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Federal Student Loans Made Through the William D. Ford Federal Direct Loan Program: Terms and Conditions for Borrowers

SUMMARY

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The William D. Ford Federal Direct Loan (Direct Loan) program is the single largest source of federal financial assistance to support students' postsecondary educational pursuits. The U.S. Department of Education estimates that in FY2024, $85.8 billion in new loans will be made through the program. As of the end of the first quarter of FY2023, $1.4 trillion in principal and interest on Direct Loan program loans, borrowed by or on behalf of 38.3 million individuals, remained outstanding.

For many individuals, borrowing a federal student loan through the Direct Loan program may be among their first experiences in incurring a major financial obligation. Upon obtaining a loan, a borrower assumes a contractual obligation to repay the debt over a period that may span a decade or more.

Loans were first made through the Direct Loan program in 1994. Since then, Congress has periodically made changes to the program and the terms and conditions of loans. Changes have impacted program aspects such as the availability of loan types, interest rates, loan repayment, loan discharge and forgiveness, and the consequences of default. Over time, the accumulation of changes—many of which are differentially applicable to borrowers or loan types—has resulted in a set of loan terms and conditions that are voluminous and complex. Congress may contemplate making future changes to loan terms and conditions.

This report has been prepared to provide Congress with a comprehensive description of the terms and conditions and borrower benefits that are applicable to loans made through the Direct Loan program. Emphasis is placed on discussing loan types, provisions related to borrower eligibility, amounts that may be borrowed, interest and fees, loan repayment, repayment relief, loan forgiveness benefits, the consequences of default, and the methods used to ensure borrowers are informed about the terms and conditions of their loans and their obligation to repay them.

Direct Loan Types

Four types of loans are available through the Direct Loan program. *Direct Subsidized Loans* are available only to undergraduate students with financial need. *Direct Unsubsidized Loans* are available both to undergraduate students and graduate students. *Direct PLUS Loans* may be borrowed by graduate students and by the parents of undergraduate students dependent upon them for financial support. *Direct Consolidation Loans* allow borrowers to combine debt from multiple existing federal student loans into a single new loan.

Eligibility and Amounts That May Be Borrowed

Whether an individual may borrow a loan, and the amount they may borrow, are determined by the interaction of many factors. Eligibility to borrow varies by loan type, borrower characteristics, program level, and class level. The amount an individual may borrow is subject to annual and aggregate borrowing limits, and federal need analysis and packaging procedures. Loans are made available in amounts constrained by program rules, but—with the exception of Direct PLUS Loans—without consideration of a borrower's ability to repay. Eligibility to borrow a Direct PLUS Loan depends on an individual's creditworthiness.

Interest on Direct Loan Program Loans

Procedures for calculating interest vary by loan type, repayment status, and the period during which a loan was made. In limited circumstances, the federal government subsidizes, or does not charge, interest that would otherwise accrue. Interest subsidies are mostly limited to Direct Subsidized Loans; however, certain interest subsidies may be provided on all loan types.

Loan Repayment Plans

Numerous repayment plans, each with different payment structures and maximum durations, are available. Among the various plans, income-driven repayment (IDR) plans cap monthly payments at a specific percentage of a borrower's

discretionary income. For most repayment plans, monthly payments must cover the interest that accrues; however, the IDR plans allow for negative amortization, in which case monthly payments may be for less than the interest that accrues.

Deferment and Forbearance

Periods of deferment and forbearance offer a borrower temporary relief from the obligation to make monthly payments. In certain instances, interest subsidies may be provided during periods of deferment; however, with limited exceptions, interest subsidies are not available during periods of forbearance.

Loan Discharge and Loan Forgiveness

A borrower may be relieved of the obligation to repay their loans in certain circumstances. Student loan debt may be discharged on the basis of borrower hardship (e.g., death, total and permanent disability, school closure) or may be forgiven following an extended period of repayment according to an IDR plan or completion of a period of public service.

Loan Default, Its Consequences, and Resolution

If a borrower defaults, the loan becomes due in full and the borrower loses eligibility for many benefits, as well as access to other forms of federal student aid. The government also uses numerous means to collect on defaulted student loan debt. A limited set of options is available for a borrower to bring a defaulted loan back into good standing.

Loan Counseling and Disclosures

Student borrowers are required to undergo financial counseling, which is designed to provide them with comprehensive information on the terms and conditions of their loans as well as their rights and the responsibilities they assume as borrowers. Loan terms and conditions are specified in a promissory note, which is a contract that establishes the borrower's obligation to repay the loan, and in a plain language disclosure document that uses simplified terms to explain a loan's terms and conditions and the borrower's rights and responsibilities.

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Introduction

The William D. Ford Federal Direct Loan (Direct Loan) program makes several types of federal student loans available to individuals to assist them with financing postsecondary education expenses. It represents the single largest source of federal financial assistance to support students' postsecondary educational pursuits. The U.S. Department of Education (ED) estimates that in FY2024, 13.9 million new loans, averaging $6,164 each and totaling $85.8 billion, will be made through the Direct Loan program to undergraduate and graduate students, and to the parents of undergraduate students.[1] In addition, ED estimates that 532,000 Direct Consolidation Loans,[2] averaging $68,651 each and totaling $36.5 billion, will be made to existing borrowers of federal student loans.[3] As of the end of the first quarter of FY2023, $1.4 trillion in principal and interest on Direct Loan program loans (including Direct Consolidation Loans), borrowed by or on behalf of 38.3 million individuals, remained outstanding.[4]

This report presents a comprehensive overview of the terms and conditions that apply to federal student loans made through the Direct Loan program.[5] It begins by providing background information on the history of the Direct Loan program. This is followed by a brief description of the various types of loans that are offered through the program. The report then presents a thorough description of the terms and conditions for loans made through the Direct Loan program. In identifying and describing loan terms and conditions, it focuses on provisions that are generally applicable to loans regardless of special circumstances (e.g., not temporarily in place due to a national emergency) and applicable to loans that are currently being made or that have been made in recent years. Emphasis is placed on discussing Direct Loan program provisions that relate to borrower eligibility, amounts that may be borrowed, interest rates and fees, procedures for loan repayment, repayment relief, the availability of loan discharge and loan forgiveness benefits, and the consequences of defaulting. The final section of the report provides a summary of the methods that are used to ensure that borrowers are informed about the terms and conditions of the loans they obtain and their obligation to repay them.

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[1] U.S. Department of Education, *FY2024 Justification of Appropriation Estimates to the Congress*, Volume II, "Student Loans Overview," March 12, 2023, p. 25, https://www2.ed.gov/about/overview/budget/budget24/justifications/s-sloverview.pdf. In some instances, more than one loan will be borrowed by a student or on the student's behalf.

[2] Direct Consolidation Loans allow individuals who have at least one loan borrowed through either the Direct Loan program or the Federal Family Education Loan program to refinance their eligible federal student loan debt by borrowing a new loan and using the proceeds to pay off their existing federal student loan obligations.

[3] U.S. Department of Education, *FY2024 Justification of Appropriation Estimates to the Congress*, Volume II, "Student Loans Overview," March 12, 2023, p. 25, https://www2.ed.gov/about/overview/budget/budget24/justifications/s-sloverview.pdf.

[4] U.S. Department of Education, Office of Federal Student Aid, Federal Student Aid Data Center, "Federal Student Aid Portfolio Summary," FY2023 Q1, https://studentaid.ed.gov/sa/sites/default/files/fsawg/datacenter/library/PortfolioSummary.xls.

[5] This report focuses on describing the terms and conditions of federal student loans made through the Direct Loan program as specified by the Higher Education Act of 1965 (HEA) and other laws and their implementing regulations. In addition to the generally applicable loan terms and conditions that are summarized in this report, the Higher Education Relief Opportunities for Students (HEROES) Act authorizes a number of waivers and regulatory flexibilities that may be used to extend benefits to certain classes of borrowers. The waivers and flexibilities made available by the HEROES Act are beyond the scope of this report. For additional information, see CRS Report R42881, *Education-Related Regulatory Flexibilities, Waivers, and Federal Assistance in Response to Disasters and National Emergencies*, (archived, available to congressional clients upon request). Additionally, in response to the current COVID-19 pandemic, Congress and the Administration provided additional student loan relief measures to Direct Loan program borrowers. These measures are briefly described in **Appendix D**. For additional information, see CRS Report R46314, *Federal Student Loan Debt Relief in the Context of COVID-19.*

This report has been prepared as a resource for Members of Congress, congressional committees, and congressional staff to support them in their legislative, oversight, and representational roles related to federal student loan policy. It is intended to provide a thorough, but non-exhaustive, description of loan terms and conditions and borrower benefits. It is not intended to be relied upon by borrowers as a resource for validating individual eligibility for specific borrower benefits.

Appendix A to this report contains a directory of resources on topics relating to loans made through the Direct Loan program. **Appendix B** consists of a glossary of terms.[6] **Appendix C** contains a set of tables that present historical information on borrowing limits, interest rates, and fees that have applied to loans made through the Direct Loan program. **Appendix D** briefly describes temporary Direct Loan program flexibilities and debt relief that have been made available to borrowers in light of the COVID-19 pandemic.

Background on the Direct Loan Program

The Direct Loan program is authorized under Title IV, Part D of the Higher Education Act of 1965 (HEA; P.L. 89-329, as amended). It was established by the Student Loan Reform Act of 1993 (SLRA), Title IV of the Omnibus Budget Reconciliation Act of 1993 (P.L. 103-66).[7] Federal student loans were first made through the Direct Loan program in 1994.

In the Direct Loan program, loans are made by the government using federal capital (i.e., funds from the U.S. Treasury), and once made, outstanding loans constitute an asset of the federal government. Some important characteristics of loans made through the Direct Loan program are that the federal government assumes the risk for losses that may occur as a result of borrower default, and that it pays for the discharge of loans in cases of borrower death, total and permanent disability, and other instances. The federal government also assumes the cost of loans that are not required to be paid in full due to borrowers satisfying criteria that make them eligible to have a portion or all of the balance of their loans discharged under any of several loan forgiveness programs. For federal budgeting purposes, the program is classified as a direct loan program, which is a type of federal credit program for which mandatory spending authority is provided.[8]

ED's Office of Federal Student Aid (FSA) is the primary entity tasked with administering the Direct Loan program. The institutions of higher education (IHEs) that participate in the Direct Loan program originate loans to borrowers through FSA's Common Origination and Disbursement (COD) system. Contractors hired by ED service and collect on the program's loans.[9]

When the Direct Loan program was first established, it was intended to expand gradually and then ultimately fully replace the Federal Family Education Loan (FFEL) program, a guaranteed

[6] In the process of describing loans made through the Direct Loan program, numerous terms with precise meanings are used. When some of these terms are introduced, it is not always practical to fully describe or define the term, as a subsequent section in the report may be better suited to providing a detailed description. Definitions for selected terms are presented in the Glossary in **Appendix B**.

[7] A Federal Direct Loan Demonstration Program was enacted under the Education Amendments of 1992 (P.L. 102-325); however, prior to being fully implemented, the demonstration program was succeeded by the Direct Loan program that was enacted under P.L. 103-66.

[8] Federal credit may be extended in the form of a direct loan or a loan guarantee. For additional information, see CRS Report R42632, *Budgetary Treatment of Federal Credit (Direct Loans and Loan Guarantees): Concepts, History, and Issues for Congress*, archived (available to congressional clients upon request).

[9] For more detailed information on the administration of the Direct Loan program, see CRS Report R44845, *Administration of the William D. Ford Federal Direct Loan Program*.

student loan program authorized under Title IV, Part B of the HEA, and through which most federal student loans were being made.[10] The FFEL program had descended from the Guaranteed Student Loan (GSL) program, which was enacted under Title IV of the HEA in 1965 to enhance access to postsecondary education for students from low- and middle-income families by providing them access to low-interest federal student loans. In the FFEL program, loan capital was provided by private lenders who also originated and serviced loans. The federal government guaranteed lenders against loss due to factors such as borrower default, death, total and permanent disability, and in limited instances, bankruptcy. State and nonprofit guaranty agencies administered the federal guarantee. The federal government was also responsible for making several different types of payments to lenders and guaranty agencies to support the operation of the program. The FFEL program was administratively complex and the Direct Loan program was established with the aims of streamlining the federal student loan delivery system and achieving cost savings.[11]

Several years into the implementation of the Direct Loan program, the Higher Education Amendments of 1998 (P.L. 105-244) repealed statutory provisions specifying that it ultimately succeed the FFEL program.[12] From 1994 to 2010, the Direct Loan program and the FFEL program operated side-by-side. During this period, IHEs could elect to participate in the program of their choice. As this decision was made at the institutional level, the program through which an individual could borrow federal student loans was dependent upon the program participation decisions made by the institution a student attended.

During the period while loans were being made through both the FFEL and Direct Loan programs, from the perspective of the borrower, the terms and conditions of loans offered through the programs were similar in most respects. However, the degree of similarity varied over time. Notable differences included certain characteristics of the repayment plans offered and, beginning in 2008, the availability of the Public Service Loan Forgiveness (PSLF) program only to borrowers of loans made through the Direct Loan program.[13]

The SAFRA Act, Title II of the Health Care and Education Reconciliation Act of 2010 (HCERA; P.L. 111-152) terminated the authority to make loans through the FFEL program, effective July 1,

[10] At the time the Direct Loan program was established, federal student loans were also being made through the Federal Perkins Loan program, authorized by HEA, Title IV, Part E, and through several smaller health education loan programs authorized under the Public Health Services Act (PHSA). These other loan programs are beyond the scope of this report. For additional information on the loan programs authorized under the PHSA, see CRS Report R46720, *Student Loan Programs Authorized by the Public Health Service Act: An Overview*.

[11] See CRS Report 95-110 EPW, *The Federal Direct Student Loan Program*, October 16, 1996 (available to congressional clients upon request).

[12] During the early years of implementation of the Direct Loan program, concerns were raised about the capacity of ED to transition from overseeing lending through the FFEL guaranteed loan program to lending completely through the Direct Loan program. For additional information, see U.S. Congress, Senate Committee on Labor and Human Resources, Subcommittee on Education, Arts and Humanities, *Oversight of the Direct Student Loan Program*, 104th Cong., 1st sess., March 30, 1995, S.Hrg. 104-28 (Washington: GPO, 1995).

[13] When the PSLF program was enacted, it was made available only through the Direct Loan program, with the expectation that it would encourage increased borrowing through the Direct Loan program at the expense of the FFEL program. The legislative history of the College Cost Reduction and Access Act of 2008 (CCRAA; P.L. 110-84) shows that when the establishment of a program of "loan forgiveness for certain public service jobs" was approved in the House-passed version of H.R. 2669, it was estimated that the costs of establishing such a program would be offset with savings that would result from borrowers switching from the FFEL program to the Direct Loan program for purposes of taking advantage of loan forgiveness benefits. U.S. Congress, House Committee on Education and Labor, *College Cost Reduction Act of 2007*, H.R. 2669, 110th Cong., 1st sess., June 25, 2007, H.Rept. 110-210 (Washington: GPO, 2007), pp. 71-72.

2010.[14] While loans are no longer being made through the FFEL program, as of the end of the first quarter of FY2023, $198.6 billion in principal and interest on FFEL program loans, borrowed by or on behalf of 8.8 million students, remained outstanding and due to be repaid over the coming years.[15]

Over the history of the Direct Loan program, Congress has periodically made changes to loan terms and conditions. Such changes have often been made as part of comprehensive amendments to the HEA, which authorizes the Direct Loan program; as part of amendments contained in budget reconciliation measures; or as part of amendments included in annual appropriations measures. Congress may contemplate making future changes to loan terms and conditions.

Direct Loan Types

Individuals currently may borrow the following types of loans through the Direct Loan program:

- **Direct Subsidized Loans.** These loans are available only to undergraduate students[16] who demonstrate financial need. Direct Subsidized Loans are characterized by having an interest subsidy (i.e., interest that is not charged, or is only partially charged) that applies during an in-school period when a borrower is enrolled in an eligible program on at least a half-time basis, during a six-month grace period that borrowers receive prior to entering repayment on their loans, during periods of authorized deferment, and during certain other periods. The Direct Subsidized Loans currently being made have a fixed interest rate that remains constant for the duration of the loan.
- **Direct Unsubsidized Loans**. These loans are available to undergraduate students, graduate students, and professional students, without regard to the student's financial need. Direct Unsubsidized Loans generally do not have an interest subsidy. The Direct Unsubsidized Loans currently being made have a fixed interest rate that remains constant for the duration of the loan. The interest rate on loans made to graduate and professional students is higher than the rate on loans made to undergraduate students.
- **Direct PLUS Loans**. These loans are available to graduate and professional students, and to the parents of undergraduate students who are dependent upon them for financial support. They are available without regard to financial need and generally do not have an interest subsidy. The Direct PLUS Loans currently being made have a fixed interest rate, which remains constant for the duration of the loan; and the interest rate is higher than the rate on both Direct Subsidized Loans and Direct Unsubsidized Loans.

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[14] For additional information on changes made to the FFEL and Direct Loan programs by the SAFRA Act, see CRS Report R41127, *The SAFRA Act: Education Programs in the FY2010 Budget Reconciliation* (archived, available to congressional clients upon request).

[15] U.S. Department of Education, Office of Federal Student Aid, Federal Student Aid Data Center, "Location of Federal Family Education Loan (FFEL) Program Loans," FY2023 Q1, https://studentaid.ed.gov/sa/sites/default/files/fsawg/datacenter/library/LocationofFFELPLoans.xls. Of this amount, $121.6 billion in principal and interest on FFEL program loans is held by commercial lenders and guaranty agencies, while the remaining $77.0 billion is held by ED.

[16] Direct Subsidized Loans were once available to graduate and professional students for periods of instruction beginning prior to July 1, 2012. The Budget Control Act of 2011 (BCA; P.L. 112-25) eliminated the availability of Direct Subsidized Loans to graduate and professional students for periods of instruction beginning on or after July 1, 2012.

- **Direct Consolidation Loans.**[17] These loans allow individuals who have at least one loan borrowed through either the Direct Loan program or the FFEL program to borrow a new loan and use the proceeds to pay off their existing federal student loan obligations, including loans that are in default. This is essentially a form of debt refinancing. Direct Consolidation Loans are available without regard to financial need. The Direct Consolidation Loans currently being made have fixed interest rates. In general, the interest rate for a Direct Consolidation Loan is determined by calculating the weighted average of the interest rates on the loans that are consolidated, and rounding the result up to the next higher one-eighth of a percentage point. For a Direct Consolidation Loan that was the result of the separation of a Joint Consolidation Loan (JCL), the interest rate is equal to the interest rate on the JCL as of the date before the separation of the JCL.[18] Upon an individual obtaining a Direct Consolidation Loan, a new repayment period begins, which may be for a longer term than applied to the loans originally borrowed.[19] A Direct Consolidation Loan may have a *subsidized component*[20] and an *unsubsidized component*.[21]

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[17] A number of variations of Direct Consolidation Loans were once available. Married individuals who both had federal student loans were once able to obtain *Joint Direct Consolidation Loans* for purposes of repaying their combined student loan debt. Borrowers of these loans became jointly and severally liable for the debt—even in the event of divorce. The authority to make new Joint Direct Consolidation Loans was repealed effective July 1, 2006, under the Higher Education Reconciliation Act of 2005 (HERA; P.L. 109-171). Also, *Special Direct Consolidation Loans* were available during a limited period from January 17, 2012, through June 30, 2012, to borrowers who had both (1) one or more student loans made through the FFEL program and held by a commercial lender, and (2) one or more loans made through either the Direct Loan program or made through the FFEL program and held by ED. Eligible borrowers were afforded the opportunity to consolidate their commercially held FFEL program loans into a Special Direct Consolidation Loan, and in doing so simplify the repayment of their loans by having them all serviced by a single entity. A number of special repayment incentives were available to borrowers who consolidated their loans under this program. U.S. Department of Education, Office of Postsecondary Education, "Special Direct Consolidation Loan Information - Short-Term Consolidation Opportunity Offered from January - June 30, 2012," October 26, 2011, https://fsapartners.ed.gov/knowledge-center/library/electronic-announcements/2011-10-26/loans-subject-special-direct-consolidation-loan-information-short-term-consolidation-opportunity-offered-january-june-30-2012.

