



# THE NEGATIVE IMPACT OF RESUMED CREDIT REPORTING ON STUDENT LOAN BORROWERS

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**D**ue to the COVID-19 pandemic payment moratoriums and policies, millions of student loan borrowers have not made payments for more than four years. As of January 2025, collection activities have resumed, and credit agencies are once again reporting delinquencies. Consequently, delinquent borrowers who do not resume payments may experience negative impacts on their credit reports, potentially leading to higher borrowing rates and difficulties in securing credit.

Consumer bankruptcy attorneys should be well-prepared to counsel their clients on strategies to minimize potential damage to their credit score and to manage penalties and collection efforts due to delinquent student loan debt. To get them on the right track, attorneys should educate clients regarding their options, including repayment programs and discharging student loan debt in bankruptcy—which has become more

achievable based on guidance issued in 2022, by the Department of Justice and Department of Education.

## IMPLICATIONS OF REMAINING IN DEFAULT FOR STUDENT LOAN BORROWERS

Defaulting on student loans can have significant credit implications. Negative credit reporting can make it challenging or

even impossible to secure future loans for a mortgage, a vehicle or financial aid for future education. In fact, a VantageScore study, in June 2023, assessed that borrowers not resuming payment could have an estimated score decrease varying between 49 and 82 points on average per consumer missing a payment. Furthermore, the negative credit reporting can impact the borrower's background checks for future employment

opportunities, particularly in federal government positions or in the legal and financial sectors.

In addition to negative credit reporting, student loan borrowers may face severe legal consequences if they become delinquent on their loans. For federal student loans, consequences include administrative collections such as wage garnishment, tax refund offsets and the interruption of other federal benefits or income. For private student loans, delinquency can lead to legal action by the lender, resulting in court judgments that could allow for wage garnishment and asset seizure. Administrative collections are much more burdensome and onerous than normal legal proceedings, because, for example, as with administrative wage garnishments, the Department of Education merely sends a notice of garnishment, they need not engage in proceedings for a judicial order or garnishment. So, the burden is on the borrower to dispute the garnishment within 30 days, even though the garnishment is effective. See 34 CFR § 34.2-9.

#### WHAT ATTORNEYS CAN DO TO HELP THEIR CLIENTS

As student loan borrowers begin to confront their debt, consumer bankruptcy attorneys should be prepared to assist them in finding effective strategies. Although many student loan programs have expired, several options are available to help borrowers address their debt challenges, some of which are only accessible through bankruptcy.

New guidance from the Department of Justice and the Department of Education, issued on Nov. 17, 2022, makes it easier and more feasible for debtors in bankruptcy to discharge federal student loans. This guidance provides a streamlined road map detailing how cases will be evaluated and how the "undue hardship" standard will be applied. The road map includes clear and objective criteria that debtor attorneys can use to assess their clients' likelihood of achieving discharge. If debtors meet these standards, the Department of Justice should stipulate to the discharge of federal student loans. This process eliminates the need for costly trials and lengthy discovery, significantly simplifying the process of discharging student loans and making them much more attainable.

Furthermore, consumer bankruptcy attorneys can assist clients in identifying

repayment plan options that address their needs and ability to pay, including plans based on family size and income. Some plans may result in a \$0 payment. This allows debtors to avoid delinquency and its negative consequences, such as impacts on credit. While changes to these plans have occurred and more are expected, enrolling in a repayment plan is preferable to remaining in default and facing credit and collection implications.

In these challenging times, when student loan borrowers face significant financial difficulties and the burden of resuming

payments, bankruptcy attorneys can play a critical role in assisting their clients. They can help determine the most appropriate actions to avoid the severe consequences of negative credit and collections by student loan lenders. It is essential for student borrowers facing financial distress to take proactive measures. Ignoring the existence of student loans is no longer viable. Bankruptcy attorneys are well-equipped to guide borrowers towards solutions that will mitigate credit damage and enable them to manage their student loans appropriately. ■



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