STUDENT LOANS

Missed payments hurt your credit score

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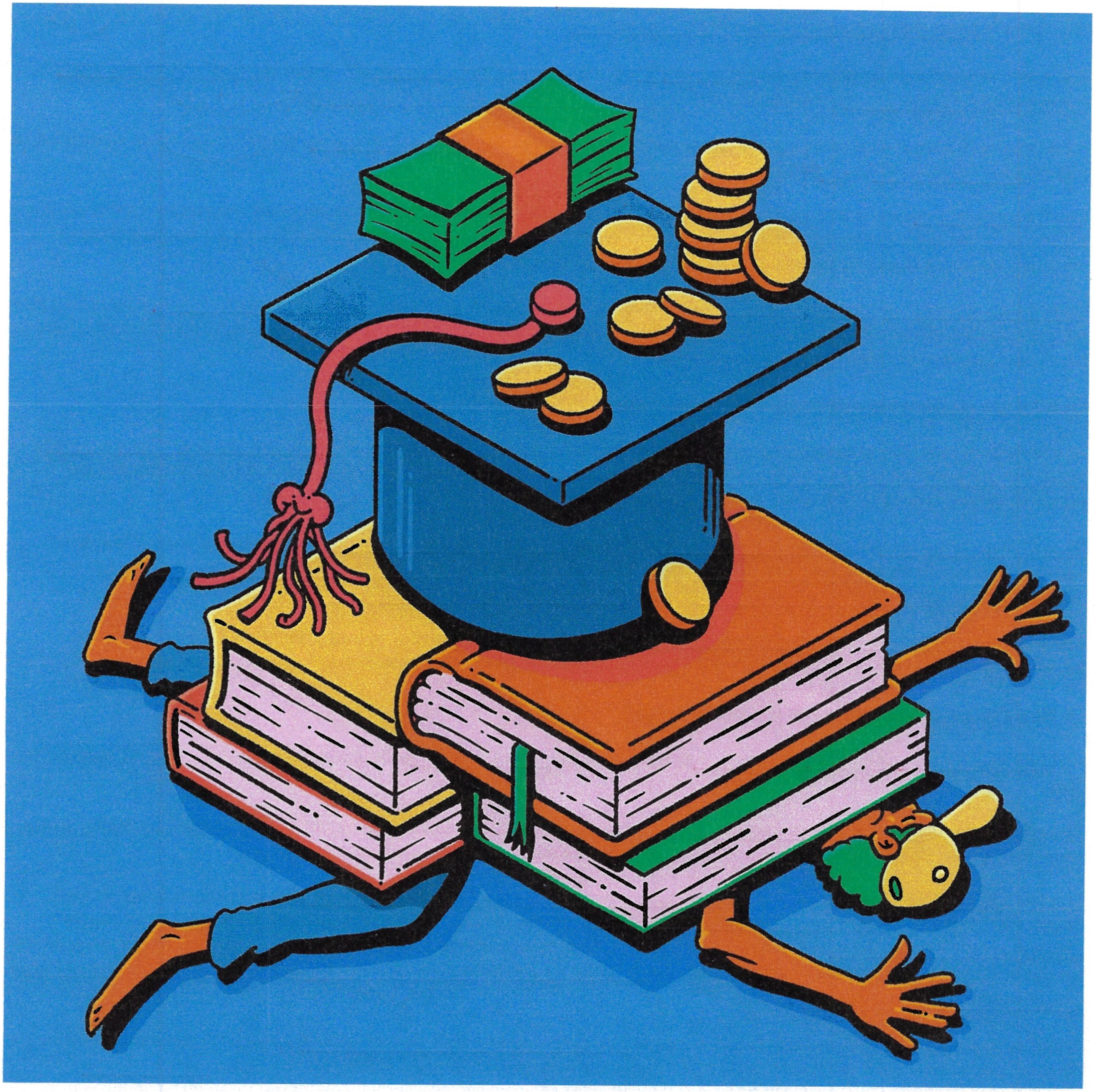

Young adults are starting to see the negative effect of missed student loan payments on their FICO credit scores. Ranging from 300 to 850, the minimum score considered to reflect "good" credit is 670. DAVID LEUTERT — THE NEW YORK TIMES

BY ANN CARRNS

THE NEW YORK TIMES

Young adults, those 18 to 29, are starting to see the negative effect of missed student loan payments on their FICO credit scores.

The average score for Americans in their late teens and 20s fell 3 points to 676 in April, compared with the same month a year earlier, driven by struggles with resumed federal student loan payments, according to a report published last month by FICO, the creator of the widely used score. Scores can take years to recover. Roughly 14% of the young Americans saw a 50 point drop in their score — about double the figure from 2021, FICO said.

Note

The year-over-year drop for members of Generation Z was the largest of any age group, FICO said. Roughly a third of younger consumers have student loans, the report noted, compared with 17% for the overall population. Note

A FICO score is a three-digit snapshot of a consumer's credit history, ranging from 300 to 850. The minimum score considered to reflect "good" credit is 670. Note

Credit scores determine if you can get a credit card or borrow money to buy a home or a car and what interest rate you'll pay. The higher the score, the lower the rate. Insurers use the scores to determine your premiums for car insurance and other types of coverage, and some landlords use them as part of background checks.

