



Protecting Borrowers & Advancing Equity

Recommendations for Student Loan Default

In a report released in May 2022, NASFAA seeks to fill the gaps in the conversation around federal student loan reform by providing thoughtful, systemic, and targeted policy solutions to address underlying flaws in the current repayment and servicing systems that lead borrowers into financial hardship. In all, the report — which was generously grant funded — outlines recommendations to improve student loan servicing practices, rethink the terms and conditions of student loan repayment, and reform student loan default. The full report may be found on NASFAA's website at: https://www.nasfaa.org/protecting_borrowers_advancing_equity.

Following are the recommendations for **student loan default**.

These recommendations are put forth by:



and the American Association of Community Colleges

Additional supporters of individual recommendations are listed in the full report.

- Recommendation 1:** Bring all borrowers currently in default into good standing as part of the resumption of student loan repayment following the COVID-related suspension of monthly payments.
- Recommendation 2:** Moving forward, automatically enroll delinquent borrowers in income-driven repayment before they enter default, whenever possible.
- Recommendation 3:** Develop additional safety nets for struggling borrowers who are still at risk of falling into default despite being enrolled in income-driven repayment.
- Recommendation 4:** Allow defaulted borrowers who enroll and make a payment in income-driven repayment to immediately exit default.
- Recommendation 5:** Remove the one-time limit on rehabilitation of defaulted loans.
- Recommendation 6:** Eliminate acceleration of loan balances and use collections mechanisms only in extreme circumstances.
- Recommendation 7:** Eliminate interest capitalization for borrowers exiting default.
- Recommendation 8:** Delay credit reporting of default status to provide borrowers with additional time to return to good standing.
- Recommendation 9:** Remove default from the credit history of any borrower who exits default, and remove all default-related negative credit reporting the first time a borrower completes rehabilitation on a defaulted loan or exits default through the income-driven repayment pathway proposed in Recommendation 4.
- Recommendation 10:** Streamline, standardize, and reduce collection fees.
- Recommendation 11:** Automatically enroll borrowers exiting default through consolidation into income-driven repayment before they return to repayment.
- Recommendation 12:** Provide consistent, high-quality servicing to simplify and streamline transitions from default to repayment.