[18] HEA §455(g)(2)(B)(i)(II). Prior to October 11, 2022, a JCL could not be separated, even if the individuals who borrowed the loan were no longer married. The Joint Consolidation Loan Separation Act (P.L. 117-200) authorized borrowers of JCLs to separate those loans into two new Direct Consolidation Loans, one for each borrower of the JCL. As of June 14, 2023, ED has not yet implemented these statutory changes.

[19] Loan consolidation is essentially a form of debt refinancing. Under current law, borrowers may use the proceeds of a Direct Consolidation Loan to pay off debt owed on one or more previously borrowed federal student loans and to begin a new repayment term of up to 30 years. Doing so may allow borrowers to lower their required monthly payment amount. Borrowers may not, however, obtain a lower interest rate on their federal student loan debt as a result of loan consolidation.

[20] The *subsidized component* of a Direct Consolidation Loan (also referred to as a *Direct Subsidized Consolidation Loan*) is the portion of a Direct Consolidation Loan attributable to the following loan types (some of which may have been made through programs authorized under Title IV, Part B of the HEA): (1) Subsidized Federal Stafford Loans, (2) Guaranteed Student Loans, (3) Federal Insured Student Loans, (4) Direct Subsidized Loans, (5) Direct Subsidized Consolidation Loans, and (6) the portion of a Federal Consolidation Loan that is eligible for interest benefits during a period of deferment. 34 C.F.R. §685.220(c)(1).

[21] The *unsubsidized component* of a Direct Consolidation Loan (also referred to as a *Direct Unsubsidized Consolidation Loan*) is the portion of a Direct Consolidation Loan attributable to the following loan types (some of which may have been made through programs authorized under Title IV, Part B and Part E of the HEA and Title VII and Title VIII of the Public Health Service Act [PHSA]): (1) Federal Perkins Loans, (2) National Direct Student Loans, (3) National Defense Student Loans, (4) Federal PLUS Loans, (5) Parent Loans for Under Graduate Students (PLUS), (6) Direct PLUS Loans, (7) Direct PLUS Consolidation Loans, (8) Unsubsidized Federal Stafford Loans, (9) Federal Supplemental Loans for Students (SLS), (10) Direct Unsubsidized Loans, (11) Direct Unsubsidized Consolidation Loans, (12) Auxiliary Loans to Assist Students (ALAS), (13) Health Professions Student Loans (HPSL), (14) Loans for (continued...)

Eligibility and Amounts That May Be Borrowed

Eligibility for an individual to borrow a loan through the Direct Loan program and the amount they may borrow are governed by HEA provisions and by policies and procedures implemented by ED. All loan types except Direct PLUS Loans are available without consideration of a borrower's ability to repay the loan. Eligibility to borrow a Direct PLUS Loan depends on an individual's creditworthiness.

The following section identifies and describes factors that determine an individual's eligibility to borrow one or more types of loans made available through the Direct Loan program. This is followed by a section that describes policies and procedures for determining amounts that may be borrowed.

Factors Affecting Eligibility to Borrow

For an individual to be eligible to borrow a loan through the Direct Loan program, the student borrower, or the student on whose behalf a parent borrower would obtain a Direct PLUS Loan, must meet a number of eligibility requirements. A broad set of general eligibility criteria applies to students who may benefit from a Direct Subsidized Loan, a Direct Unsubsidized Loan, or a Direct PLUS Loan. An additional set of requirements applies specifically to applicants seeking to borrow a Direct PLUS Loan. Still other requirements apply to applicants for Direct Consolidation Loans. Eligibility to borrow various types of loans is also affected by a student's dependency status, program level (e.g., undergraduate, graduate, or professional), undergraduate class level, financial need, cost of attendance (COA)[22] of the academic program, estimated financial assistance (EFA) they expect to receive from other sources, and certain other factors. Factors that affect eligibility to borrow through the Direct Loan program are discussed below.

General Student-Based Eligibility Criteria

In general, for a student to be eligible to borrow a Direct Subsidized Loan, a Direct Unsubsidized Loan, or a Direct PLUS Loan, or for a parent to borrow a Direct PLUS Loan on behalf of a student, the student must

- be enrolled on at least a half-time basis as a regular student in either an eligible program at a participating eligible IHE[23], a preparatory program necessary for enrollment in an eligible program (for up to one year), or a teacher certification program;[24]

Disadvantaged Students (LDS), (15) Health Education Assistance Loans (HEAL), (16) Nursing Loans, and (17) the portion of a Federal Consolidation Loan that is ineligible for interest benefits during a period of deferment. 34 C.F.R. §685.220(c)(2). Furthermore, the term *Direct PLUS Consolidation Loan* refers to the portion of a Direct Consolidation Loan attributable to (1) Direct PLUS Loans, (2) Direct PLUS Consolidation Loans, (3) Federal PLUS Loans, and (4) Parent Loans for Undergraduate Students that were repaid by the Direct Consolidation Loan.

[22] Cost of attendance is defined at HEA §472. COA is determined by the IHE attended and generally includes tuition and fees, an allowance for books, supplies and transportation, room and board, and other expenses related to school attendance.

[23] For additional information on institutional and program eligibility requirements for participation in the HEA Title IV student financial aid programs, see CRS Report R43159, *Institutional Eligibility for Participation in Title IV Student Financial Aid Programs*.

[24] Loans may be obtained through the Direct Loan program for purposes of financing postsecondary expenses at both domestic and foreign institutions. The Direct Loan program is the only HEA, Title IV program that makes federal student aid available for purposes of enrolling in a foreign institution.

- not be incarcerated;
- be a U.S. citizen or national, U.S. permanent resident, or other eligible noncitizen;[25]
- have a high school diploma or recognized equivalent, such as a general education development (GED) certificate, or meet other academic requirements;[26]
- maintain satisfactory academic progress as defined by the school and in accordance with the HEA;[27]
- not be in default on a federal student loan, nor owing a refund on a grant or loan made under HEA, Title IV without having made satisfactory repayment arrangements; and
- have on file at the IHE attended a statement of educational purpose stating that the loan will be used solely for educational expenses.[28]

Student Dependency Status

For purposes of awarding federal student aid, dependency status determines whether a student is considered dependent upon their parents' financial support or is independent of their support. Dependency status is determined by a student's responses to questions on the Free Application for Federal Student Aid (FAFSA), which they must complete and submit to ED when applying for federal student aid.

A student is considered an *independent student* if they

- are, or will be, 24 years of age or older before January 1 of the award year;
- are married at the time of completing the FAFSA;
- will be a graduate or professional student at the start of the award year;
- are currently serving on active duty in the Armed Forces for other than training purposes;
- are a veteran of the U.S. Armed Forces;
- have legal dependents other than a spouse;
- were an orphan, in foster care, or a ward of the court, at any time since age 13;
- are an emancipated minor or are in legal guardianship as determined by a court of competent jurisdiction in the individual's state of legal residence, or were when reaching the age of majority;

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[25] Individuals who are citizens of the Freely Associated States (the Federated States of Micronesia, the Republic of Palau, and the Republic of the Marshall Islands) are ineligible to borrow Direct Loans. 34 C.F.R. §668.33(b).

[26] For additional information, see U.S. Department of Education, *2022-2023 Federal Student Aid Handbook*, vol. 2, p. 8-14 (hereinafter, *FSA Handbook*).

[27] See also 34 C.F.R. §668.34. For example, in part, "if a student is enrolled in an educational program of more than two academic years, the policy specifies that at the end of the second academic year, the student must have a GPA of at least a 'C' or its equivalent, or have academic standing consistent with the institution's requirements for graduation."

[28] Prior to award year 2021-2022, students were ineligible if they did not meet applicable Selective Service System requirements or if they had been convicted of a federal or state offense of selling or possessing illegal drugs that occurred during a period of enrollment for which the student was receiving federal student aid and their eligibility had not been otherwise restored under specified circumstances. The FAFSA Simplification Act of 2020 (Title VII of Division FF of P.L. 116-260, Consolidated Appropriations Act, 2021) eliminated these eligibility restrictions.

- are an unaccompanied youth who is homeless, or self-supporting and at risk of being homeless; or
- are a student for whom a financial aid administrator makes a documented determination of independence by reason of other unusual circumstances or based upon a documented determination of independence that was previously made by another financial aid administrator in the same award year.[29]

A student who does not satisfy any of the criteria to qualify as an independent student is classified as a *dependent student*.[30]

Dependency status determines the types of loans students and their families may borrow, which in turn affects the amounts that may be borrowed. Of particular importance with regard to undergraduate students is the fact that Direct PLUS Loans—the loans with the most flexible borrowing limits—are available to the parents of dependent students but not to the parents of independent students. However, independent undergraduate students are extended higher personal borrowing limits than are dependent students.[31] These differential borrowing limits are predicated on the expectation that the postsecondary education expenses of dependent students will be financed by some combination of students and their parents, whereas the postsecondary education expenses of independent students will typically be financed without parental assistance.

Dependency status also determines which individuals in a student's family will have their income and assets considered in need analysis calculations for the student (discussed below). Need analysis calculations for a dependent student are based on the income and assets of both the student and the student's parents,[32] whereas need analysis calculations for an independent student are based on the income and assets of the student (and if applicable, the student's spouse).

Program Level

The academic level of the program in which a student is enrolled impacts both the types of loans that they may borrow and certain terms and conditions of such loans.

Undergraduate Studies

Undergraduate students may borrow Direct Subsidized Loans and Direct Unsubsidized Loans, and the parents of undergraduate students who are dependent upon them for financial support may borrow Direct PLUS Loans on the student's behalf. Direct PLUS Loans may not be

[29] HEA, §480(d); U.S. Department of Education, *2023-2024 Federal Student Aid Handbook*, Application and Verification Guide, pp. 20-25 (hereinafter *2023-2024 FSA Handbook*). Effective July 1, 2023, institutions may use a documented determination of independence made by another institution in the same or a prior award year. U.S. Department of Education, Dear Colleague Letter GEN-22-15, "FAFSA Simplification Act Changes for Implementation in 2023-24," November 04, 2022, https://fsapartners.ed.gov/knowledge-center/library/dear-colleague-letters/2022-11-03/fafsar-simplification-act-changes-implementation-2023-24.

[30] 34 C.F.R. §668.2(b).

[31] Dependent undergraduates may be eligible to borrow additional amounts in the form of Direct Unsubsidized Loans up to the larger loan limits available to independent undergraduate students (displayed in **Table 1**) in instances where a financial aid administrator determines that the student's parents are unable to borrow Direct PLUS Loans due to certain exceptional circumstances. Exceptional circumstances may apply in instances of a student whose parent is unable to qualify to borrow Direct PLUS Loans due to having an adverse credit history, whose parent's only income is from public assistance or disability benefits, whose parent is incarcerated, whose parent's whereabouts are unknown, or whose parent is not a U.S. citizen or permanent resident. See *FSA Handbook*, vol. 3, p. 126.

[32] Parental income and assets can be defined in a variety of ways in cases where a student's parents are not married to each other. For additional information, see CRS Report R44503, *Federal Student Aid: Need Analysis Formulas and Expected Family Contribution*.

borrowed by undergraduate students nor by parents on behalf of undergraduate independent students.

Graduate and Professional Studies

Graduate and professional students may borrow Direct Unsubsidized Loans and Direct PLUS Loans. To be eligible to borrow as a graduate or professional student, an individual must be enrolled in a program above the baccalaureate level or in one that leads to a first professional degree, must have completed at least the equivalent of three years of full-time study either prior to entering the program or as part of it, and must not be concurrently receiving Title IV aid as an undergraduate student.[33] Graduate and professional students, all of whom are classified as independent students, are extended higher borrowing limits than undergraduate students.

Undergraduate Class Level

For undergraduates, a student's class level determines the maximum amount the student may borrow on an annual basis. A student's class level is based on their progression according to the academic standards of the school the student attends. For undergraduate students, progression to a higher grade level for purposes of awarding a loan through the Direct Loan program does not necessarily correspond to the start of a new academic year (AY). For instance, a student who continues to make satisfactory academic progress but does not progress to the next grade level due to having completed an insufficient number of credits could borrow a loan through the Direct Loan program more than once as a first-year student. Once the student accrues enough credits to progress to the next higher grade level, they would become eligible for the higher borrowing limits available to second-year students, and so on.[34]

Financial Need

Direct Subsidized Loans are need-based and may only be borrowed by students who demonstrate having financial need according to federal need analysis procedures.[35] Applicants seeking to borrow Direct Subsidized Loans must undergo a need test through which the expected family contribution (EFC) to be made by the student, and, if applicable, the student's family, toward paying the student's postsecondary education expenses is determined on the basis of the financial resources available to the student.[36] According to federal student aid need analysis procedures, the

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[33] 34 C.F.R. §668.2(b).

[34] For additional information on the impact of grade-level progression on annual borrowing limits, see *FSA Aid Handbook*, vol. 3, Chapter 5—Direct Loan Periods and Amounts.

[35] From July 1, 2013, to August 13, 2021, a student who had no outstanding balance of principal or interest on a Direct Loan program or FFEL program loan on July 1, 2013, or on the date the borrower obtained a loan after July 1, 2013, could only borrow Direct Subsidized Loans for a period not to exceed 150% of the published length of the academic program in which they were enrolled (the *maximum eligibility period*). In addition, if a Direct Subsidized Loan borrower subject to this rule remained enrolled in the same program for which the loan was obtained, or another undergraduate academic program of equal or shorter length beyond the applicable maximum eligibility period, the borrower would lose the interest subsidy otherwise available on their Direct Subsidized Loans and would become responsible for paying the interest that accrued on their Direct Subsidized Loans after the date that the maximum eligibility period was exceeded. These rules were known as *Subsidized Usage Limit Applies (SULA)* and were repealed by the FAFSA Simplification Act of 2020 (Title VII, Division FF of P.L. 116-260). For additional information, see U.S. Department of Education, "Repeal of the William D. Ford Federal Direct Loan Program Subsidized Usage Limit Restriction," 86 *Federal Register* 31432-31438, June 14, 2021.

[36] The FAFSA Simplification Act makes significant changes to the underlying processes and methodologies for determining federal student aid eligibility, including renaming EFC to *student aid index* (SAI). The act's general (continued...)

sum of the student's EFC and the amount of estimated financial assistance (EFA) they expect to receive from sources other than programs authorized under Title IV of the HEA is subtracted from the estimated COA of the institution the student attends to determine the amount of need-based financial aid that they are eligible to receive.

Additional procedures are followed to determine the composition of the student's federal student aid package. For instance, undergraduate students must receive a determination of their eligibility to receive a Federal Pell Grant[37] (a form of need-based aid available only to undergraduates) prior to being certified by their school as being eligible to borrow a Direct Subsidized Loan. This procedure is designed to first provide maximum grant aid to needy students before they incur student loan debt. The amount a student may borrow with a Direct Subsidized Loan may not exceed the amount of the student's unmet financial need after other forms of need-based federal student aid available under HEA, Title IV have been awarded. (For additional information, see the section on "Limits on Borrowing Determined by Need Analysis and Packaging" below.) Since July 1, 2012, only undergraduate students have been eligible to borrow Direct Subsidized Loans.

Eligibility Requirements for Direct PLUS Loans

In addition to satisfying the general student-based eligibility criteria, an individual must meet certain other eligibility criteria specifically applicable to Direct PLUS Loans.

Parent Borrower Eligibility Criteria

Direct PLUS Loans may be borrowed by one or both parents of an undergraduate dependent student who meets the general student-based eligibility criteria described above. Eligible parents include biological parents, adoptive parents, and stepparents (if the stepparent's income and assets are taken into account in determining a student's EFC). A legal guardian may not borrow a Direct PLUS Loan on behalf of a student as a parent borrower. Parent borrowers must also meet the same citizenship and residency requirements as student borrowers; may not be in default on a federal student loan, nor owe a refund on a grant or loan made under Title IV without having made satisfactory repayment arrangements; and may not be incarcerated.

For a parent to be eligible to borrow a Direct PLUS Loan on behalf of an undergraduate dependent student, the student must have completed a FAFSA. There is no requirement that a parent borrower complete a separate FAFSA. The eligibility of a noncustodial parent to borrow a Direct PLUS Loan on behalf of their child is not impacted by that parent's financial information not appearing on the student's FAFSA.[38]

Creditworthiness Requirements to Borrow Direct PLUS Loans

Eligibility for an individual to borrow a Direct PLUS Loan also depends on that individual's creditworthiness. Only individuals who do not have an adverse credit history, as determined according to procedures specified in regulations, may borrow Direct PLUS Loans.[39] The

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effective date is July 1, 2024, although some provisions of the act may be implemented before then. For additional information on need analysis, see CRS Report R44503, *Federal Student Aid: Need Analysis Formulas and Expected Family Contribution*. For additional information on the FAFSA Simplification Act, see CRS Report R46909, *The FAFSA Simplification Act*.

[37] For additional information on the Federal Pell Grant program, see CRS Report R45418, *Federal Pell Grant Program of the Higher Education Act: Primer*.

[38] *FSA Handbook*, vol. 1, p. 77.

[39] 34 C.F.R. §685.200.

creditworthiness criteria apply to both parent borrowers and to graduate and professional student borrowers. Creditworthiness is assessed on the basis of a credit report on the applicant obtained from at least one consumer reporting agency. An applicant is considered to have an adverse credit history if they either

- have one or more debts totaling more than $2,085 that are 90 days or more delinquent as of the date of the credit report, or that have been placed in collection or been charged off by the creditor as a loss within the two years prior to the credit report;[40] or
- have been the subject of a default determination, bankruptcy discharge, foreclosure, repossession, tax lien, wage garnishment, or write-off of a debt under HEA, Title IV within the five years prior to the credit report.

An applicant who is determined to have an adverse credit history may not obtain a Direct PLUS Loan unless they either obtain an *endorser*[41] or demonstrate that extenuating circumstances exist with regard to the applicant's credit history.[42] Extenuating circumstances may include an updated credit report or a letter from a creditor stating that the applicant has made satisfactory repayment arrangements on a derogatory debt. In addition, to obtain a Direct PLUS Loan an applicant who has an adverse credit history must also complete credit counseling. (See the section on "PLUS Loan Credit Counseling For Borrowers with Adverse Credit.") An applicant may not, however, be rejected for a Direct PLUS Loan on the basis of having no credit history.

A dependent undergraduate student whose parents are unable to obtain a Direct PLUS Loan due to their having an adverse credit history may borrow a larger amount in the form of a Direct Unsubsidized Loan. In such a case, the student may borrow up to the borrowing limit applicable to a similarly situated independent undergraduate student. (These amounts are discussed below in the section on "Amounts That May Be Borrowed.")

Eligibility Requirements for Direct Consolidation Loans

Two differing sets of borrower eligibility criteria apply for Direct Consolidation Loans. One set of criteria generally applies across borrowers seeking Direct Consolidation Loans, while another set applies to borrowers seeking to separate their Joint Consolidation Loans into one or two Direct Consolidation Loans.

General Direct Consolidation Loan Criteria

In general, to be eligible to obtain a Direct Consolidation Loan, a borrower must have an outstanding principal balance on at least one loan that was made through either the Direct Loan program or the FFEL program. In addition, with respect to the loans being consolidated, the applicant must be (1) in the grace period prior to entering repayment; (2) in repayment status, but not in default; or (3) in default, but having made satisfactory repayment arrangements.

For the purposes of including a defaulted loan in a Direct Consolidation Loan, making "satisfactory repayment arrangements" means that the defaulted borrower has made at least three consecutive voluntary full monthly payments within 20 days of the due date, or has agreed to

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[40] Regulations specify that the $2,085 threshold will periodically be adjusted for inflation; however, this has never occurred since the regulations' implementation in 2015. 34 C.F.R. §685.200(c)(2).

