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‘Fresh Start’ Can Help Student Loan Borrowers Avoid Negative Consequences of Default

Those who qualify can take advantage of benefits before the program expires in September

By Shelbe Klebs and Ilan Levine

Overview

Borrowers resumed making payments on their federal student loans in October 2023 after a nearly 3 1/2-year pause. To ease the re-entry into repayment, the Department of Education launched Fresh Start, a year-long program that temporarily provides benefits to borrowers with previously defaulted loans. Benefits can include stopping collections and restoring access to other forms of federal student aid, such as Pell grants, through September 2024.

The program also provides borrowers with the opportunity to have their loans made current again, which can improve their credit scores. In addition, it allows borrowers to enroll in an income-driven repayment (IDR) plan immediately, which would accelerate by several months their access to payments that are typically the lowest available.

The time-limited opportunity for borrowers to bring their defaulted loans back into good standing allows them to take advantage of IDR benefits that are not available to those in default, setting them up for repayment success over the long term.

This primer lays out what borrowers and those working to help them need to know about federal student loan default, the potential financial benefits of the Fresh Start program, and how people can quickly enroll.

Q. How can borrowers find out if their loans are in default?

- Typically, a federal student loan is considered in default after borrowers don't make a payment for at least 270 days.
- When borrowers enter default on student loans, they can no longer access any type of federal student aid, such as Pell grants, even if they are eligible for the awards intended to help undergraduates with the greatest financial need.
- Other penalties associated with default vary and can be severe. Consequences can include wage garnishment, damage to credit scores, collection fees, and withholding of tax refunds. And these consequences can occur simultaneously, which can compound their impact on those already struggling to repay loans.
- Borrowers can check their loan status on studentaid.gov to determine whether their loans are in default. If they had defaulted loans before the pause started, they should consider opting in to the Fresh Start program to remain in good repayment standing beyond the end of the program in September. Borrowers can find more information and opt in here, or call 1-800-621-3115 (TTY 1-877-825-9923).

> Fresh Start is a one-time program that offers automatic temporary benefits as well as longer-term opt-in benefits to borrowers who were in default on their student loans prior to the pause on repayment and collections.

Q. What is Fresh Start?

- Fresh Start is a one-time program that offers automatic temporary benefits as well as longer-term opt-in benefits to borrowers who were in default on their student loans before the pandemic-related pause on repayment and collections. The automatic benefits, available to all eligible borrowers through September 2024, include stopped collections and renewed access to federal student aid.
- However, borrowers must opt in to the Fresh Start program to receive its full and lasting benefits. Borrowers can enroll at any time through September 2024 to have their loans made current and remain current beyond that time. After opting in, borrowers will have access to IDR plans and student loan forgiveness options, including the Public Service Loan Forgiveness Program.
- Enrollment in Fresh Start is free, and the process generally takes less than 10 minutes.

> Borrowers must opt in to the Fresh Start program to receive its full and lasting benefits.

Q. Who is eligible for the program?

- Borrowers with most types of federal student loans are eligible for Fresh Start. Those with any Direct Loans or Federal Family Education Loan Program loans that were in default before the pause can take part, as can those who have Perkins Loans in default that are held by the Education Department. For more information on eligibility, how to confirm what type of loans borrowers have, and to verify who qualifies for the program, interested individuals can go to studentaid.gov.

Q. How can borrowers enroll in Fresh Start?

- Borrowers can enroll online by going to myeddebt.ed.gov and logging in to their account. This may be the easiest way to get information on enrollment if users know their login details. Using the website can also help borrowers avoid the long wait and transfer times that many are currently experiencing with servicers.
- Borrowers can also enroll by contacting the Education Department's Default Resolution Group. Also known as Maximus, this is the servicer that currently collects on defaulted loans. Borrowers can reach Maximus by calling 1-800-621-3115 (TTY 1-877-825-9923).

> Eligible borrowers can opt in to Fresh Start at any point between now and September 2024. Enrollment is free for borrowers, and the process generally takes less than 10 minutes.

Q. Why should eligible borrowers enroll as soon as they can?

- Borrowers should enroll in Fresh Start quickly, if possible, to receive the program's full benefits. Those who wait and miss the enrollment window could face default's harsh consequences, such as wage garnishment, damaged credit scores, collection fees, and tax refund offsets. Any of these issues can make repayment more expensive for borrowers.

> Borrowers can enroll in Fresh Start online by going to myeddebt.ed.gov and logging in to their account.

Q. How can borrowers enter an affordable repayment plan?

- Those who enroll in Fresh Start also can enroll in an IDR plan, which may provide borrowers with a lower monthly payment than they would be required to repay in the standard repayment plan.
- Enrolling in IDR at the earliest opportunity could lower payments and give borrowers a head start on eventual loan forgiveness. Some borrowers with very low incomes will be eligible for a $0 monthly payment through an IDR plan, which would help make them more likely to avoid default in the future.
- Under the newly created Saving on a Valuable Education IDR plan, borrowers' balances will not increase over the loan period as long as they make timely payments. Critically, that includes making $0 or low payments that do not cover the full amount of monthly interest.

To find out about other changes to the repayment system, readers can visit our series webpage, where they can get the key information that borrowers should know now that repayment has resumed.

This primer is the third in a series providing need-to-know information for borrowers and those working with them to help ensure that they have a smooth transition into repayment. Other pieces cover specific topics—such as the return to repayment, income-driven repayment plans, and servicing—in more depth.

Shelbe Klebs and Ilan Levine are senior associates with The Pew Charitable Trusts' student loan initiative.

For more information, please visit: pewtrusts.org/studentloans

The Pew Charitable Trusts

Contact: Esther Berg, communications officer
Email: eberg@pewtrusts.org
Project website: pewtrusts.org