is reported for seven years from the date of the delinquency. This is an important difference to note for those who are pondering the possibility of default.

Most student loans have a co-signer (parent) who will also share the consequences of poor credit and scores due to opting for a loan default. Consumers must be aware of the full scope this choice could have on short and long term goals such as purchasing real estate, refinancing a property, approval on leasing a residence or co-op, credit card interest rates, leasing equipment, future student loan funding, and more.

If a consumer wanted to include their student loans in a bankruptcy it would be near impossible. Since the government wants receivables' paid, they placed rigid guidelines for the approval of student loan debt that can be discharged in a bankruptcy. Unlike regular debts the laws are much more restrictive. In many cases student loan delinquencies can be removed from credit, but not all.

For more information about student loan defaults, visit <http://studentaid.ed.gov/repay-loans/default> and <http://loanconsolidation.ed.gov/index.html>.