[41] An endorser is an individual who does not have an adverse credit history, who signs a promissory note, and who agrees to repay the loan should the borrower not do so. 34 C.F.R. §685.102(b).

[42] A dependent student on whose behalf the loan would be made to a parent borrower may not be an endorser.

repay according to one of the *Income-Driven Repayment (IDR) plans* (described below). A borrower of a defaulted loan who is subject to a court judgment or wage garnishment is ineligible to obtain a Direct Consolidation Loan.

In general, a set of loans may be consolidated only once. However, in select circumstances a borrower may add additional loans to their preexisting Direct Consolidation Loan or may use a Direct Consolidation Loan to repay a previously obtained Direct Consolidation Loan or a FFEL Consolidation Loan. Loans made to borrowers within 180 days prior to or after the date of obtaining a Direct Consolidation Loan may be added to that Direct Consolidation Loan. A borrower who has an existing Direct Consolidation Loan and also has other eligible loans that have not been consolidated, or who subsequently obtains other eligible loans, may consolidate those loans with their existing loans for purposes of obtaining a new Direct Consolidation Loan. A borrower who has an existing FFEL Consolidation Loan and whose loan is in default or has been referred to a guaranty agency for default aversion assistance[43] may consolidate their loan into a Direct Consolidation Loan for purposes of repaying according to one of the IDR plans. A borrower who has an existing FFEL Consolidation Loan may consolidate that loan into a Direct Consolidation Loan for the purposes of applying for loan forgiveness through the PSLF Program or to receive the No Accrual of Interest on Loans of Certain Active Duty Servicemembers benefit that is only available to borrowers of loans made through the Direct Loan program. Finally, borrowers with a Joint Consolidation Loan (JCL) made under either the FFEL or the Direct Loan program may apply to separate that loan into two new Direct Consolidation Loans or one new Direct Consolidation Loan and a remaining JCL, depending on the circumstances (see "Criteria to Separate Joint Consolidation Loans into a Direct Consolidation Loan").

A Direct Consolidation Loan must consist of at least one eligible loan made through either the Direct Loan or FFEL programs, and may also contain other types of federal student loans. The eligible types of federal student loans made through the Direct Loan and FFEL programs include Direct Subsidized Loans, Direct Unsubsidized Loans, Direct PLUS Loans, Direct Consolidation Loans, FFEL Subsidized Stafford Loans, FFEL Unsubsidized Stafford Loans, FFEL PLUS Loans, and FFEL Consolidation Loans.[44] The eligible types of federal student loans made outside of the Direct Loan and FFEL programs are Federal Perkins Loans, Guaranteed Student Loans, Federal Insured Student Loans, National Direct Student Loans, National Defense Student Loans, Supplemental Loans for Students (SLS), Auxiliary Loans to Assist Students (ALAS), Health Education Assistance Loans (HEAL), Health Professions Student Loans (HPSL), Loans for Disadvantaged Students (LDS), and Nurse Faculty Loans, and Nursing Student Loans.[45]

Criteria to Separate a Joint Consolidation Loan into One or More Direct Consolidation Loans

Between October 1, 1992, and July 1, 2006, married borrowers who each had eligible FFEL program and/or Direct Loan program student loans were authorized to consolidate their debt into a single Joint Consolidation Loan (JCL). To do so, each spouse was required to agree "to be held jointly and severally liable for the repayment of the consolidation loan, without regard to the

[43] Default aversion activities are means of assistance provided by a guaranty agency to a lender that holds a delinquent loan prior to the loan legally entering default status. HEA §§422(h)(8) and 422B(d).

[44] Over the history of the Direct Loan program and the FFEL program, the terminology used to refer to various types of loans has changed. A complete listing of loan types eligible for inclusion in a Direct Consolidation Loan is specified in regulations at 34 C.F.R. §685.220(b).

[45] Several of these loan types were once made through programs that have since been discontinued.

amounts of the respective loan obligations" that were to be consolidated and without regard to any subsequent change in the couple's marital status.[46]

On October 11, 2022, the Joint Consolidation Loan Separation Act (P.L. 117-200) was enacted to enable borrowers of FFEL and Direct Loan program JCLs to separate their loans into one or two new Direct Consolidation Loans. Each new Direct Consolidation Loan is to be in an amount equal to the proportion of the unpaid principal, interest, and fees of the JCL attributable to the loans of the individual borrower for whom the separate, new Direct Consolidation Loan is being made. The portion of the JCL attributable to the loans of an individual borrower is to be determined on the basis of the original loan obligation of the borrower as of the date the JCL was made, or if requested by both borrowers, on the basis of the debt's distribution described in a divorce decree, court order, settlement agreement, or other document. For a Direct Consolidation Loan that was the result of a separation a JCL, the interest rate is to be equal to the interest rate on the JCL as of the date before the separation of the JCL.

Under the Joint Consolidation Loan Separation Act, borrowers may separate JCLs in one of two ways. First, a married couple (or two individuals who were previously a married couple) may jointly apply to ED to separate the loan. Second, an individual borrower in a married couple (or previously married couple) may apply to separate the loan without regard to whether the other individual borrower in the married couple (or previously married couple) applies for the separation of the loan. To do so, the applicant borrower must certify to ED that they have experienced an act of domestic violence or economic abuse from the other borrower[47] or are "unable to reasonably reach or access the loan information from the other individual borrower."[48] If an individual borrower receives a new Direct Consolidation Loan after separating the JCL without application from the other borrower, the non-applicant borrower shall become solely liable for any remaining balance of the JCL following the loan separation.

Unlike a general Direct Consolidation Loan, a JCL for which a borrower(s) seeks separation may be in default and applicants need not have entered into a satisfactory repayment arrangement to be eligible to separate a JCL.

ED has not yet implemented the terms and procedures of the Joint Consolidation Loan Separation Act.[49] Thus, as of the date of this report, borrowers of JCLs are unable to separate their loans.

Amounts That May Be Borrowed

The maximum amounts that a student or a parent may borrow in loans made through the Direct Loan program are determined by the interaction of annual and aggregate borrowing limits and federal need analysis and packaging procedures. Limitations on borrowing vary by loan type, borrower characteristics, program level, and class level.

Annual Loan Limits

For undergraduate students, annual loan limits cap both the maximum amount that may be borrowed in Direct Subsidized Loans and the total combined amount that may be borrowed

[46] 20 U.S.C. §1078-3 (2018), "Editorial Notes."

[47] Domestic abuse and economic abuse are defined in 34 U.S.C. §12291.

[48] ED is also authorized to permit individual borrowers to apply individually to separate their JCLs if doing so would be in the best fiscal interest of the federal government.

[49] On its website, ED has indicated that the process for borrowers to separate JCLs "will not be fully implemented until late 2024." U.S. Department of Education, Office of Federal Student Aid, "Joint Consolidation Loan Separate News and Updates," https://studentaid.gov/announcements-events/joint-consolidation-loans (accessed May 9, 2023).

through Direct Subsidized Loans and Direct Unsubsidized Loans during a single academic year. Annual loan limits for Direct Subsidized Loans vary by undergraduate class level; however, at any particular class level these limits are the same for both undergraduate dependent students and undergraduate independent students. Annual loan limits for the total combined amount of Direct Subsidized Loans and Direct Unsubsidized Loans that may be borrowed by undergraduate students vary by both undergraduate class level and by student dependency status.

For graduate and professional students, annual loan limits cap the maximum that may be borrowed in Direct Unsubsidized Loans, irrespective of class level. However, higher exceptional annual loan limits are extended to students enrolled in certain health professions programs. There is no specified dollar limit to the amount that may be borrowed in Direct PLUS Loans by either parent borrowers or by graduate and professional students.

The annual loan limits apply to the maximum principal amount that may be borrowed in an academic year. Any loan origination fees that the borrower is required to pay (see the "Loan Origination Fees" section) are included in the amount to be borrowed that is subject to these limits.

Borrowing limits for a student who is enrolled for less than one year are prorated based on the fraction of the academic year for which the student is enrolled. An academic year is defined in statute as a minimum of 30 weeks of instruction for courses of study measured in credit hours, or 26 weeks for courses of study measured in clock hours and during which a full-time student is expected to complete a minimum of 24 semester or trimester hours, 36 quarter hours, or 900 clock hours.

Aggregate Loan Limits

Aggregate loan limits cap the total cumulative amount of outstanding loans that a student may borrow through certain loan types. One limit applies to the total amount that may be borrowed in Direct Subsidized Loans and another limit applies to the total combined amount that may be borrowed in Direct Subsidized Loans and Direct Unsubsidized Loans.[50] No aggregate limits are placed on Direct PLUS Loan borrowing. The aggregate loan limits apply only to the aggregate outstanding principal balance (OPB) of the loans a student has borrowed. They do not apply to accrued or capitalized interest.[51] Annual and aggregate limits that have applied to loans made through the Direct Loan program since July 1, 2012, are presented in **Table 1**.

[50] Aggregate loan limits for Direct Subsidized Loans also include Subsidized Stafford Loan amounts borrowed through the FFEL program. Aggregate loan limits for Direct Subsidized Loans and Direct Unsubsidized Loans, combined, also include Subsidized Stafford Loans and Unsubsidized Stafford Loans, combined, borrowed through the FFEL program.

[51] In addition, recipients of TEACH Grants who fail to meet the requirements of the program may be required to repay the amount of their TEACH Grant award in the form of a Direct Unsubsidized Loan. For such individuals, this Direct Unsubsidized Loan amount is determined separately from otherwise applicable annual borrowing limits.

Table 1. Annual and Aggregate Loan Limits, by Borrower Type and Program Level: July 1, 2012, to Present

(dollars)

	Direct Subsidized Loans	Direct Subsidized Loans and Direct Unsubsidized Loans, Combined		Direct PLUS Loans
Borrower Type and Program Level	**All Eligible Borrowers**	**Dependent Students**	**Independent Students**	**All Eligible Borrowers**
Undergraduate Students				
Annual Loan Limits				
Preparatory coursework for an undergraduate program	2,625	2,625	8,625[a]	n.a.
1st year	3,500	5,500	9,500[a]	n.a.
2nd year	4,500	6,500	10,500[a]	n.a.
3rd year and above	5,500	7,500	12,500[a]	n.a.
Preparatory coursework for a graduate program[b]	5,500	5,500	12,500[a]	n.a.
Teacher certification[b]	5,500	5,500	12,500[a]	n.a.
Aggregate Loan Limits[c,d]				n.a.
In general[e]	23,000	31,000	57,500[a]	n.a.
Graduate Students				
Annual Loan Limits				
In general	n.a.	n.a.	20,500[f]	Up to COA-EFA[g]
Health professions programs[h]	n.a.	n.a.	40,500 to 47,167[f]	Up to COA-EFA[g]
Health professions programs[i]	n.a.	n.a.	33,000 to 37,167[f]	Up to COA-EFA[g]
Aggregate Loan Limits[c,d,j]				
In general	65,000[k]	n.a.	138,500	Not limited[g]
Health professions programs[e,h,i]	65,000[k]	n.a.	224,000	Not limited[g]
Parents of Dependent Undergraduate Students				
Annual Loan Limits				
All	n.a.	n.a.	n.a.	Up to COA-EFA[g]
Aggregate Loan Limits[c,d]				
In general	n.a.	n.a.	n.a.	Not limited[g]

Source: HEA, §§428, 428H, 451, and 455; 34 C.F.R. §685.203; and U.S. Department of Education, Office of Postsecondary Education, Dear Colleague Letters GEN-05-09, GEN-08-04, and GEN-08-08.

Notes: "n.a." means not applicable. "COA" means cost of attendance. "EFA" means estimated financial assistance.

a. These loan limits also apply to dependent undergraduate students whose parents are unable to obtain a Direct PLUS Loan.

b. Applies to individuals who have obtained a baccalaureate degree.

c. Accrued interest and capitalized interest do not count toward aggregate loan limits.

d. If a borrower has a Direct Consolidation Loan, any Direct Subsidized Loans or Direct Unsubsidized Loans that have been included in the Direct Consolidation Loan remain attributable to the aggregate limits for Direct Subsidized Loans and Total Direct Subsidized Loans and Direct Unsubsidized Loans combined, in accordance with their proportionate share of the Direct Consolidation Loan. Aggregate loan limits also include amounts of comparable loan types borrowed through the FFEL program (e.g., Subsidized Stafford Loans, Unsubsidized Stafford Loans).

e. Includes Subsidized Stafford Loans and Unsubsidized Stafford Loans borrowed through the FFEL program.

f. Direct Subsidized Loans are not currently available to graduate students.

g. There is no statutorily specified dollar limit on borrowing amounts for Direct PLUS Loans; however, all aid combined may not exceed COA.

h. Students enrolled in programs in the following disciplines are eligible to annually borrow an additional $20,000 more than regular students in Direct Unsubsidized Loans for programs with 9-month academic years, and an additional $26,667 for programs with 12-month academic years: Doctor of Allopathic Medicine, Doctor of Osteopathic Medicine, Doctor of Dentistry, Doctor of Veterinary Medicine, Doctor of Optometry, Doctor of Podiatric Medicine; and, effective May 1, 2005, Doctor of Naturopathic Medicine and Doctor of Naturopathy. Amounts are prorated for 10- and 11-month programs.

i. Students enrolled in programs in the following disciplines are eligible annually to borrow an additional $12,500 more than regular students in Direct Unsubsidized Loans for programs with 9-month academic years, and an additional $16,667 for programs with 12-month academic years: Doctor of Pharmacy, Graduate in Public Health, Doctor of Chiropractic, Doctoral Degree in Clinical Psychology, and Masters or Doctoral Degree in Health Administration. Amounts are prorated for 10- and 11-month programs.

j. Aggregate loan limits for graduate and professional students include amounts borrowed for undergraduate study.

k. The aggregate loan limit for Direct Subsidized Loans to graduate and professional students applies to loans borrowed for programs of instruction beginning before July 1, 2012.

A listing of the annual and aggregate loan limits that have applied throughout the history of the Direct Loan program is presented in **Table C-1**.

Limits on Borrowing Determined by Need Analysis and Packaging

The process of awarding one or more forms of federal student aid to a student in accordance with federal student aid need analysis procedures and individual program rules is referred to as *packaging*. Financial aid administrators at IHEs are afforded a degree of discretion in determining how aid is packaged. The packaging of aid may affect the amounts and types of Direct Loans that a student (or parent on behalf of a student) may borrow. The process for packaging aid provided through the Direct Loan program is briefly described below. The following terms are instrumental in describing this process.

- **Cost of Attendance (COA).** This is an institution-determined amount indicative of a student's educational expenses for a period of enrollment (e.g., an academic year) at the IHE. It is determined by the institution a student attends and may include tuition and fees, and allowances for room and board, books, supplies, transportation, loan fees, personal expenses, child or dependent care, and other costs.[52] For the Direct Loan program, a student's COA represents an absolute limit on the maximum amount of aid they may receive during an academic year.

[52] HEA §§472 and 479A. For additional information on COA, see *FSA Handbook*, vol. 3, Chapter 2—Cost of Attendance (Budget). Beginning in award year 2023-2024 (July 1, 2023-June 30, 2024), institutions may only include loan fees associated with federal loans in the COA and may no longer include loan fees for non-federal student loans in the COA. Department of Education, GEN-22-15, "FAFSA Simplification Act Changes for Implementation in 2023-24), November 4, 2022, https://fsapartners.ed.gov/knowledge-center/library/dear-colleague-letters/2022-11-03/fafsar-simplification-act-changes-implementation-2023-24.

- **Expected Family Contribution (EFC).**[53] This is the dollar amount a student and the student's family (e.g., parents or spouse) are expected to contribute toward their education expenses for a year.[54] A student's EFC is calculated according to procedures specified in law using information supplied by the student on the FAFSA.[55] The formula for calculating a student's EFC takes into account myriad factors including taxed and untaxed income, financial assets, certain benefits (e.g., Social Security, unemployment compensation), family size, and the number of family members to be enrolled in college during an academic year.
- **Estimated Financial Assistance (EFA).** This is the amount of aid anticipated to be made available to a student from federal, state, institutional, or other sources for a period of enrollment. It includes grant, scholarship, fellowship, loan, and need-based employment assistance. For purposes of need analysis and packaging, two variations of EFA are relevant: (1) EFA not received under HEA, Title IV programs, and (2) EFA from all sources. EFA does not include Iraq and Afghanistan Service Grants; federal veterans' education benefits; or, for purposes of awarding Direct Subsidized Loans, Segal AmeriCorps Education Awards.[56]
- **Financial Need.** This is the amount determined by subtracting a student's EFC and EFA not received under HEA, Title IV from the student's COA.[57]
- **Unmet Financial Need.** This is the amount determined by subtracting the sum of a student's EFC and EFA from the student's COA.[58]

When packaging Title IV aid, the total amount of need-based aid awarded to a student may not exceed the amount of the student's financial need. A common packaging strategy is to award need-based aid that is not required to be repaid (e.g., Federal Pell Grant, Federal Supplemental Educational Opportunity Grant [FSEOG], and Federal Work-Study [FSW] awards) before awarding loan aid, which must be repaid. With respect to loans made through the Direct Loan program, only Direct Subsidized Loans are need-based; however, Direct Subsidized Loans, Direct Unsubsidized Loans, and Direct PLUS Loans may all be awarded to satisfy a student's unmet financial need. Additionally, once a student's unmet financial need has been satisfied, non-need-based aid, such as Direct Unsubsidized Loans and Direct PLUS Loans, may be awarded to replace some or all of a student's EFC. Overall, when packaging Title IV aid, the total amount awarded (including both need-based and non-need-based aid) may not exceed the student's COA, less EFA. Processes for determining the amount of aid that may be awarded through the various types of loans offered through the Direct Loan program are described below.

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[53] The FAFSA Simplification Act makes significant changes to the underlying processes and methodologies for determining federal student aid eligibility, including renaming EFC to student aid index (SAI). The act's general effective date is July 1, 2024, although some provisions of the act may be implemented before then. For additional information on need analysis, see CRS Report R44503, *Federal Student Aid: Need Analysis Formulas and Expected Family Contribution*. For additional information on the FAFSA Simplification Act, see CRS Report R46909, *The FAFSA Simplification Act*.

[54] HEA Title IV, Part F—Need Analysis. For additional information on the EFC, see CRS Report R44503, *Federal Student Aid: Need Analysis Formulas and Expected Family Contribution*.

[55] For additional information, see HEA, Title IV, Part F, and *FSA Handbook*, Application and Verification Guide, Chapter 3—Expected Family Contribution (EFC).

[56] For additional information on the EFA, see HEA, §§428(a)(2)(C)(ii) and 480(j), 34 C.F.R. §685.102(b), and *FSA Handbook*, vol. 3, Chapter 7—Packaging Aid.

[57] HEA §471.

[58] For additional information, see *FSA Handbook*, vol. 3, pp. 152-154.

Direct Subsidized Loans

Direct Subsidized Loans are need-based. They may be awarded to satisfy a student's unmet financial need. The maximum Direct Subsidized Loan amount a student is eligible to borrow is determined by summing the student's EFC and EFA, and then subtracting that amount from the student's COA for the school attended. As discussed above, Direct Subsidized Loan borrowing is also capped by applicable annual loan limits. The calculation shown in the text box below is used to determine the amount that a student may borrow through a Direct Subsidized Loan.

Direct Subsidized Loan Eligibility

Direct Subsidized Loan eligibility = min[(COA - (EFC + EFA)), Direct Subsidized Loan limit[59]]

Direct Unsubsidized Loans

Direct Unsubsidized Loans are non-need-based. Students are eligible to borrow Direct Unsubsidized Loans irrespective of the amount of their EFC, in amounts up to the lesser of (1) the result of subtracting the student's EFA (including, for undergraduate students, any amount borrowed through a Direct Subsidized Loan) from COA, or (2) the result of subtracting the amount borrowed through a Direct Subsidized Loan from the annual Direct Subsidized Loan and Direct Unsubsidized Loan combined borrowing limit applicable to the student's program level and class level. The calculation shown in the text box below is used to determine the amount that a student may borrow through a Direct Unsubsidized Loan.

