# Credit scores decline as student loan collections restart – NBC Connecticut

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Cora Lewis | The Associated Press June 16, 2025

Millions of Americans are seeing their credit scores suffer now that the U.S. government has resumed referring missed student loan payments for debt collection.

Student loan providers report delinquent, or past-due, accounts to major credit bureaus after 90 days of non-payment. Falling behind on loan payments therefore can affect an individual's credit rating as severely as filing for personal bankruptcy.

A lower credit score makes it harder or more expensive to obtain car loans, mortgages, credit cards, auto insurance and other financial services at a time when inflation, high interest rates, and layoffs have strained the resources of some consumers.

The Federal Reserve Bank of New York reported that in the first three months of 2025, 2.2 million student loan recipients saw their scores drop by 100 points, and an additional 1 million had drops of 150 points or more.

Declines that steep may mean the difference between a manageable credit card interest rate and an unmanageable one, or approval or rejection of an application to rent an apartment.

The U.S. Department of Education paused federal student loan payments in March 2020, offering borrowers relief during the economic chaos of the coronavirus pandemic.

The average American has more than $92,000 in debt, which includes credit cards, student loans, mortgages and more.

Though payments technically resumed in 2023, the Biden administration provided a one-year grace period that ended in October 2024. Last month, the Trump administration restarted the collection process for outstanding student loans, with plans to seize wages and tax refunds if the loans continue to go unpaid.

According to the Federal Reserve Bank of New York, about 1 in 4 people with student loan accounts were more than 90 days behind on payments at the end of March.

Kat Hanchon, 33, who works in marketing and higher education in Detroit, was one of them. Hanchon said her score dropped by 57 points as a result of her loans falling delinquent this year. That put her score below 600, or subprime.

When Hanchon received her statement from her loan servicer, her expected monthly payments were higher than before the pandemic-era pause, even though she had enrolled in a repayment plan that takes a borrower's full financial situation into account.

"They said I now have to pay $358 per month," she said. "I'm not going to be able to pay that. ... But I'm not unusual in the world we're living in right now."

Hanchon said she's had to prioritize paying medical expenses — for a dental crown, a root canal, and an endoscopy — before she'll be able to consider putting money toward the loans. While her housing situation is secure for the moment, she worries about the annual percentage rate for her credit cards fluctuating.

Lenders, landlords, credit card companies, employers and utility companies all look to consumers' credit scores to gauge the likelihood of borrowers being able to make regular payments. A higher score typically results in lower interest rates and more favorable loan terms, while a lower score makes it harder to access credit.

The Education Department has said borrowers should receive bills from lenders three weeks before any payments are due, but some people have reported that they have not been notified.

Wait times for calls with loan servicers have been high, and layoffs at the Department of Education have also likely contributed to delayed service, consumer advocates say.

Dom Holmes, 28, who works for a nonprofit in Manheim, Pennsylvania, said he woke up in early May to find his credit score had dropped 60 or 70 points overnight.

"All of a sudden I was delinquent, even though I'd never received notice," he said.

Holmes has begun the process of appealing the reduction of his credit score, he said. He's been considering a move for professional reasons, and added that he's concerned it could be tough to rent a place to live with his score as it stands.

"I'm at the ideal age where I should be starting a family and buying a home," he said. "When you destroy me financially, what are the chances I'm able to do that and that's viable for me?"

Holmes, who was the first person in his family to graduate from college, said he still has some outstanding Parent Plus loans, which he intends to keep paying down so that his parents' credit scores aren't affected.

He graduated in 2019, shortly before the pandemic, and said he can see how his generation might have difficulty paying off the debt.

"Right as I was entering the workforce, the world really stopped," Holmes said. "Things were really bad for a lot of people for a long time. We're still coming out of that. And all of a sudden, the switches got turned back on overnight."

Kevin King, vice president of credit risk at data and analytics company LexisNexis, said he expects the effects of the resumed student loan collections to begin rippling through the U.S. economy in the coming months.

"There were a number of years where it was probably a bad financial strategy to be making student loan payments," he said. "A lot of consumers were confused as various government (policies of forgiveness) were passed and overruled."

King predicts that student loan payments will move higher in the so-called “payment hierarchy,” or the order in which consumers make payments, since the government plans to use “levers to compel” such as wage garnishment and the seizing of tax refunds.

“Which bill do you pay first, second, and not at all?” King said. “Historically, student loans are really far down the list. But the government’s being pretty aggressive here in pursuing payment activity in a way that may shift the hierarchy. Consumers might be more willing to go delinquent or default on something like a credit card or installment loan.”

The Federal Reserve of New York study also found that borrowers ages 40 and older were most likely to be delinquent on their loans.

Andrew McCall, 58, of Boise, Idaho, said he has about $30,000 remaining in outstanding loans from earning his computer science degrees. He said he can’t afford his monthly payments, which are in the $250-300 range, and worries what a hit to his credit score might mean for all areas of his life.

“The fact that this economy is driven by debt to begin with causes my score to be paramount no matter what financial decisions I’m making, outside of going to the grocery store,” he said. “My car, my house... Your credit rating becomes a social stratifier.”