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What happens if you don't pay your student loan bill?

YAHOO! FINANCE

By Mandi Woodruff March 3, 2015 1:32 PM

New data shows that 11.3% of student loans were delinquent at the end of 2014 — double the rate just 10 years ago. Loans are considered delinquent when at least one payment is missed.

I get it — if I had to choose between keeping a roof over my head or keeping student lenders happy, the roof would win every time.

But ignoring your student loan bills can have serious long-term consequences.

Your credit score will tank. Once your payment is 45-90 days late, it will go on your credit report. There's no easy to way to predict how much your credit score will drop. But trust me, it won't be pretty. A low credit score will make it harder for you to get approved for new lines of credit. It can even make it hard to get a job.

You could wind up in default. If you miss payments for more than 270 days, your loan will move out of the delinquency phase and into default. Default is serious business. In most cases, once your loan goes into default, your lender will ask for the unpaid balance in full and oftentimes it will be passed along to a collections agency. If you let federal student loans go into default, you may lose the privilege of applying for income-based repayment, deferrment or foreberance, which can be a major blow. A defaulted loan can also hurt your credit score much more than a delinquent loan, making it difficult to get approved for any new credit (auto loans, mortgages, you name it), a cell phone plan, or even get a job.

Once you're in default, the real problems begin..

You may never get a tax refund again. Private lenders can't dip into your tax refunds, but if you default on federal loan payments, Uncle Sam sure can. If you file taxes jointly with your spouse, that means their refund is at risk, too. There's no limit to how many years they can wait to take it either.

Your wages could be garnished. The federal government can take up to 15% of your income if you default on student loans. If you're retired, they can garnish your Social Security benefits, too. Private lenders can garnish your wages, too, but they have to take you to court first. You can hire an attorney to fight it, but of course that will cost you.

Your cosigner will be screwed. If someone cosigned your loan, they also suffer the consequences for late payments. Credit damage, wage garnishment, lawsuits, you name it. You can try to remove them as a cosigner but if the loan is already in default (when payments are more than 270 days past due), it's near impossible.

If you've fallen behind on payments, there are a number of things you can do to get back on track.

1. Get the big picture

Log into the National Student Loan Data System to see all of your outstanding federal student loans in one place. If you have private loans, ask your school's financial aid office for help tracking them down or review your credit reports at annualcreditreport.com. Because private lenders don't always report loans to all three credit bureaus, check your credit report at all of them to be on the safe side.

2. Prioritize

Make a spreadsheet. Open a Mint.com account. Do whatever it takes to organize your debt in a place you can easily track it. Loans that have the highest interest rate should go at the top of your payoff list. We highly suggest tackling private loans first. Private lenders are much less likely to offer flexible repayment options, such as loan deferment and income-based repayment.

3. OPEN YOUR MAIL

If you're fresh out of college and supporting yourself with a part-time job at Macy's, a monthly student loan bill could be too much to handle. You aren't alone. But that still isn't an excuse to stuff those statements into a junk drawer and pretend they don't exist. The longer you let unpaid loans linger, the worse it will be for your credit, not to mention your mental state (debt collectors are no joke). It could also adversely affect your standing as a job candidate. Employers have been known to run background checks on applicants and turn down those who appear to be fiscally challenged.

4. Contact your lender if you can't afford your payments

If you're overwhelmed, that's OK. You'll be better off contacting your lender (also called your loan servicer) and telling them about your situation. They may offer repayment options you didn't know you had. The most common paths you can take if you can't afford your federal loan payments include: Income-based repayment; loan deferment or forbearance; and loan consolidation, all of which you can apply for (for free) at NSLDS.gov. If you have private loans you can't afford, ask your lenders if they offer loan consolidation. Public service workers may even qualify to have their entire loan balance forgiven after 10 years (120 consecutive loan payments).

5. Set up auto payments

By automatically having your loan payments taken out of your bank account on payday, you’ll reduce the risk of spending that cash on other junk that's not your student debt bill. Some lenders will even let you change the date your payments are due so you can schedule it right around paycheck time. Also, by signing up for autopay, you can often qualify for an interest rate discount (ranging from 0.25% to 0.50%) on your loans. That’s more money in your pocket down the road.