Direct Unsubsidized Loan Eligibility

Direct Unsubsidized Loan eligibility = min[(COA - EFA), (total Direct Loan limit[60] - Direct Subsidized Loan amt.)]

Direct PLUS Loans

Direct PLUS Loans are non-need-based. Graduate and professional students and the parents of dependent undergraduate students may borrow Direct PLUS Loans irrespective of the student's EFC. The amount that may be borrowed through a Direct PLUS Loan is limited to the result of subtracting the EFA (including any amount borrowed through a Direct Subsidized Loan or a Direct Unsubsidized Loan) of the student on whose behalf the loan will be made from the COA of the institution attended. The calculation shown in the text box below is used to determine the amount that a student or a parent may borrow through a Direct PLUS Loan.

Direct PLUS Loan Eligibility

Direct PLUS Loan eligibility = COA - EFA

With regard to parent borrowing, the total Direct PLUS Loan eligibility amount may be borrowed by one parent, or it may be divided among more than one parent (including noncustodial parents) and borrowed in separate amounts by each.

[59] For information on Direct Subsidized Loan limits, see **Table 1**.

[60] For information on loan limits for Direct Subsidized Loans and Direct Unsubsidized Loans, combined, see **Table 1**.

Interest on Direct Loan Program Loans

Interest is charged on loans made through the Direct Loan program. It constitutes a charge for the use of borrowed money over a specified period of time. In the Direct Loan program, interest is calculated based on rates that are set according to formulas specified in the HEA. Interest accrual is calculated using a simple daily interest formula. The federal government offers several types of interest subsidies that may limit the amount of interest that accrues on the outstanding principal balance of a loan. In certain circumstances, a borrower may be permitted to defer paying some or all of the interest that has accrued on their loan(s) until a later point in time. If a borrower does not pay the interest that has accrued, it may, in certain circumstances, be capitalized (i.e., added to the outstanding principal balance of the borrower's loan).

Interest Rates

Interest rates on loans made through the Direct Loan program are set according to procedures specified by statute. Since the inception of the Direct Loan program in 1994, a variety of different procedures have been used for setting student loan interest rates. The loans currently being made through the Direct Loan program have fixed interest rates that remain constant from the time a loan is made until it is paid in full. Since July 1, 2013, Direct Subsidized Loans, Direct Unsubsidized Loans, and Direct PLUS Loans, have been made with fixed interest rates that are indexed to the interest rates on 10-year U.S. Treasury notes that are auctioned just prior to the start of the academic year during which the loans are made. Since February 1, 1999, Direct Consolidation Loans have been made with fixed interest rates that are based on the weighted average of the interest rates on the loans that are included in the Direct Consolidation Loan. Previously, other procedures had been used for setting student loan interest rates, and a number of loans that had been made according to these prior procedures remain outstanding.

Procedures for Setting Student Loan Interest Rates

The various procedures that have been used for setting interest rates on loans made through the Direct Loan program can be broadly categorized as follows: (1) variable interest rates that are indexed to the interest rates on short-term U.S. Treasury securities that are auctioned just prior to the start of the academic year during which the rate will be in effect, (2) fixed interest rates that are set according to the weighted average of the interest rates of the loans included in a Direct Consolidation Loan, (3) fixed interest rates that are specified in statute, and (4) fixed interest rates that are indexed to the interest rates on long-term U.S. Treasury securities that are auctioned just prior to the start of the academic year during which the loans are made. Because loans with interest rates that have been set according to each of these categories still remain outstanding, each is briefly discussed below. **Appendix C** presents a detailed history of the various procedures that have been used to set the interest rates that apply to Direct Subsidized Loans, Direct Unsubsidized Loans, and Direct PLUS Loans (**Table C-2**); the procedures that have been used to set the interest rates that apply to Direct Consolidation Loans (**Table C-3**); and the interest rates that have been in effect on these loans on a year-by-year basis (**Table C-4**).

Variable Interest Rates Indexed to Short-Term U.S. Treasury Securities

At the inception of the Direct Loan program in 1994, all loan types were made with variable interest rates that would adjust once per year on July 1. On variable rate loans, the applicable interest rate is determined according to a formula specified in statute. For each 12-month period that extends from July 1 through June 30, the applicable interest rate is indexed to the bond equivalent rate of 91-day U.S. Treasury bills (or other short-term U.S. Treasury securities) auctioned at the final auction held prior to the preceding June 1.[61] An interest rate add-on increases the rate above the rate of the index. Different interest rate add-ons may apply to loans depending on the type of loan (e.g., Direct Subsidized Loan, Direct PLUS Loan), the status of the loan (e.g., in school, grace, repayment), and when the loan was made. An interest rate cap of 8.25% applies to variable rate Direct Subsidized Loans and Direct Unsubsidized Loans and the portion of a variable rate Direct Consolidation Loan attributable to such loans. An interest rate cap of 9.0% applies to variable rate Direct PLUS Loans and the portion of a variable rate Direct Consolidation Loan attributable to a PLUS Loan. Direct Consolidation Loans were made with variable interest rates through January 31, 1999, while all other types of Direct Loan program loans continued to be made with variable interest rates through June 30, 2006.

Fixed Interest Rates on Direct Consolidation Loans

Since February 1, 1999, Direct Consolidation Loans have been made with fixed interest rates that remain in effect for the duration of the loan.[62] In general, the applicable interest rate on a fixed-rate Direct Consolidation Loan is determined by calculating the weighted average of the interest rates in effect on the loans being consolidated, and rounding the result up to the nearest higher one-eighth of 1%.[63] If a borrower obtains a Direct Consolidation Loan to repay one or more loans having a variable interest rate, the weighted average of the interest rates in effect on the loans being consolidated will be used to set the fixed rate that will apply for the duration of the new Direct Consolidation Loan.[64] For Direct Consolidation Loans made during the period from February 1, 1999, through June 30, 2013, the maximum interest rate was capped at 8.25%.[65] For a Direct Consolidation Loan that was the result of a separation a Joint Consolidation Loan (JCL), the interest rate is to be equal to the interest rate on the JCL as of the date before the separation of the JCL. There is no maximum interest rate for Direct Consolidation Loans made on or after July 1, 2013.

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[61] The practice of using the rate of the final auction held prior to the preceding June 1 provides approximately one month of lead time for ED to establish interest rates for particular loan types and to communicate this information to current and prospective borrowers and loan servicers.

[62] For Direct Consolidation Loans, the determination of whether certain terms and conditions apply to a given loan (e.g., which interest rate setting formula applies) is based on the date when the application for the Direct Consolidation Loan is received by the loan servicer.

[63] For variable rate loans made through the FFEL program and the Direct Loan program during the period from July 1, 1995, through June 30, 2006, interest rates are 0.6 percentage points lower during in-school and grace periods than during repayment periods. A borrower may apply to obtain a Direct Consolidation Loan during the six-month grace period after ceasing to be enrolled on at least a half-time basis, and by doing so may lock in the lower grace period interest rate.

[64] During the period when Direct Subsidized Loans, Direct Unsubsidized Loans, and Direct PLUS Loans were made with variable rates and Direct Consolidation Loans were made with fixed interest rates, the availability of fixed rate Direct Consolidation Loans essentially provided borrowers with an option to lock in rates determined according to the variable interest rate formula (rounded to the nearest higher one-eighth of 1%) that a borrower may have considered to be advantageous. The approximate one-month lead between when future interest rates become known and when they go into effect provided borrowers a window during which they could evaluate whether to obtain a Direct Consolidation Loan at the then-current rate (should rates for the next year be scheduled to increase) or defer the option to consolidate for another year (should rates for the next year be scheduled to decrease).

[65] During the period when the 8.25% interest rate cap was in effect, a borrower who had one or more loans with an interest rate that was greater than the cap (e.g., a FFEL PLUS Loan made with an 8.5% interest rate) could lower the applicable interest rate by including the loan(s) in a Direct Consolidation Loan.

Fixed Interest Rates Specified in the HEA

During the period from July 1, 2006, through June 30, 2013, all loans made through the Direct Loan program, with the exception of Direct Consolidation Loans, were made with fixed interest rates that were determined by Congress and specified in statute. Different fixed interest rates applied depending on the type of loan (e.g., Direct Subsidized Loan, Direct PLUS Loan), the program level for which it was borrowed (e.g., undergraduate, graduate), and the academic year for which the first disbursement of the loan was made (e.g., AY2007-2008, AY2008-2009). For these loans, the interest rate that was in effect when the loan was made remains in effect for the duration of the loan.

Fixed Interest Rates Indexed to Long-Term U.S. Treasury Securities

With the exception of Direct Consolidation Loans, all loans made through the Direct Loan program on or after July 1, 2013, have market-indexed fixed interest rates. For these loans, the applicable interest rate is set according to a formula specified in statute and remains in effect for the duration of the loan. For new loans made during each 12-month period that extends from July 1 through June 30, the applicable interest rate is indexed to the bond equivalent rate of 10-year U.S. Treasury notes auctioned at the final auction held prior to the preceding June 1.[66] An interest rate add-on increases the applicable borrower rate above the rate of the index. Different interest rate add-ons apply depending on the type of loan (e.g., Direct Subsidized Loan, Direct PLUS Loan) and the program level for which it was borrowed (e.g., undergraduate, graduate). An interest rate cap of 8.25% applies to Direct Subsidized Loans and to Direct Unsubsidized Loans made to undergraduate students; a cap of 9.5% applies to Direct Unsubsidized Loans made to graduate and professional students; and a cap of 10.5% applies to all Direct PLUS Loans. The interest rates applicable to loans being made through the Direct Loan program for loans first disbursed July 1, 2022, through June 30, 2023, and for loans first disbursed July 1, 2023, through June 30, 2024, are presented below in **Table 2**.

Table 2. Interest Rates on Loans Made Through the Direct Loan Program: July 1, 2022, through June 30, 2023, and July 1, 2023, through June 30, 2024

(percentage)

	Fixed Interest Rate in Effect		
Borrower Type	**Direct Subsidized Loans**	**Direct Unsubsidized Loans**	**Direct PLUS Loans**
Direct Loans disbursed July 1, 2022-June 30, 2023			
Undergraduate students	4.99	4.99	n.a.
Graduate and professional students	n.a.	6.54	7.54
Parents of dependent undergraduate students	n.a.	n.a.	7.54
Direct Loans disbursed July 1, 2023-June 30, 2024			
Undergraduate students	5.50	5.50	n.a.

[66] The final auction held prior to the preceding June 1 is generally held in May. See U.S. Department of the Treasury, Treasury Direct, "General Auction Timing," https://www.treasurydirect.gov/instit/auctfund/work/auctime/auctime.htm#:~:text=20%2Dyear%20bond%20and%2030,September%2C%20October%2C%20and%20December (accessed February 13, 2023).

Borrower Type	Fixed Interest Rate in Effect		
	Direct Subsidized Loans	Direct Unsubsidized Loans	Direct PLUS Loans
Graduate and professional students	n.a.	7.05	8.05
Parents of dependent undergraduate students	n.a.	n.a.	8.05

Source: HEA §455(b); (20 U.S.C. §1087e(b)); U.S. Department of Education, "Annual Notice of Interest Rates for Fixed-Rate Federal Student Loans Made Under the William D. Ford Federal Direct Loan program," 87 *Federal Register* 50327, August 16, 2022; and U.S. Department of Education, Office of Federal Student Aid, Electronic Announcement, DL-23-03, "FY23 Interest Rates for Direct Loans First Disbursed Between July 1, 2023 and June 30, 2024," May 16, 2023, https://fsapartners.ed.gov/knowledge-center/library/electronic-announcements/2023-05-16/interest-rates-direct-loans-first-disbursed-between-july-1-2023-and-june-30-2024,

Note: "n.a." means not applicable.

Interest Accrual

Interest accrual is the process through which interest accumulates over time. In the Direct Loan program, the accrual of interest is calculated using a simple daily interest formula.[67] With this formula, interest accrues only on the outstanding principal balance (OPB) of the loan. This is in contrast to a compound interest formula, in which interest accrues on both the OPB of the loan and any interest that has accrued during a prior period. In a limited set of circumstances, accrued interest that has not been paid by a borrower may be capitalized, or added to the OPB of the loan. (This is discussed below in the "Interest Capitalization" section.)

According to the simple daily interest formula used in the Direct Loan program, the amount of interest that accrues over a certain period of time is the product of (1) the number of days of interest being calculated (e.g., days since the last payment was made), (2) the OPB of the loan, and (3) an interest rate factor. The interest rate factor is the quotient of the applicable interest rate of the loan[68] divided by the number of days in a year (365.25).[69] An example of the calculation of accrued interest over a 30-day period is provided in the text box below.

Simple Daily Interest Formula: Example of the Calculation of Accrued Interest

Days since last payment: 30

Outstanding principal balance: $4,500

Interest rate factor:

Applicable interest rate: 0.0550

Days in a year: 365.25

Accrued Interest = [30 × $4,500 × (0.0550 ÷ 365.25)] = $20.33

[67] U.S. Department of Education, Office of Federal Student Aid, "Understand how interest is calculated and what fees are associated with your federal student loan: How is interest calculated?", https://studentaid.gov/understand-aid/types/loans/interest-rates#how-calculated (accessed February 13, 2023).

[68] In the simple daily interest formula, the applicable interest rate is expressed in decimal form. For example, 5.50% is expressed in decimal form as 0.0550.

[69] In the current loan servicing environment, ED loan servicers utilize established standards to calculate daily interest. The interest rate factor is determined by dividing the applicable interest rate by either 365.25 or 365 days, depending on the loan servicer platform. (CRS email communication with U.S. Department of Education, Office of Legislation and Congressional Affairs, February 28, 2023.)

For loans made through the Direct Loan program, interest begins to accrue on the OPB once the first installment of a loan is disbursed. Unless it is subsidized (see the "Subsidized Interest" section), interest accrues during the entirety of the period that a loan is in effect, irrespective of whether the borrower is expected to be making payments on it.

In response to the COVID-19 pandemic, interest accrual on Direct Loan program loans has been suspended temporarily. For information on this flexibility, see **Appendix D**.

Subsidized Interest

In a limited set of circumstances, the federal government subsidizes some or all of the interest that would otherwise accrue on loans made through the Direct Loan program.[70] During periods when an interest subsidy is provided, borrowers are relieved of the requirement to pay the interest that would accrue. The availability of an interest subsidy depends on factors such as the type of loan borrowed, eligibility for an authorized deferment, the repayment plan selected, and the borrower's status as a servicemember in the Armed Forces.[71] Interest subsidies that may be available on loans made through the Direct Loan program are described below.[72]

Interest Subsidy on Direct Subsidized Loans

On Direct Subsidized Loans, and on the subsidized component of Direct Consolidation Loans, interest is subsidized by the government (i.e., interest does not accrue) during in-school periods while a borrower is enrolled in an eligible program on at least a half-time basis, during a six-month grace period, and during periods of authorized deferment. Due to amendments to the HEA made by the Consolidated Appropriations Act, 2012 (P.L. 112-74), interest is not subsidized during the grace period on Direct Subsidized Loans disbursed between July 1, 2012, and June 30, 2014.[73]

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[70] In this report, the terms *subsidized interest* and *interest subsidy* refer to the government not charging a borrower for some or all of the interest that would otherwise accrue on a loan during a specified period of time. These terms are not used to refer to the interest rate on a loan made through the Direct Loan program being below the market rate that would typically be available on unsecured credit extended to a borrower without regard to the borrower's employment, income, assets, or credit history. These terms are also in contrast to the term *loan subsidy*, which is used for budgeting purposes and is the estimated present value of the cash flows from the government (e.g., loan disbursements), excluding administrative expense, less the estimated present value of the cash flows to the government (e.g., repayments of principal and interest), resulting from a direct loan or loan guarantee, discounted to the time when the loan is disbursed, and taking into account estimated effects of defaults, prepayments, fees, penalties, loan deferments, loan forgiveness, etc.

[71] In addition, in response to the COVID-19 pandemic, for March 13, 2020 through July 31, 2023, the accrual of interest on all types of Direct Loan program loans is suspended. This can be viewed as a limited-time interest subsidy.

[72] In addition to the Direct Loan program interest subsidies described here, a student loan interest deduction is made available through the federal tax code. For information on this interest subsidy, see CRS Report R41967, *Higher Education Tax Benefits: Brief Overview and Budgetary Effects*.

[73] Between July 1, 2013, and August 13, 2021, borrowers who were first-time borrowers on or after July 1, 2013, had their eligibility to both borrow a Direct Subsidized Loan and to receive the interest subsidy on such previously obtained loans limited to a period that could not exceed 150% of the published length of the academic program in which the student was enrolled (the maximum eligibility period). Borrowers subject to these limitations who remained enrolled beyond the maximum eligibility period would lose the interest subsidy and would become responsible for paying the interest that accrued on their Direct Subsidized Loans after the date that they exceeded the maximum eligibility period. The FAFSA Simplification Act of 2020 (P.L. 116-260) repealed these limitations. Thus, for borrowers with Direct Subsidized Loans first disbursed on or after July 1, 2021, these limitations do not apply. In addition, for borrowers with Direct Subsidized Loans outstanding as of July 1, 2021, and on which the borrower was responsible for paying interest because they exceeded the maximum eligibility period, ED was to "adjust their account to remove the interest that (continued...)

Interest Rate Reduction for Automatic Debit Repayment

The HEA authorizes the Secretary of Education (the Secretary) to offer borrowers of loans made through the Direct Loan program an interest rate reduction as an incentive for having loan payments automatically debited from a bank account.[74] The Secretary currently offers a 0.25 percentage point interest rate reduction for automatic debit repayment. This option helps ensure that borrowers make their student loan payments on time. The interest rate reduction for automatic debit repayment does not apply during in-school, grace, deferment, or forbearance periods.

Interest Subsidies on Eligible Loans Repaid According to Certain Income-Driven Repayment (IDR) Plans During Negative Amortization

Interest subsidies are provided on certain types of loans repaid according to several of the IDR plans—both of the Income-Based Repayment (IBR) plans, the Pay As You Earn (PAYE) repayment plan, and the Revised Pay As You Earn (REPAYE) repayment plan—during periods when a borrower's loans are in negative amortization.[75] (Details of these IDR plans are described below in "Loan Repayment Plans" section.) A common characteristic of these IDR plans is that an interest subsidy is provided on Direct Subsidized Loans and on the subsidized component of Direct Consolidation Loans for a maximum of the first three consecutive years that the borrower repays according to the applicable IBR plan. In addition, in the REPAYE repayment plan an extended, partial interest subsidy is provided on all eligible loan types. These IDR plan interest subsidies are described in greater detail below.

Three-Year Interest Subsidy on Direct Subsidized Loans Repaid According to Certain IDR Plans During Negative Amortization

The structure of the IBR, PAYE, and REPAYE plans provide that in certain instances, a borrower's required monthly payment amount may be insufficient to pay all of the interest that has accrued on the borrower's Direct Subsidized Loans or on the subsidized component of a Direct Consolidation Loan. In such instances, the Secretary does not charge the borrower for the amount of the accrued interest that exceeds the applicable monthly payment amount (referred to as the *remaining accrued interest*) for a period of up to the first three years from the date the borrower began repaying according to one of those plans. For borrowers who switch repayment plans and repay their loans sequentially according to more than one of the IDR plans under which a subsidized loan interest subsidy is provided, a cumulative three-year limit on receipt of the interest subsidy applies to periods of repayment made under any of the aforementioned IDR plans.[76] Any periods during which the borrower receives an economic hardship deferment and during which an interest subsidy is provided on Direct Subsidized Loans and on the subsidized component of Direct Consolidation Loans are excluded from the three-year eligibility limit.

