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Ed Dept. Pushing Millions Of Borrowers Into Default, Suit Says

By **Kelcey Caulder**

Law360 (October 31, 2025, 5:48 PM EDT) -- The secretary of the U.S. Department of Education and three major credit bureaus were hit with a proposed class action in Georgia federal court for allegedly forcing millions of student loan borrowers into delinquency and default due to operational failures in loan servicing after the COVID-19 deferment period ended earlier this year.

In a **complaint** filed Thursday, student loan borrowers Jamica Bates, Meryl Blazer, Carissa Gillespie and Tamara Cesar alleged that Secretary of Education Linda McMahon, Equifax Information Services LLC, Experian Information Solutions Inc. and TransUnion LLC willfully violated the Fair Credit Reporting Act. The defendants did so, they alleged, by pushing borrowers into delinquency and default using "maliciously negligent credit bureau reporting and predatory lending and abusive collection practices."

According to the plaintiffs, more than five million people have been improperly declared to be in delinquency since the start of 2025 or were declared in legal default on their federal student loans due to the department's failure to "competently service its borrowers." That number, they said, is projected to rise to 10 million by the end of the year and to 20 million by April 2026.

The suit, which comes after the White House pledged in March 2025 to dismantle the department, places blame for many of these "operational failures" on a lack of "infrastructure to properly service, keep track of, or collect on its student loans granted."

"These defaults are the willfully negligent direct result of the department's collapse in servicing capacity, a collapse caused by lack of department leadership understanding how to meet operational responsibilities, mass layoffs, inadequate contracting with servicing organizations, broken operating systems, and underfunding for student loan servicing, along with a lack of attention to the fiduciary duties associated with loan servicing," the borrowers said, adding that such issues were "brought into focus" after the department restarted repayment obligations in 2025.

Millions of borrowers have "tried in good faith" to become current with their student loan obligations, the plaintiffs said, but the department "made it impossible" for them to make payments or contact anyone about restarting those payments. Call wait times to the department and its servicers routinely exceed 10 hours, they alleged, and "millions of pieces" of mail and repayment plan applications are backlogged.

As a result, they alleged the department "knowingly reports the unfair and inaccurate default and delinquency statuses" to TransUnion, Equifax and Experian, thereby ruining borrower's credit scores and triggering "draconian collection measures" like wage garnishment.

The harm, the plaintiffs said, "is staggering" for them and "millions" of proposed class members. Those members, they told the court, should include all U.S. citizens who had federal loans serviced or owned by the department and had "inaccurate or misleading categorizations" of delinquency or default furnished by the department to any consumer reporting agency "within the applicable limitations period."

"Each plaintiff and member of the class will suffer at least $100,000 in damages due to inflated interest rates, ruined credit scores, loss of job and housing opportunities, and predatory collection practices, not even considering harmful emotional stress," the plaintiffs said.

Multiplied across the five million borrowers currently declared to be in default, the plaintiffs said the department's alleged misconduct will cause "no less than" $500 billion collectively in personal financial damage. If left unchecked, they said that number will rise to $2 trillion by April 2026.

The plaintiffs alleged that the department intentionally continues to report inaccurate information to credit bureaus to "weaponize the credit reporting system as a back-end collection tool" because it only has correct contact information for about 30% of borrowers. But, they said, once a borrower's credit is ruined, that borrower is forced to "beg for relief," which allows the department to "eagerly move forward" with debt collection.

In fact, the plaintiffs alleged, "department insiders" confirmed that the department's purpose in reporting negative credit data is to "coerce borrowers back into the department's control — to force them to 'repair' their credit reports and avoid wage garnishment."

"This conduct is unconscionable, unlawful and unconstitutional," the plaintiffs said. "The department has a duty to perform operational servicing to a normally expected standard and has a very specific legal duty to be both fair and accurate in reporting information into the files of the credit bureaus."

Speaking to their own experiences, the plaintiffs said Bates and Gillespie were both told they must return to making student loan payments in September 2023 but could not speak with anyone at the department because their calls were "ultimately abandoned." Blazer was told she must restart payments in 2024, they said, but had the same experience when attempting to do so.

Cesar, who was told to restart payments in September 2023, allegedly had a similar experience but was eventually able to set up a payment plan on her own without assistance. Even so, the plaintiffs said her payments were so "astronomically and unrealistically high" that they likely could not be met, resulting in her being placed in default. The damage to Cesar's credit score also caused a job offer she received to be rescinded, they said, noting that she works in the "banking industry."

The plaintiffs urged the court to order the department to pay them $200,000 each in compensatory damages and the credit bureaus to pay them $100,000 each in compensatory damages. They also requested an order requiring the department to stop furnishing information to the credit bureaus and the bureaus to stop accepting or reporting that information.

The order should also require the bureaus and department to remove all federal student loan information reported since January 2025 from class members' credit reports, the plaintiffs argued, and for any student loan funds collected in the time since by wage of "administrative wage garnishment or treasury offset" to be returned. The department should also be barred from selling any federal student loan accounts or account balances associated with the plaintiffs or class members, they said.

Also, as a result of the alleged misconduct, the plaintiffs contended that they and other class members should be allowed to discharge their student loan debt under personal bankruptcy, without challenge from the department "or any other agency or part of the federal government."

A spokesperson for the department said in a statement Friday that the lawsuit was "an embittered attempt by ideologues to change this administration's steps to clean up the Biden administration's illegal and irresponsible student loan schemes."

Attorney Devlin Cooper, representing the borrowers, told Law360 that the suit was necessary to protect approximately 5 million borrowers whose credit was damaged by "inaccurate reporting."

"Despite overseeing the largest consumer lending portfolio in the world, the Department of Education lacks the manpower, expertise, and infrastructure required to manage its credit reporting obligations responsibly. The credit bureaus, meanwhile, have continued to publish data they know — or should know — to be irregular, incomplete, and unreliable," Cooper said. "We look forward to helping make these class members whole, holding the department and the credit bureaus accountable, and restoring fairness and accuracy to the credit reporting system for millions of American borrowers."

Equifax on Friday said in a statement that it does not comment on pending litigation. However, the credit bureau acknowledged it plays an "essential role in the financial lives" of American consumers and that it takes that responsibility "very seriously," including by working to make credit reports as "accurate and reliable as possible."

"Equifax recommends consumers proactively monitor their credit reports so that they are more aware of what lenders may see and so that they can detect any potentially inaccurate or incomplete information provided to the credit bureaus," Equifax said. "If a consumer reviews their credit report and finds their personal information to be inaccurate or incomplete, we encourage them to file a dispute."

Representatives for Experian and TransUnion did not respond immediately to requests for comment.

The borrowers are represented by M. Devlin Cooper, Kenneth E. Barton and Henry Childs of Cooper Barton & Cooper LLP.

Counsel information for McMahon, Equifax, Experian and TransUnion was not immediately available.

The case is Bates et al. v. McMahon et al., case number 1:25-cv-06193, in the U.S. District

Court for the Northern District of Georgia.

--Editing by Jay Jackson Jr.