

NEW YORK, NY (December 8, 2023) “Legal Services NYC announces a settlement with the U.S. government that will help protect the tax refunds of millions of student loan borrowers by requiring the U.S. to make key changes to debt collection notices. The updated notices now inform borrowers of their right to consolidate their debt into an affordable payment plan rather than costly, alternative plans that expose them to tax refund and Social Security offsets. The new notices go into effect immediately, although the U.S. government has paused the garnishing of taxes, wages and Social Security checks until late 2024 as part of the Fresh Start program. With the nation still waiting for a national student debt relief plan, these changes will keep much needed tax refund money in the pockets of low-income borrowers, and require the government to be honest about the different options borrowers have to repay loans on their own terms.

“It was so hard for me with two kids and no job,” said **Mary Perez, a plaintiff who will receive more than \$6,500 through the settlement.** “I was expecting that [tax refund] money and I really needed it. I had a hard time planning my life without it. I feel better now with the money back, and I have since found a job.”

“Money is tight and I wasn’t expecting the government to take my tax refund,” said **Saibou Sidibe, a plaintiff who will receive nearly \$3,000 from the settlement.** “All my plans changed when we found out the money was gone. We were planning a trip to see family at the time and it was very frustrating. But I’m thankful to Legal Services NYC and happy to get the money back. It was a big relief and will help us plan for the future, including making sure our kids can have a Christmas this year.”

“This settlement puts the U.S. government on notice—it cannot hide information from borrowers simply because doing so serves the bottom line of the Department of Education and its collectors,” said **Johnson Tyler, a Legal Services NYC staff attorney who led the lawsuit.** “These new notices level the playing field. Collectors must now truthfully tell people their repayment options and people can now make more informed decisions about their futures. LSNYC will continue to monitor the U.S. government’s student debt collection practices as borrowers continue to figure out how to live stable lives with debt hanging over their heads.”

- **Read the settlement [here](#).**
- **See the new notice [here](#) and the old notice [here](#).**

The Lawsuit:

Each year, the federal government sends roughly a million notices to student loan borrowers with defaulted loans warning them that it will intercept their tax refunds (and even 15% of their Social Security payments) unless they take action.

The old notices inaccurately stated that repayment via a “mutually agreeable installment plan” is the chief way to stop collections and keep Tax Refunds and Social Security payments. In reality, however, a borrower can bring their loan current and avoid offset through a simple process called “consolidation” with an affordable repayment plan as low as \$0 a month for low-income borrowers—an option the federal government neglected to mention.

LSNYC sued the U.S. government in January 2022 (*Perez v. Cardona*) over the deceptive notices, which up until now has allowed the US to collect over \$2 billion a year in Social Security payments and tax refunds from low-income borrowers, including Earned Income Tax Credit.

The Impact:

Plaintiffs who brought the suit lost out on thousands of dollars—and, in some cases, their housing, because government notices gave them the false impression that they had only one path to loan repayment.

One Plaintiff, who was in his late 60s at the time, slept in the ER waiting room after the U.S. government offset his Social Security and tax refund thereby preventing him from paying for a room. Not until 2021 did he learn from Legal Services NYC that consolidation was a quick solution to his offset problem. By that point, the U.S. Government had recovered over \$8,500 on a \$3,300 loan by keeping him in the dark regarding his rights, even when that Plaintiff wrote to the government that he didn’t have enough money to eat.

There are more than [7 million student loan borrowers](#) currently in default, and [millions more](#) at risk of default who could benefit from the new notices.

The Settlement:

The settlement forces the U.S. Education and Treasury Departments to add crucial information to notices sent to borrowers by mail informing borrowers, in plain English, that:

- they can quickly consolidate defaulted loans into new loans with monthly payment as low as \$0 a month based on their

income and family size;

- debt “rehabilitation” comes with the risk of losing tax refunds, as well as reducing Social Security payments, and prompts borrowers to figure out which repayment process works best for their needs; and
- they can contest their debts if they believe their school took advantage of them “ a much-needed change as Americans continue to fall prey to fraudulent marketing by for-profit colleges.

The settlement also requires the U.S. government to return more than \$30,000 to nine plaintiffs who alleged in the suit that the government violated their right to due process under the Fifth Amendment of the U.S. Constitution—a significant remuneration that will help them stabilize their lives after facing hardship from losing expected tax refunds.

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