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accrued and reapply the borrower's payments accordingly." U.S. Department of Education, "Repeal of the William D. Ford Federal Direct Loan Program Subsidized Usage Limit Restriction," 86 *Federal Register* 31433 June 14, 2021.

[74] HEA, §455(b)(9); 34 C.F.R. §685.211(b). Until June 30, 2012, the Secretary was authorized to offer a variety of interest rate reductions to borrowers as a means of encouraging on-time repayment. These incentives were required to be cost neutral to the government.

[75] Negative amortization is a period of time during which a borrower's monthly payment amount is less than the amount of interest that accrues on their loans.

[76] With regard to Direct Consolidation Loans, the three-year period also includes periods during which an interest subsidy was provided on the underlying loans while they were being repaid according to an IDR plan during periods of negative amortization.

50% Interest Subsidy on All Eligible Loan Types Repaid According to the REPAYE Repayment Plan During Negative Amortization

In addition to the three-year interest subsidy of the remaining accrued interest on Direct Subsidized Loans and the subsidized component of Direct Consolidation Loans described above, the REPAYE repayment plan includes a 50% subsidy of the remaining accrued interest on all loans.[77] Beyond the three-year period for Direct Subsidized Loans and the subsidized component of Direct Consolidation Loans (described above), and during all periods of repayment on other eligible loans, in the instance that a borrower's required monthly payment amount is insufficient to pay all of the interest that has accrued on their loans, the Secretary charges the borrower for only 50% of the remaining accrued interest.[78] There is no time limit on receipt of the REPAYE repayment plan 50% interest subsidy.

No Accrual of Interest on Loans of Certain Active Duty Servicemembers

For all types of loans made through the Direct Loan program that were first disbursed on or after October 1, 2008, no interest accrues during a period of up to 60 months while the borrower is serving on active duty in the Armed Forces or is performing qualifying National Guard duty in an area of hostilities during a war or national emergency. For Direct Consolidation Loans, the interest subsidy applies only to the portion of the loan that was used to repay other loans that were first disbursed on or after October 1, 2008.

SCRA 6% Interest Rate Cap on Loans of Borrowers Who Enter Military Service

The Servicemembers Civil Relief Act (SCRA) provides that for individuals who borrow loans after August 14, 2008, but prior to their entrance into military service, the interest rate on their loans must be capped at a rate of 6% for the duration of their military service.[79] The federal government, as the creditor on loans made through the Direct Loan program, must forgive interest above the 6% rate and may not accelerate repayment of the loans. Loan servicers are required to regularly check with the U.S. Department of Defense Manpower Data Center (DMDC) to determine whether borrowers qualify for the SCRA 6% interest rate cap and to extend the benefit to borrowers. Borrowers also have the option of completing an *SCRA Interest Rate Limitation Request* and submitting it to their loan servicer to document their eligibility for the 6% interest rate cap.[80]

SCRA 6% Interest Rate Cap and Direct Consolidation Loans

If a borrower repays one or more loans on which the interest rate has been reduced to 6% under the SCRA with a Direct Consolidation Loan, the 6% interest rate is required to be used as the applicable interest rate on those loans for purposes of determining the weighted average interest

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[77] 34 C.F.R. §685.209(c)(2)(iii). Direct PLUS Loans made to parent borrowers and Direct Consolidation Loans that repaid either a Direct PLUS Loan or a FFEL PLUS Loan made to a parent borrower are ineligible to be repaid according to the REPAYE repayment plan.

[78] The borrower is not relieved of responsibility for payment of the 50% of the remaining accrued interest that is charged.

[79] For additional information on the SCRA, see CRS Report R45283, *The Servicemembers Civil Relief Act (SCRA): Section-by-Section Summary*.

[80] U.S. Department of Education, Office of Federal Student Aid, *Servicemembers Civil Relief Act (SCRA): Interest Rate Limitation Request*, OMB No. 1845-0135, https://fsapartners.ed.gov/sites/default/files/attachments/2020-01/011020RenewalSCRAIntRateLimitRequestAttach.pdf.

rate of the new Direct Consolidation Loan.[81] In such an occurrence, because Direct Consolidation Loans are currently being made with fixed interest rates, the 6% rate would essentially be locked in and would remain in effect beyond the end of the borrower's period of military service.

Interest Subsidy on All Loan Types During Cancer Treatment Deferment

A Cancer Treatment Deferment is provided during periods while a borrower is receiving treatment for cancer and for the six months thereafter. During periods while a borrower receives this deferment, no interest accrues on their qualifying loans. The Cancer Treatment Deferment is available on all types of Direct Loan program loans that are either made on or after September 28, 2018, or that had entered repayment status on or before September 28, 2018.[82] This benefit does not appear to be available for loans that were made prior to September 28, 2018, but had not yet entered repayment prior to that date.

Deferred Payment of Accrued Interest

In certain instances, the obligation of a borrower to pay the interest that accrues on the outstanding principal balance of loans made through the Direct Loan program may be deferred. For instance, during in-school, grace, deferment, and forbearance periods, borrowers are not required to make payments of either principal *or* the interest that accrues on the OPB. Also, for a borrower whose loans are in repayment status and who is repaying according to an IDR plan, if the amount of their required monthly payment is less than the amount of interest that has accrued on the loans, the payment of any accrued interest owed that is in excess of the required monthly payment amount may be deferred. Nonetheless, except to the extent that a borrower is receiving an interest subsidy, interest continues to accrue on their loans during periods while repayment of accrued interest is deferred.

Negative Amortization

The term *negative amortization* describes the situation in which the amount of interest that accrues on a loan over a given period of time is greater than the amount of payments that are made on it. In a case of negative amortization, the accumulation of unpaid accrued interest leads to the outstanding balance of principal and interest on the loan increasing over time. The deferred payment of accrued interest during periods of repayment according to the IDR plans (see the "Income-Driven Repayment (IDR) Plans" section) may lead to negative amortization.

Interest Capitalization

On certain occasions, any interest that has accrued but not been paid by a borrower may be added to the outstanding principal balance of the borrower's loans. This is called interest capitalization. When interest is capitalized, it becomes part of the OPB and interest begins to accrue on that new, larger loan amount. Over time, interest capitalization increases the total amount a borrower is required to repay. Interest is capitalized in the following situations:

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[81] 34 C.F.R. §685.202(a); U.S. Department of Education, Dear Colleague Letter GEN-16-20, "Retroactive Adjustments for Servicemembers Civil Relief Act (SCRA) from August 14, 2008, Onward," November 15, 2016, https://fsapartners.ed.gov/knowledge-center/library/dear-colleague-letters/2016-11-15/gen-16-20-subject-retroactive-adjustments-servicemembers-civil-relief-act-scra-august-14-2008-onward.

[82] HEA, §455(f)(3)); U.S. Department of Education, Office of Federal Student Aid, *Cancer Treatment Deferment Request*, OMB No. 1845-0154, https://studentaid.gov/sites/default/files/CancerTreatmentDeferment.pdf.

1. **Entering Repayment Status.** Any unpaid interest that has accrued on a borrower's loans during the in-school and grace periods is capitalized at the time a borrower's loan enters repayment status.
2. **Annually, in ICR and Alternative Repayment Plans.** Any unpaid interest that has accrued on a borrower's loan while the borrower is repaying according to the ICR plan (a type of IDR plan) or one of the alternative repayment plans is capitalized annually.
3. **Exit from or Failure to Recertify Income and Family Size in the IBR Plan.** Any unpaid interest that has accrued on a borrower's loan during a period when they were repaying according to the IBR plan is capitalized at the time the borrower changes to a different repayment plan and when they fail to recertify their income and family size for purposes of annually determining their monthly payments under the plan.
4. **Exit from or Failure to Recertify Income and Family Size in the PAYE or REPAYE Repayment Plans.** Any unpaid interest that has accrued on a borrower's loan during a period when they were repaying according to the PAYE or REPAYE repayment plans is capitalized at the time the borrower changes to a different repayment plan. For borrowers in the PAYE repayment plan, interest may also capitalize in instances in which they fail to recertify their income and family for purposes of annually determining their monthly payments under the plan.[83]
5. **End of Partial Financial Hardship in IBR Plans.** Any unpaid interest that has accrued on a borrower's loan during a period when they were repaying according to the IBR plan and had a *partial financial hardship* is capitalized when the borrower is determined to no longer have a partial financial hardship.[84]
6. **End of Partial Financial Hardship in PAYE Repayment Plan.** Any unpaid interest that has accrued on a borrower's loan during a period when they were repaying according to the PAYE repayment plan and had a partial financial hardship is capitalized when the borrower is determined to no longer have a partial financial hardship.
7. **End of Forbearance.** In general, any unpaid interest that has accrued on a borrower's loan during a period of forbearance is capitalized at the expiration of the period. However, interest that accrues during specified periods of administrative forbearance is not capitalized at the end of the administrative forbearance.[85] If, during the period of forbearance, a borrower was enrolled in

[83] Regulations do not explicitly state that failure to annually certify income information under the REPAYE repayment plan results in interest capitalization. However, regulations do specify that when a borrower fails to annually certify their income under the REPAYE repayment plan, ED will place them in an alternative repayment plan, and that interest capitalizes when a borrower leaves the REPAYE repayment plan. Thus, in effect, interest capitalizes when a borrower fails to annually recertify their income under the REPAYE repayment plan because they are placed into a different repayment plan. 34 C.F.R. § 685.209(c)(2)(iv) and (c)(4)(iii)(B); U.S. Department of Education, "Income-Driven Repayment (IDR) Plan Request," OMB No. 1845-0102, https://studentaid.gov/app-static/images/idrPreview.pdf.

[84] Under the IBR and PAYE repayment plans, a borrower is determined to have a *partial financial hardship* if the total annual payments for all of their eligible loans, as calculated according to a standard repayment plan with a maximum 10-year term, are greater than a specified percentage (15% or 10%, depending on the plan) of the borrower's income that is in excess of 150% of the poverty guideline applicable to their family size. For additional information, see the discussion of the IBR and PAYE repayment plans in the "Income-Driven Repayment (IDR) Plans" section.

[85] The administrative forbearance must have been granted (for up to 60 days) for purposes of processing a borrower's request for deferment, forbearance, a change in repayment plan, or loan consolidation.

either of the IBR plans or the PAYE repayment plan and was experiencing a partial financial hardship as defined under those plans, any unpaid interest that accrued on the borrower's loans during the period of forbearance will not be capitalized as long as the borrower continues to have a partial financial hardship.[86]

8. **End of Deferment.** In general, any unpaid interest that has accrued on a borrower's Direct Unsubsidized Loans, Direct PLUS Loans, or portion of a Direct Consolidation Loan used to repay such loans during a period of deferment is capitalized at the expiration of the deferment period.[87] If during the period of deferment a borrower was enrolled in either of the IBR plans or the PAYE repayment plan and was experiencing a partial financial hardship, any unpaid interest that accrued on the borrower's loans during the period of deferment will not be capitalized as long as the borrower continues to have a partial financial hardship.[88]
9. **Default.** Any unpaid interest that has accrued on a borrower's loan prior to the borrower defaulting (e.g., during periods of negative amortization, during delinquency) is capitalized at the time of default.
10. **Loan Consolidation.** Any interest that has accrued on a borrower's loan and remains unpaid when the borrower includes the loan in a Direct Consolidation Loan is capitalized upon consolidation.

Effective July 1, 2023, ED regulations eliminate all instances of interest capitalization that are not specified in the HEA.[89] Thus, the situations described in 1, 2, 4, 6, 7, and 9 above, will no longer result in interest capitalization. That is, interest capitalization is to only occur: (1) when, while enrolled in an IBR plan, a borrower exits the plan, fails to annually certify their income and family size, or no longer has a partial financial hardship; (2) when a period of deferment ends; and (3) upon consolidation.

Limit on Interest Capitalization in the IDR and Alternative Repayment Plans

For borrowers who are repaying their loans according to some of the IDR plans or an alternative repayment plan, the amount of interest that may be capitalized is capped. For borrowers repaying their loans according to the ICR plan or the alternative repayment plans, interest may be capitalized until the outstanding principal balance reaches a maximum of 110% of the amount of the OPB owed at the time the borrower entered repayment.[90] For borrowers repaying their loans according to the PAYE repayment plan, the amount of interest that may be capitalized is capped at 10% of the OPB owed at the time the borrower entered into repayment under the PAYE repayment plan. [91] Under all three of these repayment plans, once the limit is reached, interest will continue to accrue and accumulate, but it will no longer be capitalized as long as the borrower remains in the same repayment plan.

[86] 34 C.F.R. §§685.209(a)(2)(iv) and 685.221(b)(4).

[87] 34 C.F.R. §685.202(b)(2).

[88] 34 C.F.R. §§685.209(a)(2)(iv) and 685.221(b)(4).

[89] Department of Education, "Institutional Eligibility Under the Higher Education Act of 1965, as Amended; Student Assistance General Provisions; Federal Perkins Loan Program; Federal Family Education Loan Program; and William D. Ford Federal Direct Loan Program," 87 *Federal Register* 65904, November 1, 2022 [hereinafter ED, *Final Rule*, November 1, 2022].

[90] 34 C.F.R. §§685.208(l)(5) and 685.209 (b)(3)(iv).

[91] 34 C.F.R. §685.209(a)(2)(iv)(B).

Effective July 1, 2023, ED regulations eliminate instances of interest capitalization in the ICR plan, the PAYE repayment plan, and the alternative repayment plan.[92] Accordingly, effective July 1, 2023, the same regulations also eliminate provisions limiting interest capitalization in these plans.

Loan Origination Fees

Loan origination fees are charged to borrowers of Direct Subsidized Loans, Direct Unsubsidized Loans, and Direct PLUS Loans. No fees are charged to borrowers of Direct Consolidation Loans. These fees help offset federal loan subsidy costs by passing along some of the costs to borrowers.[93] Loan origination fees are calculated as a proportion of the loan principal borrowed and are deducted proportionately from the proceeds of each loan disbursement to the borrower.

The amount to be charged for loan origination fees is specified in statute. For Direct Subsidized Loans and Direct Unsubsidized Loans made on or after July 1, 2010, the HEA specifies a loan origination fee of 1%. (Higher loan origination fees were charged on loans made prior to July 1, 2010.) Since the inception of the Direct Loan program, the HEA has specified a loan origination fee of 4% for Direct PLUS Loans.

During periods when a budget sequestration order that applies to direct (or mandatory) spending programs is in effect, such as for the Direct Loan program, special rules apply to loan origination fees.[94] In instances where the first disbursement of a loan is made during a period that is subject to a sequestration order, the loan origination fee is required to be increased by the uniform percentage sequestration amount that is applicable to nondefense, mandatory spending programs. Loan origination fees that apply to loans made during FY2023 and FY2024 (periods of budget sequestration) are presented below in **Table 3**. A history of loan origination fees that previously applied to loans made through the Direct Loan program is presented in **Table C-1**.

Table 3. Origination Fees on Loans Made Through the Direct Loan Program, FY2023 and FY2024

(percentage)

Disbursement Period	Direct Subsidized Loans	Direct Unsubsidized Loans	Direct PLUS Loans
October 1, 2022-September 30, 2023	1.057	1.057	4.228
October 1, 2023-September 30, 2024	1.057	1.057	4.228

Source: HEA, §455(c); Balanced Budget and Emergency Deficit Control Act (BBEDCA), §256(b); U.S. Department of Education, Office of Federal Student Aid, Electronic Announcement GENERAL-23-37, "FY24 Sequester-Required Changes to the Title IV Student Aid Programs," May 15, 2023, https://fsapartners.ed.gov/

[92] ED, *Final Rule*, November 1, 2022.

[93] When the Direct Loan program was established, the terms and conditions of loans were designed to be substantially similar to those of loans that were being offered through the FFEL program. At that time, borrowers of FFEL program loans were responsible for paying a loan origination fee and a default fee (which at one time had been referred to as a loan insurance fee). In the Direct Loan program, the loan origination fee was initially set at 4%, which equaled the sum of the FFEL loan origination fee and the FFEL default fee.

[94] For additional information on how budget sequestration affects federal student loans, see CRS Report R42050, *Budget "Sequestration" and Selected Program Exemptions and Special Rules*, archived (available to congressional clients upon request).

knowledge-center/library/electronic-announcements/2023-05-15/fy-24-sequester-required-changes-title-iv-student-aid-programs

Loan Repayment

Borrowers are required to make payments on loans made through the Direct Loan program during a repayment period that, depending on the loan type, commences either upon the loan being fully disbursed (Direct PLUS Loans and Direct Consolidation Loans made on or after July 1, 2006) or after a six-month grace period (Direct Subsidized Loans, Direct Unsubsidized Loans, and pre-July 1, 2006, Direct Consolidation Loans). Borrowers are afforded the opportunity to choose from among a selection of numerous loan repayment plan options to repay their loans. The repayment plan selected is a determining factor in the duration of the repayment period. Borrowers may prepay all or any part of a loan made through the Direct Loan program at any time without being subject to a prepayment penalty.

Grace Period

A *grace period* is a six-month period beginning immediately after a borrower of a Direct Subsidized Loan, a Direct Unsubsidized Loan, or a pre-July 1, 2006, Direct Consolidation Loan first ceases to be enrolled in an eligible program on at least a half-time basis. The grace period excludes any period of up to three years during which a borrower who is a member of a reserve component of the Armed Forces is called or ordered to active duty for a period of more than 30 days and thus ceases to be enrolled on at least a half-time basis, as well as any additional period necessary for such a borrower to resume enrollment at the next available regular enrollment period.

The grace period is distinct from and not part of the repayment period. A loan on which a grace period is provided does not enter repayment status until the day after the grace period ends. If a borrower desires to enter repayment on loans that have a grace period immediately after completing school or ceasing to be enrolled on at least a half-time basis, they may consolidate those loans into a Direct Consolidation Loan during the grace period and enter repayment on the Direct Consolidation Loan upon its disbursement.[95]

Loan Repayment Period

In the Direct Loan program, the *repayment period* is the period during which borrowers are obligated to repay their loans. The repayment period for Direct Subsidized Loans, Direct Unsubsidized Loans, and pre-July 1, 2006, Direct Consolidation Loan begins the day after the grace period ends. Thus, for these types of loans the loan repayment period begins six months and one day after the borrower first ceases to be enrolled in an eligible program on at least a half-time basis. The repayment period for Direct PLUS Loans and Direct Consolidation Loans made on or after July 1, 2006, begins the day the loan is fully disbursed. (This would be the day of the last disbursement if the loan has multiple disbursements.) For all loan types, the first payment is due no later than 60 days after the start of the repayment period.

In general, the repayment period excludes any periods of authorized deferment and forbearance; however, in certain instances of a borrower repaying a loan according to an IDR plan, periods

[95] U.S. Department of Education, Office of Federal Student Aid, Public Service Loan Forgiveness Questions and Answers, "Can I waive the six-month grace period on my Direct Subsidized Loans and Direct Unsubsidized Loans and begin making qualifying PSLF payments early?", https://studentaid.gov/help-center/answers/article/waiving-loan-grace-period-to-begin-pslf-payments (accessed February 27, 2023).

during which the borrower is receiving an economic hardship deferment may be considered as part of the repayment period. In instances where a borrower has entered a period of deferment or forbearance, the next subsequent payment is due no later than 60 days after the end of the deferment or forbearance period.

Loan Repayment Plans

Borrowers may choose from among numerous loan repayment plan options to repay their loans. The available repayment plans fall into five broad categories: standard repayment plans, extended repayment plans, graduated repayment plans, income-driven repayment (IDR) plans, and alternative repayment plans.

The particular repayment plans available to any individual borrower may depend on the type(s) of loans borrowed, the date of becoming a *new borrower*, or the date of entering repayment status. In general, all of a borrower's loans made through the Direct Loan program must be repaid together according to the same repayment plan. However, if a borrower seeking to repay according to one of the IDR plans has some types of loans that may be repaid according to an IDR plan and some that may not, the borrower may repay the eligible loans according to an IDR plan and the ineligible loans according to a non-IDR plan. If a borrower fails to actively select a repayment plan, they are placed into the standard repayment plan that is applicable to the loans.