Note

The average score for all consumers was 715, down 2 points from last year. Scores are based on a variety of factors, including your payment history, the age of the loans and the mix of accounts you hold. Younger people, who have shorter credit histories, tend to have lower credit scores than the general population.

Q: Why are student loan delinquencies rising now?

A: In February, new federal student loan delinquencies began appearing on credit reports at the end of a nearly five-year-long, pandemic-era pause on student loan payments. (The government restarted loan payments in late 2023, but the reporting of payment history to credit bureaus was delayed until late 2024.)

Note

Student loan delinquencies are now at record highs, FICO said. Roughly 6 million consumers had a student loan delinquency added to their credit file from February to April. Among those borrowers, the average score fell 69 points to 548 from 617 in January. A FICO score of 617 is considered "fair," while scores below 580 are deemed "poor."

Note

The situation may get worse. Another 1.9 million people have not had a delinquency reported, FICO said, even though they haven't made any student loan payments since October, when the regular rules for reporting late payments resumed.

Q: How do late payments affect my credit score?

A: A new student loan delinquency can reduce a credit score more than 150 points, according to the Federal Reserve Bank of New York.

The effect varies depending on your specific credit profile. Tommy Lee, a senior director at FICO, said people with higher scores were likely to see a bigger drop from a new delinquency than consumers who already had lower scores.

Note

Student loan servicers, the companies that collect loan payments for the federal government, generally report loans to credit bureaus as "delinquent" after the loans are 90 days past due. (Private lender loans may be marked delinquent much sooner.) Loans are considered in default — a more serious designation that can lead to drastic collection actions, including seizing funds from your paycheck, tax refund or bank account — after about nine months of missed payments. The government resumed forced collections on student loans in May.

Note

While skipping payments on any loan is bad, it can be especially harmful with student loans, said John Ulzheimer, a credit expert who formerly worked at FICO as well as at Equifax, one of the major credit bureaus. While you may make a single monthly payment to your student loan servicer, he said, it typically covers a package of several loans. "If you make no payment, you're defaulting on all of them," he said. "The way it pollutes your credit report is worse."

Note

Q: Can I do anything to protect my credit score?

A: If you haven't made any required payments since the pause ended late last year, you are probably nearing default. But you may be able to avoid it, if you act quickly, said Adam Minsky, a lawyer specializing in student loans.

You can pay the balance due, if you can afford it, though most people can't. You can also contact your servicer to request a forbearance or a deferment, a temporary payment suspension, to be applied retroactively, which will bring your account current. Then, you can ask to switch to a more affordable repayment plan tied to your income so you can stay on track with your new payments. (There are big changes coming to loan repayment options.)

A suspension won't remove the missed payments from your credit report, said Scott Buchanan, the executive director of the Student Loan Servicing Alliance, an industry group. But it will stem the tide of additional negative reports and help you avoid defaulting on your loans.

Note

If you are already in default, you must contact the Education Department's debt resolution group to get back on track. You can either "rehabilitate" the loans, which involves making nine affordable payments over 10 months. Or you can consolidate them into a new loan. With consolidation, the default and the missed payments remain on your credit report and influence your score. With rehabilitation, the default is removed, but your credit history still shows late payments that your lender reported before the default.

"It's not going to get you where you were, but it'll get better over time," said Abby Shafroth, the managing director of advocacy at the National Consumer Law Center. "There's no magic bullet here."

Q: How can I rebuild my credit?

A: In general, negative credit information, including delinquencies and defaults, remains on credit reports for about seven years. But your score can start gradually improving if you resume making on-time payments on your student loans and other debts.

Note

Credit experts say the best way to rebuild credit is to consistently pay bills on time and to keep your use of available credit low — 30% or less. Payment history accounts for about 35% of your FICO score, and use counts for 30%. Note

Even though negative information may remain on your report for years, your score will gradually improve as the missed payments recede into the past. "You'd be surprised how quickly scores recover," Ulzheimer said. "In 12 to 24 months, you could see a material change."

A year or two might seem like a long time to a young person, especially if that person must also keep up with other obligations, like car loans and credit card bills. A FICO survey found that almost two-thirds of Gen Z borrowers were relying more on credit cards and personal loans to meet expenses.

Note

To avoid making late payments, set automatic minimum payments on your credit card, suggested Melinda Opperman, the chief external affairs officer for Credit.org, a nonprofit credit counseling agency in Riverside, California. While it's best to pay your balance in full each month to avoid interest charges, she said, setting up an automatic payment will help avoid marring your credit history if you get busy and forget to make a payment.

You can track your FICO score more easily these days since many banks and lenders offer access to scores for free. You can get free copies of your credit report from each of the major bureaus — Equifax, Experian and TransUnion — at www.annualcreditreport.com.