In general, a borrower may change from one plan to another eligible plan at any time and may not change to a repayment plan that has a maximum repayment period of fewer than the number of years that the borrower's loans have already been in repayment status. If a borrower changes plans to any of the standard repayment plans, graduated repayment plans, extended repayment plans, or alternative repayment plans, the beginning of the applicable repayment period will be measured from the date that the borrower's loan initially entered repayment status. If a borrower changes to one of the IDR plans, the beginning of the repayment period will be measured from the date the borrower satisfied certain plan-specific criteria, as described below, for the applicable IDR plans.

Under the standard repayment plans, graduated repayment plans, extended repayment plans, and most alternative repayment plans, payment amounts may not be less than the amount of accrued interest that is due. Negative amortization is permitted in the IDR plans and as part of one alternative repayment plan option. Also, for loans with variable interest rates (which had been made prior to July 1, 2006), monthly payment amounts or the length of the repayment period may be adjusted under the standard repayment plans, graduate repayment plans, and extended repayment plans to take into account the effects of annual changes in the variable interest rate.

Table 4 provides a summary of selected characteristics of the various loan repayment plans that are made generally available to borrowers. Following the table, the various repayment plans are described in detail.

Table 4. Selected Characteristics of Loan Repayment Plans Generally Available to Borrowers: Standard Repayment Plans, Extended Repayment Plans, Graduated Repayment Plans, and Income-Driven Repayment Plans

Repayment Plan	Special Eligibility Limitations[a]	Payment Structure	Annual Certification of Income and Family Size Required	Subsidized Interest	Negative Amortization Permitted	Limit on Interest Capitalization	Maximum Repayment Term	Loan Forgiveness at End of Repayment Term
Standard Repayment Plans								
Standard Repayment Plan with a Maximum 10-year Term	None	Level payments	No	No	No	No	10 years	No
Standard Repayment Plan for Direct Consolidation Loans with 10-year to 30-year Terms	Direct Consolidation Loans only	Level payments	No	No	No	No	10 to 30 years, based on combined loan balance[b]	No
Extended Repayment Plans								
Extended Fixed Repayment Plan with a Maximum 25-Year Term	Loan balance must exceed $30,000	Level payments	No	No	No	No	25 years	No
Extended Graduated Repayment Plan with a Maximum 25-Year Term	Loan balance must exceed $30,000	Payments increase incrementally every 2 years	No	No	No	No	25 years	No
Extended Repayment Plan with 12-year to 30-year Terms (Pre-July 1, 2006)	None	Level payments	No	No	No	No	12 to 30 years, based on loan balance[c]	No

Repayment Plan	Special Eligibility Limitations[a]	Payment Structure	Annual Certification of Income and Family Size Required	Subsidized Interest	Negative Amortization Permitted	Limit on Interest Capitalization	Maximum Repayment Term	Loan Forgiveness at End of Repayment Term
Graduated Repayment Plans								
Graduated Repayment Plan with a Maximum 10-year Term	None	Payments increase incrementally every 2 years	No	No	No	No	10 years	No
Graduated Repayment Plan for Direct Consolidation Loans with 10-year to 30-year Terms	Direct Consolidation Loans only	Payments increase incrementally every 2 years	No	No	No	No	10 to 30 years, based on combined loan balance[b]	No
Graduated Repayment Plan with 12-year to 30-year Terms (Pre-July 1, 2006)	None	Payments increase incrementally every 2 years	No	No	No	No	12 to 30 years, based on loan balance[c]	No
Income-Driven Repayment Plans								
Income-Contingent Repayment (ICR) Plan	Direct PLUS Loans to parents excluded, unless consolidated into a Direct Consolidation Loan	Lesser of: • 12-year amortization, multiplied by an income percentage factor,[d] or • 20% of AGI[e] that exceeds 100% of federal poverty guideline	Yes. Upon failure to certify, accrued interest is capitalized[f] and payment reverts to Standard Repayment Plan with a Maximum 10-year Term	No	Yes	Yes. Accrued interest is capitalized once per year; and capitalized interest may not result in balance exceeding 110% of original OPB[f]	25 years	Yes

Repayment Plan	Special Eligibility Limitations[a]	Payment Structure	Annual Certification of Income and Family Size Required	Subsidized Interest	Negative Amortization Permitted	Limit on Interest Capitalization	Maximum Repayment Term	Loan Forgiveness at End of Repayment Term
Original Income-Based Repayment (IBR) Plan	Must initially have a partial financial hardship; Direct PLUS Loans to parents and Direct Consolidation Loans that consolidated a parent PLUS Loan excluded	Lesser of: • 15% of AGI[e] that exceeds 150% of federal poverty guideline while borrower has a partial financial hardship, or • 10-year amortization based on original OPB	Yes. Upon failure to certify, accrued interest is capitalized and payment reverts to Standard Repayment Plan with a Maximum 10-year Term	Yes. Remaining accrued interest on Direct Subsidized Loans during negative amortization for first 3 years, excluding periods of economic hardship deferment[g]	Yes	Yes. Accrued interest is generally capitalized only if a borrower no longer has a partial financial hardship.	25 years	Yes
IBR Plan for Post-July 1, 2014, New Borrowers	Must initially have a partial financial hardship; Direct PLUS Loans to parents and Direct Consolidation Loans that consolidated a parent PLUS Loan excluded	Lesser of: • 10% of AGI[e] that exceeds 150% of federal poverty guideline while borrower has a partial financial hardship, or • 10-year amortization based on original OPB	Yes. Upon failure to certify, accrued interest is capitalized and payment reverts to Standard Repayment Plan with a Maximum 10-year Term	Yes. Remaining accrued interest on Direct Subsidized Loans during negative amortization for first 3 years, excluding periods of economic hardship deferment[g]	Yes	Yes. Accrued interest is generally capitalized only if a borrower no longer has a partial financial hardship.	20 years	Yes

Repayment Plan	Special Eligibility Limitations[a]	Payment Structure	Annual Certification of Income and Family Size Required	Subsidized Interest	Negative Amortization Permitted	Limit on Interest Capitalization	Maximum Repayment Term	Loan Forgiveness at End of Repayment Term
Pay As You Earn (PAYE) Repayment Plan	Must initially have a partial financial hardship; Direct PLUS Loans to parents and Direct Consolidation Loans that consolidated a parent PLUS Loan excluded	Lesser of: • 10% of AGI[e] that exceeds 150% of federal poverty guideline while borrower has a partial financial hardship, or • 10-year amortization based on original OPB	Yes. Upon failure to certify, accrued interest may be capitalized[f] and payment reverts to Standard Repayment Plan with a Maximum 10-year Term	Yes. Remaining accrued interest on Direct Subsidized Loans during negative amortization for first 3 years, excluding periods of economic hardship deferment[g]	Yes	Yes. Accrued interest is generally capitalized only if a borrower no longer has a partial financial hardship; and capitalized interest may not exceed 10% of original OPB[f]	20 years	Yes
Revised Pay As You Earn (REPAYE) Repayment Plan	Direct PLUS Loans to parents and Direct Consolidation Loans that consolidated a parent PLUS Loan excluded	10% of AGI[h] that exceeds 150% of federal poverty guideline; and payment may be adjusted for borrowers who return to the plan from the REPAYE Alternative Repayment Plan[i]	Yes. Upon failure to certify income, accrued interest is capitalized[f] and borrower is placed in the REPAYE Alternative Repayment Plan; and upon failure to certify family size, a family size of 1 is assumed	Yes. Remaining accrued interest on Direct Subsidized Loans during negative amortization for first 3 years, excluding periods of economic hardship deferment;[g] and 50% of remaining accrued interest on all other loans, and on Direct Subsidized Loans beyond the first 3 years	Yes	Yes. Accrued interest is not capitalized as long as a borrower remains in the REPAYE Repayment Plan[f]	20 years for borrowers with only undergraduate debt; and 25 years for borrowers with any graduate debt	Yes

Repayment Plan	Special Eligibility Limitations[a]	Payment Structure	Annual Certification of Income and Family Size Required	Subsidized Interest	Negative Amortization Permitted	Limit on Interest Capitalization	Maximum Repayment Term	Loan Forgiveness at End of Repayment Term
REPAYE Alternative Repayment Plan	Must have previously repaid according to the REPAYE Repayment Plan; Direct PLUS Loans to parents and Direct Consolidation Loans that consolidated a parent PLUS Loan excluded	Level payments, amortized over the shorter of: • 10 years from placement into the plan; or • remainder of the 20 year or 25 year REPAYE repayment term, as applicable	No	No	No	No	Shorter of: • 10 years from placement into the plan; or • remainder of the 20 year or 25 year REPAYE Repayment Plan term, as applicable	No[j]

Source: HEA, §§455 and 493C; 34 C.F.R. §§685.208, 685.209, and 685.221.

Notes: This table excludes the Alternative Repayment Plans, which are distinct from the REPAYE Alternative Repayment Plan. Details about the Alternative Repayment Plans are communicated to borrowers by loan services and are generally not made publicly available. AGI = adjusted gross income; OPB = outstanding principal balance.

a. Eligibility for certain plans may be contingent upon when an individual became a new borrower, the period during which a borrower obtained a loan, or when a borrower's loan entered repayment status. For details, see the "Loan Repayment Plans"

b. The combined loan balance represents the sum of (1) the outstanding balances on all of the borrower's loans eligible to be included in the Direct Consolidation Loan, plus (2) the outstanding balance of other federal education loans and private education loans to the extent that the balance of the other education loans is not greater than the balance of the Direct Consolidation Loan, the other education loans are not in default, and the other education loans were not borrowed from an individual. For additional details, see **Table 5**.

c. The loan balance represents the total amount of the borrower's loans made through the Direct Loan program. For additional details, see **Table 6**.

d. Income percentage factors range from 50.52% to 200%, depending on a borrower's AGI and income tax filing status.

e. For a married borrower who files a joint federal tax return with their spouse, the AGI for both spouses is used; for a married borrower who files a separate federal tax return, only the AGI of the borrower is used.

f. Effective July 1, 2023, ED regulations eliminate this instance of interest capitalization. Accordingly, ED regulations also eliminate provisions limiting the amount of interest capitalization.

g. Periods during which a borrower has received an interest subsidy while qualifying for an economic hardship deferment (during which an interest subsidy is provided on Direct Subsidized Loans and on the subsidized component of a Direct Consolidation Loan) are excluded from the three-year period.

h. For a borrower who is unmarried, their AGI is used. If the borrower is married, and unless certain exceptions apply, the AGI of both the borrower and their spouse is used irrespective of whether the borrower files a joint or separate federal tax return with their spouse. If a borrower is married and certifies that they are separated or are unable to access information on the income of their spouse, then the AGI of only the borrower is used.

i. For a borrower who returns to the REPAYE repayment plan after having repaid according to the REPAYE Alternative repayment plan, if it is determined that the borrower paid less under the REPAYE Alternative repayment plan than would have been required under the REPAYE repayment plan, payment amounts may be adjusted upwards to recoup the difference.

j. Periods of repayment according to the REPAYE Alternative repayment plan may count toward the maximum repayment term to qualify for loan forgiveness under other IDR plans. However, such periods do not qualify for loan forgiveness under the PSLF program.

Standard Repayment Plans

Standard repayment plans allow borrowers to make predictable, level payments (i.e., monthly payments that remain the same over the life of the loan) on their loans over a defined period of time. Two standard repayment plans are offered.

Standard Repayment Plan with a Maximum 10-Year Term

All borrowers of Direct Subsidized Loans, Direct Unsubsidized Loans, and Direct PLUS Loans, and borrowers of Direct Consolidation Loans that entered repayment prior to July 1, 2006, may select a standard repayment plan that has a maximum repayment period of 10 years. According to this plan, borrowers make fixed monthly payments of not less than $50 over a period of 10 years; however, loans with small balances may be repaid in a period that is shorter than 10 years.[96]

Standard Repayment Plan for Direct Consolidation Loans with 10-Year to 30-Year Terms

Borrowers of Direct Consolidation Loans that were made on or after July 1, 2006, may select a standard repayment plan that has a repayment period of between 10 and 30 years. Under this plan, borrowers make fixed monthly payments of not than less than $50.[97] The duration of the repayment period is based on the combined balances of the Direct Consolidation Loan and all other federal and private education loans owed by the borrower.[98] However, for purposes of determining the repayment period, the combined balance of the other education loans may not be greater than the balance of the Direct Consolidation Loan. Repayment periods for the Standard Repayment Plan for Direct Consolidation Loans are shown in **Table 5**. (The repayment periods shown also apply to the Graduated Repayment Plan for Direct Consolidation Loans, which is discussed in a later section.)

Table 5. Repayment Periods: Standard Repayment Plan for Direct Consolidation Loans and Graduated Repayment Plan for Direct Consolidation Loans

(Borrowers who entered repayment on or after July 1, 2006)

Combined Loan Balance[a] at Start of Repayment	Maximum Repayment Period
Less than $7,500	10 years
$7,500, but less than $10,000	12 years
$10,000, but less than $20,000	15 years
$20,000, but less than $40,000	20 years
$40,000, but less than $60,000	25 years
$60,000 or more	30 years

Source: 34 C.F.R. §§685.208(c)(h) and (j), and 685.220(i).

[96] The last payment may be for less than $50.

[97] The last payment may be for less than $50.

[98] For additional details, see 34 C.F.R. §§685.208(c) and (j), 685.220(i), and U.S. Department of Education, Office of Federal Student Aid, "Repayment Plans: Standard Plan," https://studentaid.gov/manage-loans/repayment/plans/standard (accessed February 27, 2023).

a. The combined loan balance represents the sum of (1) the outstanding balances on all of the borrower's loans eligible to be included in the Direct Consolidation Loan, plus (2) the outstanding balance of other federal education loans and private education loans to the extent that the balance of the other education loans is not greater than the balance of the Direct Consolidation Loan, the other education loans are not in default, and the other education loans were not borrowed from an individual.

Extended Repayment Plans

All borrowers of Direct Subsidized Loans, Direct Unsubsidized Loans, Direct PLUS Loans, and Direct Consolidation Loans may elect to repay according to an extended repayment plan. The extended repayment plans afford borrowers with large total loan balances the opportunity to make lower monthly payments in return for extending the repayment of their loans for a longer duration. By extending the repayment term, interest accrues over a longer period of time; as a consequence, a larger amount of interest is paid under an extended repayment plan than would be paid according to a standard repayment plan with a 10-year term. There are three extended repayment plans. Eligibility to select an extended repayment plan is limited based on when a borrower's loans entered repayment and the total outstanding principal balance owed on loans made through the Direct Loan program.

Extended Fixed Repayment Plan with a Maximum 25-Year Term

This repayment plan is available to individuals who are new borrowers on or after October 7, 1998; whose loans enter repayment on or after July 1, 2006; and who have an outstanding balance of more than $30,000 on loans made through the Direct Loan program. The Extended Fixed Repayment Plan allows borrowers to make monthly payments in equal amounts over a period of 25 years from the date their loans entered repayment status.[99] This results in monthly payment amounts being lower than they would be under a standard repayment plan with a 10-year term.

Extended Graduated Repayment Plan with a Maximum 25-Year Term

Like the above plan, this repayment plan is available to individuals who are new borrowers on or after October 7, 1998; whose loans enter repayment on or after July 1, 2006; and who have an outstanding balance of more than $30,000 on loans made through the Direct Loan program. The Extended Graduated Repayment Plan allows borrowers to make monthly payments that are initially low and increase in amount every two years over a repayment period of 25 years from the date the borrower's loans entered repayment status.[100] Under this plan, monthly payment amounts increase from an initial payment amount that must be at least $50 to an amount that may not be greater than three times the initial monthly payment amount.

Extended Repayment Plan with 12-Year to 30-Year Terms (Pre-July 1, 2006)

This extended repayment plan is available to borrowers of loans made through the Direct Loan program who entered repayment prior to July 1, 2006. Under this plan, borrowers make monthly payments in equal amounts over a period that may range from 12 to 30 years from the date their loans entered repayment status.[101] The minimum monthly payment amount is $50, and the duration of the repayment term is dependent upon the outstanding principal balance of the

[99] For additional details, see 34 C.F.R. §685.208(e) and U.S. Department of Education, Office of Federal Student Aid, "Repayment Plans: Extended Plan," https://studentaid.gov/manage-loans/repayment/plans/extended (accessed February 27, 2023).

[100] Ibid.

[101] For additional details, see 34 C.F.R. §685.208(d).

borrower's loans made through the Direct Loan program.[102] The extension of the repayment term results in monthly payment amounts being lower than they would be under a standard repayment plan with a 10-year term. Repayment periods for the extended repayment plan, by loan amount, are shown below in **Table 6**. (The repayment periods shown in this table also apply to the graduated repayment plan for borrowers who entered repayment prior to July 1, 2006, which is discussed in the next section.)

Table 6. Repayment Periods: Extended Repayment Plan and Graduated Repayment Plan

(Borrowers who entered repayment prior to July 1, 2006)

Outstanding Principal Balance[a]	Maximum Repayment Period
Less than $10,000	12 years
$10,000, but less than $20,000	15 years
$20,000, but less than $40,000	20 years
$40,000, but less than $60,000	25 years
$60,000 or more	30 years

Source: 34 C.F.R. §§685.208(d), (f) and (i).

Notes: These repayment plans are available to borrowers of Direct Subsidized Loans, Direct Unsubsidized Loans, Direct PLUS Loans, and Direct Consolidation Loans who entered repayment prior to July 1, 2006.

a. Total OPB of loans made through the Direct Loan program.

Graduated Repayment Plans

Loan repayment according to the graduated repayment plans is structured so that a borrower's monthly payment amount will periodically change over the course of the repayment period. In general, borrowers will be required to make smaller payments at first and larger payments later. Monthly payment amounts may be less than $50; however, in no instance may they be less than the amount of interest that accrues. There are three graduated repayment plans. A borrower's eligibility to select one of the graduated repayment plans depends on loan type and when the borrower's loans entered repayment.

Graduated Repayment Plan with a Maximum 10-Year Term

All borrowers of Direct Subsidized Loans, Direct Unsubsidized Loans, and Direct PLUS Loans that entered repayment after July 1, 2006, may select a graduated repayment plan that has a maximum repayment period of 10 years. Under this plan, monthly payment amounts increase incrementally every two years from an initial amount that may be less than $50 to an amount that may not be greater than three times the initial monthly payment amount.[103]

[102] In contrast to the Standard Repayment plan for Direct Consolidation Loans, amounts owed on other federal student loans and private education loans are not considered for purposes of determining the duration of the repayment term under this plan.

[103] For additional details, see 34 C.F.R. §685.208(g) and U.S. Department of Education, Office of Federal Student Aid, "Repayment Plans: Graduated Plan," https://studentaid.gov/manage-loans/repayment/plans/graduated (accessed February 27, 2023).

Graduated Repayment Plan for Direct Consolidation Loans with 10-Year to 30-Year Terms

Borrowers of Direct Consolidation Loans that were made on or after July 1, 2006, may select a graduated repayment plan that has a repayment period of between 10 and 30 years. Under this plan, monthly payment amounts increase incrementally every two years from an initial amount that may be less than $50 to an amount that may not be greater than three times the initial monthly payment amount.[104] The duration of the repayment period is based on the combined balances of the Direct Consolidation Loan and all other federal and private education loans owed by the borrower. However, for purposes of determining the repayment period, the combined balance of the other education loans may not be greater than the balance of the Consolidation Loan. Repayment periods for the Graduated Repayment Plan for Direct Consolidation Loans are shown above in **Table 5**.

Graduated Repayment Plan with 12-Year to 30-Year Terms (Pre-July 1, 2006)

Borrowers of loans made through the Direct Loan program who entered repayment prior to July 1, 2006, may repay their loans according to a graduated repayment plan with a term that can range from 12 to 30 years. Under this plan, monthly payment amounts increase incrementally every two years from an initial amount that may not be less than either $25 or 50% of the amount that would be required under the Standard Repayment Plan with a Maximum 10-Year Term to an amount that may be no more than 150% of the amount that would be required under the Standard Repayment Plan with a Maximum 10-Year Term.[105] The duration of the repayment term is determined based on the total outstanding principal balance of the borrower's loans made through the Direct Loan program. Repayment periods for this graduated repayment plan vary by loan balance, and are shown above in **Table 6**.

Income-Driven Repayment (IDR) Plans

Since its establishment, the Direct Loan program has included a requirement that ED make available to borrowers (other than to parent borrowers of Direct PLUS Loans) a repayment plan under which a borrower's monthly payment amounts are to vary according to their income.[106] For the first 15 years that the Direct Loan program was in operation, an Income-Contingent Repayment (ICR) plan fulfilled this requirement. Over time, ED and Congress have established additional repayment plans under which a borrower's monthly payments vary according to their income. Collectively, these plans have come to be referred to as income-driven repayment (IDR) plans.

Several IDR plans are currently available to borrowers: the ICR plan, the Income-Based Repayment (IBR) plan (one version of which is available to individuals who qualify as a new borrower on or after July 1, 2014, and another which is available to individuals who do not qualify as a new borrower as of that date), the Pay As You Earn (PAYE) repayment plan, and the Revised Pay As You Earn (REPAYE) repayment plan.

The IDR plans afford borrowers the opportunity to make monthly payments in amounts that are capped at a specified share or proportion of their *discretionary income* over a repayment period

[104] For additional details, see 34 C.F.R. §685.208(h) and U.S. Department of Education, Office of Federal Student Aid, "Repayment Plans: Graduated Plan," https://studentaid.gov/manage-loans/repayment/plans/graduated (accessed February 27, 2023).

[105] For additional details, see 34 C.F.R. §685.208(f).

[106] HEA, §455(d)(1)(D).

that may not exceed a specified duration. Discretionary income is defined as the portion of a borrower's adjusted gross income (AGI) that is in excess of a specified multiple of the federal poverty guidelines applicable to the borrower's family size. In general, a borrower's family size includes the borrower, the borrower's spouse, and the borrower's children, and may include other individuals who both live with the borrower and receive more than half of their support from the borrower.[107] The portion of a borrower's income that is below the federal poverty guideline multiple that is applicable to a particular IDR plan may be considered nondiscretionary income, or income that may be needed for purposes of meeting certain basic needs such as food and shelter. Multiples of the federal poverty guidelines that are applicable to the IDR plans are presented below in **Table 7** for family sizes of one through eight persons.

Table 7. 2023 Poverty Guidelines for the 48 Contiguous States and the District of Columbia

(Selected multiples)

	Number of Persons in Family or Household							
Multiple	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**
100%	$14,580	$19,720	$24,860	$30,000	$35,140	$40,280	$45,420	$50,560
150%	$21,870	$29,580	$37,290	$45,000	$52,710	$60,420	$68,130	$75,840

Source: U.S. Department of Health and Human Services, "U.S. Federal Poverty Guidelines Used to Determine Financial Eligibility for Certain Federal Programs," 88 *Federal Register* 3424, January 19, 2023.

Notes: For families/households with more than eight persons, add $4,540 for each additional person. Separate, higher poverty guidelines apply to Alaska and Hawaii. For example, 100% of the poverty guideline for a one person family/household is $18,210 in Alaska, and $16,770 in Hawaii. If a borrower is not a resident of a state, the poverty guidelines applicable to the 48 contiguous states and the District of Columbia are used. Poverty guidelines are adjusted annually based on the percentage change in the Consumer Price Index for All Urban Consumers (CPI-U).

The various IDR plans are primarily distinguished by (1) the multiple (e.g., 100%, 150%) of the federal poverty guidelines used to define discretionary income, (2) the percentage of a borrower's discretionary income (e.g., 10%, 15%, 20%) that is assessed as being available for purposes of making student loan payments, and (3) the maximum duration of the repayment term (e.g., 20 years/240 months, 25 years/300 months). The IDR plans also share other common characteristics that include the following:

- **Required certification of income and family size.** The processes for determining IDR plan monthly payment amounts take into account a borrower's income and family size. Consequently, on an annual basis borrowers must provide documentation of their income and must certify their family size to

[107] 34 C.F.R. §§685.209(a)(1(iv); 685.209(c)(1)(iii), and 685.221(a)(3). Borrowers are required to certify their family size once per year. A borrower's children may include unborn children expected to be born during the year the borrower certifies family size.

become and remain eligible for IDR plan repayment.[108] In addition, borrowers may update their income and family size at any time if either changes.[109]

- **Potential negative amortization.** IDR plan payment amounts are capped at no more than a certain proportion of a borrower's discretionary income. As a result, in some circumstances required payment amounts may be less than the amount of interest that accrues, which may lead to a borrower's loan(s) becoming negatively amortized.[110]
- **Potential availability of loan forgiveness.** All the IDR plans make available the prospect of eventual loan forgiveness if a borrower, after making payments according to one or more of the IDR plans, has been unable to fully repay their student loan debt by the end of the maximum repayment term.[111] Payments made on defaulted loans repaid according to the IDR plans do not count toward a borrower's eligibility for loan forgiveness.

Each of the IDR plans are described in detail below.

In April 2022, in response to the COVID-19 pandemic and to address "historical failures in the administration of the federal student loan programs,"[112] ED announced a one-time adjustment to borrower loan accounts to revise the number of IDR-qualifying payments for the purposes of satisfying the maximum repayment period in the IDR plans. For information on this adjustment, see **Appendix D**.

Income-Contingent Repayment (ICR) Plan

The Income-Contingent Repayment plan permits borrowers to make payments on eligible student loans in amounts that are determined according to procedures that take into account a borrower's adjusted gross income and family size. Any loan balance that remains unpaid after 25 years of repayment according to the ICR plan and other qualified plans will be forgiven. By and large, specifications for the ICR plan are established by the Secretary in regulations. An income-

[108] U.S. Department of Education, Office of Federal Student Aid, "Income-Driven Repayment (IDR) Plan Request," OMB No. 1845-0102. In response to the COVID-19 pandemic, ED has stated that borrowers will not be required to recertify their income through at least six months after the COVID-19 student loan payment pause ends (i.e., a special administrative forbearance available in light of the COVID-19 pandemic). U.S. Department of Education, Office of Federal Student Aid, "Coronavirus and Forbearance Info for Students, Borrowers, and Parents," https://studentaid.gov/announcements-events/covid-19/income-driven-repayment#when-to-recertify (accessed February 27, 2023).

[109] The Fostering Undergraduate Talent by Unlocking Resources for Education Act (the FUTURE Act; P.L. 116-91), among other provisions, authorizes the Internal Revenue Service (with borrower approval) to disclose relevant tax return information to ED for the purpose of determining a Direct Loan borrower's eligibility for and repayment obligations under IDR plans. Authorized disclosures include (1) taxpayer identity information, (2) filing status, (3) adjusted gross income, (4) total number of claimed exemptions, (5) the number of dependents taken into account for determining the Child Tax Credit under IRC Section 24, and (6) the fact that no return was filed (if applicable). As of the publication date of this report, it appears these procedures have not yet been operationalized.

[110] To offset some of the adverse effects of negative amortization, all of the IDR plans except the ICR plan offer some form of interest subsidy to borrowers whose loans are in a period of negative amortization.

[111] Forgiven, or discharged, indebtedness may be subject to being included as part of a borrower's gross income for federal, and possibly state, income tax purposes. For additional information, see the section on "Tax Treatment of Discharged and Forgiven Debt" below.

[112] U.S. Department of Education, "Department of Education Announces Actions to Fix Longstanding Failures in the Student Loan Programs," press release, April 19, 2022, https://www.ed.gov/news/press-releases/department-education-announces-actions-fix-longstanding-failures-student-loan-programs.

contingent repayment plan has been available to borrowers since the establishment of the Direct Loan program in 1994.[113]

Eligibility. The ICR plan is available to all borrowers of Direct Subsidized Loans, Direct Unsubsidized Loans, Direct PLUS Loans made to graduate and professional students, and Direct Consolidation Loans.[114] Direct PLUS Loans made to parent borrowers are not eligible to be repaid according to the ICR plan; however, parent borrowers of Direct PLUS Loans may qualify to repay those loans according to the ICR plan by consolidating them into a Direct Consolidation Loan. There are no specific income restrictions that limit a borrower's eligibility to repay according to the ICR plan.

Payment Amounts. Under the ICR plan, monthly payment amounts are calculated according to procedures that take into account factors including the outstanding loan balance at the time the borrower's loans enter repayment status, the interest rates applicable to those loans, the amount of any unpaid accrued interest, the borrower's AGI and family size, and an income percentage factor. For a married borrower who files a joint federal tax return with their spouse, the AGI for both spouses is used; for a married borrower who files a separate federal tax return, only the AGI of the borrower is used. Consistent with these criteria, monthly payment amounts are the lesser of

- a monthly payment amount calculated according to a 12-year amortization schedule, multiplied by an income percentage factor that corresponds to the borrower's AGI and tax filing status;[115] or
- one-twelfth of 20% of the amount by which the borrower's AGI exceeds 100% of the federal poverty guideline applicable to the borrower's family size (see **Table 7**).

Monthly payment amounts may range from $0 for a borrower with an income at or below 100% of the federal poverty guideline to amounts more than sufficient to repay the borrower's loans in 12 years or less. For a borrower whose calculated monthly payment results in an amount that is greater than $0 but less than $5, a minimum monthly payment amount of $5 is required. Monthly payment amounts are recalculated annually to take into account changes (e.g., borrower AGI, the amount of any unpaid accrued interest) that may have occurred over the past year.

Joint ICR Plan Repayment for Married Borrowers. Borrowers of loans made through the Direct Loan program who are married to each other may elect to repay their loans jointly. Married borrowers must file a joint federal tax return to qualify for Joint ICR plan repayment. Under this option, the sum of the outstanding loan balances of each borrower, as of the time they elect joint repayment, is used to determine their combined monthly payment amount according to the procedures described above for the ICR plan. Payments made by married borrowers repaying

[113] The ICR plan has been modified several times since the Direct Loan program was established. In general, the regulations in effect at the time a borrower selects the ICR plan govern the method for determining the borrower's monthly payment amounts. 34 C.F.R. §685.208(k)(3). This description is based on provisions for the ICR plan specified in current regulations. 34 C.F.R. §685.209(b).

[114] The repayment of Direct Consolidation Loans according to the ICR plan is not restricted based on the types of loans that have been included in a Direct Consolidation Loan.

[115] Income percentage factors range from 50.52% to 200%, depending on a borrower's AGI and income tax filing status. Income percentage factors for selected AGI amounts and tax filing statuses are specified in a table published annually by ED; and for borrowers whose AGI falls between amounts listed in the table, linear interpolation is used to determine their income percentage factor. See U.S. Department of Education, Office of Federal Student Aid, "Annual Updates to the Income Contingent Repayment (ICR) Plan Formula for 2022—William D. Ford Federal Direct Loan Program," 87 *Federal Register*, 50615, August 17, 2022.

jointly are applied to each borrower's loans in proportion to each borrower's share of the combined outstanding balance.[116]

Subsidized Interest. No special interest subsidies are made available to borrowers as part of the ICR plan.

Application of Payments. Payments made by borrowers under the ICR plan are first applied to any outstanding charges or collection costs, then to outstanding interest due on the loan, and then to principal. Under the ICR plan formula, it is possible that a borrower's monthly payment amount may be for less than the amount of interest that has accrued since the last payment. Should this occur, interest will continue to accrue on the outstanding principal balance and unpaid interest that has accumulated; it will be capitalized into the principal balance of the loan once per year. However, unpaid accrued interest may only be capitalized until the outstanding principal balance reaches 110% of the amount of the original principal balance as of when the borrower's loan(s) entered repayment. Once the OPB has reached 110% of the original principal balance, unpaid accrued interest may continue to accumulate but will no longer be capitalized.

Effective July 1, 2023, ED regulations eliminate instances of interest capitalization that are not specified in the HEA, such as annual interest capitalization under the ICR plan, and accordingly, also eliminate provisions limiting the amount of interest capitalization under the ICR plan.[117]

Failure to Certify Income and Family Size. To qualify and remain eligible to repay according to the ICR plan, borrowers must annually provide certification of their income and family size to ED. Certification of income is normally satisfied by providing the borrower's AGI. However, if the borrower's AGI does not reflect their current income, alternative documentation of income may be provided. If the borrower fails to provide certification of income, their monthly payment amount will be recalculated to equal the amount the borrower would have paid according to the Standard Repayment Plan with a Maximum 10-Year Term, based on the amount owed at the time they first elected to repay according to the ICR plan. The repayment period based on the recalculated payment amount may exceed 10 years. If the borrower fails to certify their family size, a family size of one will be assumed and used for the year.

Maximum Repayment Period and Loan Forgiveness. The ICR plan has a maximum repayment period of 25 years. If a borrower repays according to the ICR plan and obtains an additional loan that is eligible to be repaid according to the plan, a new, separate repayment period will begin for the new loan when it enters repayment. If after 25 years of having repaid a nondefaulted loan or loans according to the ICR plan or certain other repayment plans, or having qualified for and received an economic hardship deferment, a borrower still has an outstanding loan balance, the remaining unpaid balance will be discharged (i.e., forgiven). The maximum 25-year repayment period for the ICR plan, after which loan forgiveness may be granted, includes periods during which the borrower

- made monthly payments (including payments of $0) according to the ICR plan;
- made monthly payments (including payments of $0) according to an IBR plan while experiencing a partial financial hardship;
- made monthly payments, either as part of an IBR plan after no longer having a partial financial hardship or after leaving an IBR plan, in amounts calculated according to the Standard Repayment Plan with a Maximum 10-Year Term, based on the outstanding balance as of when the borrower first began repaying according to an IBR plan;

[116] 34 C.F.R. §685.209(b)(2).

[117] ED, *Final Rule*, November 1, 2022.

- made monthly payments (including payments of $0) according to the PAYE repayment plan or the REPAYE repayment plan;
- made monthly payments according to the REPAYE Alternative Repayment plan prior to changing to an IBR plan;
- made monthly payments on a Direct Subsidized Loan, a Direct Unsubsidized Loan, or a Direct PLUS Loan according to the Standard Repayment Plan with a Maximum 10-Year Term during the portion of the maximum 10-year repayment period that remains after the borrower ceases to repay according to an IBR plan;
- made payments on a Direct Consolidation Loan according to the Standard Repayment Plan for Direct Consolidation Loans with 10-Year to 30-Year Terms or the Graduate Repayment Plan for Direct Consolidation Loans with 10-Year to 30-Year Terms during the portion of the maximum 10-year to 30-year repayment period that remains after the borrower ceases to repay according to an IBR plan;
- made monthly payments according to the Standard Repayment Plan with a Maximum 10-Year Term;
- made monthly payments during periods after October 1, 2007, according to any repayment plan in amounts not less than the amount required under the Standard Repayment Plan with a Maximum 10-Year Term;
- only for borrowers who entered repayment prior to October 1, 2007, and only if the applicable repayment term is for not more than 12 years, made payments according to the Standard Repayment Plan for Direct Consolidation Loans with 10-Year to 30-Year Terms, the Extended Repayment Plan for Direct Consolidation Loans with 10-Year to 30-Year Terms, or the Graduated Repayment Plan for Direct Consolidation Loans with 10-Year to 30-Year Terms (see **Table 5**);
- received an economic hardship deferment;[118] or
- had monthly payments suspended under the COVID-19 payment pause (see **Appendix D**).

Income-Based Repayment (IBR) Plans

The Income-Based Repayment plans permit borrowers to repay eligible student loans according to procedures that limit monthly payment amounts based on criteria that take into account a borrower's adjusted gross income, family size, and monthly payment amount as calculated according to a standard 10-year repayment period, based on the greater of the amount owed at the time the borrower initially entered repayment or the amount owed at the time the borrower elects to repay according to the IBR plan. Any loan balance that remains after the maximum repayment period of the plan will be forgiven. There are two IBR plan versions that function similarly. They are differentiated by (1) the date used to delimit borrower eligibility (July 1, 2014), (2) the percentage of discretionary income used to determine borrower eligibility for the plan and monthly payment amounts (15% or 10%), and (3) the maximum repayment period (25 years or 20 years). The description that follows distinguishes between the two IBR plan versions as applicable.

The initial version of the IBR plan was established under the College Cost Reduction and Access Act of 2008 (CCRAA; P.L. 110-84), and on July 1, 2009, it became available to borrowers of loans made through the Direct Loan program and the FFEL program, irrespective of when an

[118] 34 C.F.R. §685.209(b)(3)(iii)(B).

individual had borrowed a loan through either program. (Hereinafter, this version is referred to as the *Original IBR plan*.) Amendments to the IBR plan were enacted in 2010 under the SAFRA Act (Title II of the HCERA; P.L. 111-152), and a revised version of the IBR plan was made available to individuals who, on or after July 1, 2014, became new borrowers of loans made through the Direct Loan program. (Hereinafter, this version is referred to as the *IBR Plan for Post-July 1, 2014, New Borrowers*.)

Eligibility. With certain exceptions, federal student loans made through both the Direct Loan program and the FFEL program are considered eligible loans for purposes of repayment according to the Original IBR plan,[119] while only loans made through the Direct Loan program are eligible for repayment according to the IBR plan for Post-July 1, 2014, New Borrowers. In both cases, Direct PLUS Loans and FFEL PLUS Loans that were made to a parent borrower and Direct Consolidation Loans and FFEL Consolidation Loans that that were used to repay either a Direct PLUS Loan or a FFEL PLUS Loan that was made to a parent borrower are ineligible to be repaid according to either of the IBR plans. These loans to parent borrowers are also excluded from being considered when determining a borrower's eligibility for IBR plan repayment. This discussion addresses the IBR plans available through the Direct Loan program.

Partial Financial Hardship. To be eligible to begin repaying according to an IBR plan, a borrower must be determined to have a *partial financial hardship*. The criteria for determining whether a borrower has a partial financial hardship take into account the borrower's federal income tax filing status (e.g., single, married filing jointly), AGI, family size, multiples of the federal poverty guidelines applicable to the borrower's family size, and monthly payment amounts as calculated according to a standard 10-year repayment period based on the greater of the amount owed at the time the borrower initially entered repayment or the amount owed at the time the borrower elects to repay according to the IBR plan.

If a borrower is single, or is married and files an individual federal tax return, they are determined to have a partial financial hardship if the total annual payments for all of the borrower's eligible loans, as calculated according to a standard 10-year repayment period, are greater than the applicable percentage (15% for the Original IBR Plan or 10% for the IBR plan for Post-July 1, 2014, New Borrowers) of their discretionary income. If a borrower is married and files a joint federal tax return, they are determined to have a partial financial hardship if the total annual payments for all of the eligible loans of the borrower and, if applicable, the eligible loans of the borrower's spouse, as calculated according to a standard 10-year repayment period, are greater than the applicable percentage of the combined discretionary income of the borrower and the borrower's spouse. Discretionary income is defined as the portion of a borrower's adjusted gross income that is in excess of 150% of the poverty guideline that is applicable to their family size. If the total annual payments for all of the borrower's eligible loans, as calculated according to a standard 10-year repayment period, do not exceed 15% or 10% of their discretionary income, as applicable, the borrower is no longer considered as having a partial financial hardship.

Payment Amounts. During periods while a borrower has a partial financial hardship and repays according to an IBR plan, monthly amounts due on their loans may range from $0, for a borrower with an AGI that is at or below 150% of the poverty guideline, to a maximum of one-twelfth of the specified percentage factor (15% or 10%) of a borrower's discretionary income. For example, based on the 2023 HHS Poverty Guidelines, 150% of the poverty guideline for a family of one in the 48 contiguous states and the District of Columbia is $21,870. (See **Table 7**)

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[119] For borrowers with loans made through both the Direct Loan program and the FFEL program, repayment is coordinated for those who wish to repay both types of loans according to the Original IBR plan. In such cases, payment amounts are calculated in proportion to the outstanding balance of eligible loans owed under the respective programs.

- In the Original IBR plan, a single borrower with an adjusted gross income of $40,000 would have a partial financial hardship if their annual student loan payments were greater than $2,719.50, or $226.63 per month. ($2,719.50 is 15% of the result of subtracting $21,870 from $40,000.)
- In the IBR plan for post-July 1, 2014, New Borrowers, a single borrower with an adjusted gross income of $40,000 would have a partial financial hardship if their annual student loan payments were greater than $1,813, or $151.08 per month. ($1,813 is 10% of the result of subtracting $21,870 from $40,000.)

For a borrower whose calculated monthly payment results in an amount that is greater than or equal to $5 but less than $10, the monthly payment is set at $10. For a borrower whose calculated monthly payment results in an amount that is less than $5, the monthly payment is set at $0. Monthly payment amounts are recalculated annually to take into account changes that may have occurred over the past year.

If a borrower who is repaying according to an IBR plan no longer demonstrates having a partial financial hardship or no longer desires to make payments based on income, they may remain in the IBR plan; however, the borrower's maximum required monthly payment amount will no longer be calculated according the formula described above. Nonetheless, the required payment amount may not exceed the monthly amount due, as calculated according to a standard 10-year repayment period based on the borrower's loan balance at the time they elected to begin repaying according to the IBR plan. However, in such a case the duration of the repayment period may exceed 10 years.

Joint IBR Plan Repayment for Married Borrowers. Since July 1, 2010, the IBR plan has provided for the joint repayment of loans by married borrowers who both have eligible loans and who file a joint federal tax return. Individual payment amounts are proportional to each spouse's share of the couple's combined loan balances and combined AGI.

Subsidized Interest. As part of the IBR plans, an interest subsidy is available on subsidized loans during periods of negative amortization for a maximum of the first three years from the start of a borrower's repayment according to an IBR plan. If a borrower's required monthly payment is not sufficient to cover all of the interest that accrues on a Direct Subsidized Loan (or the subsidized component of a Direct Consolidation Loan), the portion of the accrued interest not covered by the borrower's monthly payment is subsidized, or paid by the Secretary. Any periods during which the borrower has received an interest subsidy under either the PAYE repayment plan or the REPAYE repayment plan are applied toward this three-year period. However, any periods during which a borrower has received an interest subsidy while qualifying for an economic hardship deferment (during which an interest subsidy is provided on Direct Subsidized Loans and on the subsidized component of a Direct Consolidation Loan) are excluded from the three-year period.

Application of Payments. Payments made by borrowers repaying under an IBR plan are first applied to interest due on the loan, then to any fees, and then to principal. If a borrower's required monthly payment is for an amount that is less than the amount of interest that accrues on a loan other than a Direct Subsidized Loan or the subsidized component of a Direct Consolidation Loan, or that accrues on a subsidized loan type after the three-year interest subsidy period described above, the unpaid accrued interest will accumulate, but not be capitalized, so long as the borrower remains in the IBR plan and continues to have a partial financial hardship. If a borrower's required monthly payment is sufficient to pay the accrued interest but is insufficient to repay the amount of principal due, then the payment of any principal due in excess of the monthly payment amount owed will be postponed until the borrower no longer has a partial financial hardship or leaves the IBR plan. Upon a borrower either no longer having a partial financial hardship or electing to no longer repay according to an IBR plan, any accumulated accrued interest that has not been paid will be capitalized.

If a borrower chooses to leave an IBR plan, they must change to the Standard Repayment Plan that is applicable to the loans—either the Standard Repayment Plan with a Maximum 10-Year Term or the Standard Repayment Plan for Direct Consolidation Loans with 10-Year to 30-Year Terms. (The borrower may subsequently change to another repayment plan; however, they may not change to a repayment plan—other than a different IDR plan—that has maximum term that is less than the number of years the borrower's loans have already been in repayment.[120]) The monthly payment amount due on the borrower's loans must be calculated according to the applicable standard repayment plan based on the time remaining in the repayment period under such plan and the outstanding balance owed at the time the borrower ceased repaying according to the IBR plan. A borrower who changes from the IBR plan to a standard repayment plan must make at least one monthly payment according to the standard repayment plan before changing to another repayment plan for which the borrower may be eligible. Borrowers may request a forbearance that permits the making of a smaller payment amount than otherwise would be required for purposes of making that one required monthly payment according to the Standard Repayment Plan.

Failure to Certify Income and Family Size. To qualify and remain eligible to repay according to the IBR plans, borrowers must annually provide certification of their income and family size to ED. Certification of income is normally satisfied by providing the borrower's AGI. However, if the borrower's AGI does not reflect their current income, alternative documentation of income may be provided. If the borrower fails to provide certification of income, any unpaid accrued interest will be capitalized and their monthly payment amount will be recalculated to equal the amount the borrower would have paid according to the Standard Repayment Plan with a Maximum 10-Year Term, based on the amount owed at the time they first elected to repay according to the IBR plan. The repayment period based on the recalculated payment amount may exceed 10 years. If the borrower fails to certify their family size, a family size of one will be assumed and used for the year.

Maximum Repayment Period and Loan Forgiveness. The maximum repayment period for the Original IBR plan is 25 years, whereas the maximum repayment period for the IBR plan for post-July 1, 2014, New Borrowers is 20 years. If after having repaid according to an IBR plan a borrower obtains additional loans that are eligible to be repaid according to that IBR plan, a new repayment period will begin for the new loans when they enter repayment. A borrower who has participated in one of the IBR plans and has satisfied any combination of the following conditions for the duration of the applicable repayment period becomes eligible to have any balance that remains at the end of the maximum repayment period forgiven:

- made reduced monthly payments (including payments of $0) according to an IBR plan while experiencing a partial financial hardship;
- made monthly payments in amounts calculated according to the Standard Repayment Plan with a Maximum 10-Year Term after no longer having a partial financial hardship;
- made monthly payments on Direct Subsidized Loans, Direct Unsubsidized Loans, or Direct PLUS Loans according to the Standard Repayment Plan with a Maximum 10-Year Term, or on Direct Consolidation Loans according to the Standard Repayment Plan for Direct Consolidation Loans with 10-Year to 30-

[120] 34 C.F.R. §§685.210(b)(2) and 685.221(d).

Year Terms, as applicable, after choosing to no longer repay according to an IBR plan;

- made monthly payments according to any repayment plan in amounts not less than the amount required under the Standard Repayment Plan with a Maximum 10-Year Term;
- made monthly payments according to the Standard Repayment Plan with a Maximum 10-Year Term based on the amount owed at the time the borrower initially selected an IBR plan;
- made monthly payments (including payments of $0) according to the ICR plan, the PAYE repayment plan, or the REPAYE repayment plan;
- made monthly payments according to the REPAYE Alternative Repayment Plan prior to changing to an IDR plan;
- received an economic hardship deferment; or[121]
- had monthly payments suspended under the COVID-19 payment pause (see **Appendix D**).

Pay As You Earn (PAYE) Repayment Plan

The Pay As You Earn (PAYE) repayment plan is substantially similar to the IBR plan for post-July 1, 2014, New Borrowers (see above). The plan permits borrowers to repay eligible loans according to procedures that limit monthly payment amounts based on criteria that take into account a borrower's AGI, family size, and monthly payment amount as calculated according to a standard 10-year repayment period based on the greater of the amount owed at the time the borrower initially entered repayment or the amount owed at the time they elect to repay according to the PAYE repayment plan. For borrowers who repay according to this plan, any loan balance that remains after 20 years of repayment will be forgiven. The plan became available to eligible borrowers on December 21, 2012.[122]

The PAYE repayment plan was established by the Obama Administration through the rulemaking process under authority provided in the HEA for the Secretary to establish an income-contingent repayment plan.[123] With the establishment of the PAYE repayment plan, a set of benefits substantially similar to those that had been extended to a specific class of borrowers through the enactment of legislation (the IBR Plan for post-July 1, 2014, New Borrowers) was extended to a broader class of borrowers through the rulemaking process.

Eligibility. The PAYE repayment plan is available to individuals who are new borrowers on or after October 1, 2007, and have received a disbursement on a Direct Subsidized Loan, a Direct Unsubsidized Loan, or a Direct PLUS Loan to graduate and professional students on or after October 1, 2011, or a Direct Consolidation Loan based on an application received by ED on or after October 1, 2011, and who are identified as having a partial financial hardship. Eligible borrowers may use the plan to repay loans made through the Direct Loan program, with the exceptions of Direct PLUS Loans made to parent borrowers and Direct Consolidation Loans used to repay either Direct PLUS Loans or FFEL PLUS Loans that had been made to parent borrowers.

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[121] 34 C.F.R. §§685.221(d) and (f); 685.208.

[122] U.S. Department of Education, "William D. Ford Federal Direct Loan Program," 77 *Federal Register* 72960, December 7, 2012.

[123] HEA, §455(d)(1)(D) and (e); 34 C.F.R. §685.209(a).

Partial Financial Hardship. A borrower is considered as having a partial financial hardship if the total of their annual payments on all eligible loans,[124] as calculated according to a standard 10-year repayment period based on the greater of the amount owed at the time the borrower initially entered repayment or the amount owed at the time they elect to repay according to the PAYE repayment plan, is greater than 10% of the amount by which the borrower's AGI exceeds 150% of the poverty line applicable to their family size.

If a borrower is single, or is married and files an individual federal tax return, they are determined to have a partial financial hardship if the total annual payments for all of the borrower's eligible loans, as calculated according to a standard 10-year repayment period, are greater than 10% of their discretionary income. If a borrower is married and files a joint federal tax return, they are determined to have a partial financial hardship if the total annual payments for all of the borrower's eligible loans and, if applicable, the borrower's spouse's eligible loans, as calculated according to a standard 10-year repayment period, are greater than 10% of the combined discretionary income of the borrower and their spouse. If the total annual payments for all of the borrower's eligible loans, as calculated according to a standard 10-year repayment period, do not exceed 10% of their discretionary income, the borrower is no longer considered as having a partial financial hardship.

Payment Amounts. While repaying according to the PAYE repayment plan, monthly amounts due on borrowers' loans may range from $0, for those with incomes at or below 150% of the poverty line, to a maximum of one-twelfth of 10% of any amount by which the borrower's AGI exceeds 150% of the poverty line. If a borrower who is repaying according to the plan no longer demonstrates having a partial financial hardship or no longer desires to make payments based on income, the monthly payment amount will be recalculated. In such a case, the maximum monthly payment amount may not exceed the amount due as calculated according to the Standard Repayment Plan with a Maximum 10-Year Term based on the borrower's loan balance at the time they elected to begin repaying according to the PAYE repayment plan. However, the duration of the repayment period may exceed 10 years.

For a borrower whose calculated monthly payment results in an amount that is greater than or equal to $5 but less than $10, the monthly payment is set at $10. For a borrower whose calculated monthly payment results in an amount that is less than $5, the monthly payment is set at $0. Monthly payment amounts are recalculated annually to take into account changes that may have occurred over the past year.

Joint PAYE Repayment for Married Borrowers. The PAYE repayment plan provides for the joint repayment of loans by married borrowers who both have eligible loans and who file a joint federal tax return. For married borrowers repaying jointly according to the plan, individual payment amounts are proportional to each spouse's share of the couple's combined loan balances and combined AGI.

Subsidized Interest. An interest subsidy is available on subsidized loans during periods of negative amortization for a maximum of the first three years from the start of repayment according to the PAYE repayment plan. If a borrower's calculated monthly payment is insufficient to pay all of the interest that accrues on a Direct Subsidized Loan (or the subsidized component of a Direct Consolidation Loan), the portion of the accrued interest that is not covered

[124] While loans made through the FFEL program may not be repaid according to the PAYE repayment plan, all loans made on or after October 1, 2007, through the Direct Loan program and the FFEL program (with the exceptions of Direct PLUS Loans or FFEL PLUS Loans made to parent borrowers, and Direct Consolidation Loans or FFEL Consolidation Loans that include such loans) are considered eligible loans for purposes of determining whether a borrower has a partial financial hardship and for adjusting monthly payment amounts.

by their monthly payment is subsidized for a period not to exceed three years. Periods during which a borrower is receiving an economic hardship deferment are excluded from the three-year eligibility period. In general, the terms of this interest subsidy for subsidized loans are the same as the terms that apply to the IBR plans (see above).

Application of Payments. Payments made by borrowers repaying according to the PAYE repayment plan are credited first to interest due on the loan, then to any fees, and then to principal. If a borrower's required monthly payment is for an amount that is less than the amount of interest that accrues, the unpaid accrued interest will accumulate, but not be capitalized, so long as the borrower remains in the plan and continues to have a partial financial hardship. If a borrower's required monthly payment is sufficient to pay the accrued interest but is insufficient to repay the amount of principal due, then the payment of any principal due in excess of the monthly payment amount owed will be postponed until they no longer have a partial financial hardship or leaves the plan.

If a borrower no longer has a partial financial hardship but remains in the PAYE repayment plan, accumulated accrued interest is capitalized into the principal balance of the loan. In such a case, the amount of accrued interest that may be capitalized is limited to 10% of the outstanding principal balance at the time the borrower began repaying according to the plan. Any accrued interest beyond the 10% limit will remain due but will not be capitalized as long as the borrower remains in the plan.

If a borrower chooses to leave the PAYE repayment plan, they may change to any other repayment plan for which they are eligible, as long as the new repayment plan has a maximum term that is not less than the number of years the borrower's loans have already been in repayment, or is an available IDR plan. Upon a borrower electing to no longer repay according to the PAYE repayment plan, any accumulated accrued interest that has not been paid will be capitalized.

Effective July 1, 2023, ED regulations eliminate instances of interest capitalization that are not specified in the HEA, such as when a borrower no longer has a partial financial hardship and remains in the PAYE repayment plan or when a borrower chooses to leave the PAYE repayment plan. Accordingly, and also effective July 1, 2023, ED regulations eliminate provisions limiting the amount of interest capitalization under the PAYE repayment plan.[125]

Failure to Certify Income and Family Size. To qualify and remain eligible to repay according to the PAYE repayment plan, borrowers must annually provide certification of their income and family size. Certification of income is normally satisfied by providing the borrower's AGI. However, if the borrower's AGI does not reflect their current income, alternative documentation of income may be provided. If the borrower fails to provide certification of income, any unpaid accrued interest may be capitalized and their monthly payment amount will be recalculated to equal the amount the borrower would have paid according to the Standard Repayment Plan with a Maximum 10-Year Term, based on the amount owed at the time they first elected to repay according to the plan. The repayment period based on the recalculated payment amount may exceed 10 years. If the borrower fails to certify their family size, a family size of one will be assumed and used for the year.

[125] ED, *Final Rule*, November 1, 2022.

Effective July 1, 2023, ED regulations eliminate instances of interest capitalization that are not specified in the HEA, such as when a borrower fails to provide certification of income under the PAYE repayment plan.[126]

Maximum Repayment Period and Loan Forgiveness. In the PAYE repayment plan, the maximum repayment period is 20 years. A borrower who at any time participates in the plan becomes eligible to have any balance that remains on their eligible loans forgiven if during the 20-year repayment period the borrower meets the loan forgiveness eligibility criteria specified in regulations at 34 C.F.R. Section 685.209(a)(6) or had monthly payments suspended under the COVID-19 payment pause. (These criteria are substantially similar to the provisions that are applicable to the IBR plan for post-July 1, 2014, New Borrowers, as described above.) If after having repaid according to the PAYE repayment plan a borrower obtains additional loans that are eligible to be repaid according to the plan, a new repayment period will begin for the new loans when they enter repayment.

Revised Pay As You Earn (REPAYE) Repayment Plan

The Revised Pay As You Earn (REPAYE) repayment plan permits borrowers to repay eligible loans made through the Direct Loan program according to procedures that limit monthly payment amounts based on criteria that take into account a borrower's AGI and family size. For borrowers whose student loan debt was obtained exclusively for undergraduate education, the maximum repayment period is 20 years; for borrowers whose student loan debt includes any amounts obtained for graduate education, the maximum repayment period is 25 years. Any loan balance that remains after the maximum repayment period will be forgiven. The REPAYE repayment plan became available to eligible borrowers on December 17, 2015.[127]

Like the PAYE repayment plan, the REPAYE repayment plan was established by the Obama Administration through the rulemaking process under authority provided in the HEA for the Secretary to establish an income-contingent repayment plan.[128] The REPAYE repayment plan has a number of characteristics that are similar to the other IDR plans. It also has an enhanced interest subsidy that is unique to the plan.

Eligibility. The REPAYE repayment plan is available to borrowers of loans made through the Direct Loan program except for Direct PLUS Loans made to parent borrowers and Direct Consolidation Loans used to repay either Direct PLUS Loans or FFEL PLUS Loans that had been made to parent borrowers. The plan is available to borrowers irrespective of when an individual became a new borrower. A borrower's eligibility to repay according to the REPAYE repayment plan is not limited based on factors that take into account the relationship between their student loan debt and discretionary income (i.e., borrowers need not demonstrate anything akin to having a partial financial hardship to repay according to the REPAYE repayment plan).

Payment Amounts. While repaying according to the REPAYE repayment plan, monthly amounts due on borrowers' loans may range from $0, for those with incomes at or below 150% of the poverty line, to a maximum of one-twelfth of 10% of any amount by which a borrower's AGI exceeds 150% of the poverty line. For a borrower whose calculated monthly payment results in an amount that is greater than or equal to $5 but less than $10, the monthly payment is set at $10.

[126] ED, *Final Rule*, November 1, 2022.

[127] U.S. Department of Education, Office of Federal Student Aid, Dear Colleague Letter GEN-15-22, "Approval of the Income-Driven Repayment Plan Request for the Direct Loan and FFEL Programs," December 17, 2015, https://fsapartners.ed.gov/knowledge-center/library/dear-colleague-letters/2015-12-17/gen-15-22-subject-approval-income-driven-repayment-plan-request-direct-loan-and-ffel-programs.

[128] HEA, §455(d)(1)(D) and (e).

For a borrower whose calculated monthly payment results in an amount that is less than $5, the monthly payment is set at $0. Monthly payment amounts are recalculated annually to take into account changes that may have occurred over the past year.

For purposes of calculating monthly payment amounts under the REPAYE repayment plan, if the borrower is unmarried their AGI is used. If the borrower is married, and unless certain exceptions apply, the AGI of both the borrower and their spouse is used irrespective of whether the borrower files a joint or separate federal tax return with their spouse. If a borrower is married and certifies that they are separated from their spouse, or is unable to access information on the income of their spouse, then the AGI of only the borrower is used.

Joint REPAYE Repayment for Married Borrowers. The REPAYE repayment plan provides for the joint repayment of loans by married borrowers who both have eligible loans and who file a joint federal tax return. For married borrowers repaying jointly according to an IBR plan, individual payment amounts are proportional to each spouse's share of the couple's combined loan balances and combined AGI.

Subsidized Interest. Under the REPAYE repayment plan, an interest subsidy is available on both subsidized loans and unsubsidized loans during periods of negative amortization. During the first three years from the start of repayment under the plan, for Direct Subsidized Loans and the subsidized component of Direct Consolidation Loans, if a borrower's calculated monthly payment is not sufficient to pay all of the interest that accrues, 100% of the portion of the accrued interest that is not covered by their monthly payment is subsidized. Periods during which a borrower receives an interest subsidy during an economic hardship deferment are excluded from the consecutive three-year period. After the three-year period for subsidized loans, and during all periods for Direct Unsubsidized Loans, Direct PLUS Loans, and the unsubsidized component of Direct Consolidation Loans, 50% of the portion of the accrued interest that is not covered by the borrower's monthly payment is subsidized.[129]

Graduate students who are borrowers of Direct PLUS Loans may be able to qualify for the 50% interest subsidy while they are in school in lieu of receiving an in-school deferment while interest accrues at the otherwise applicable interest rate. For Direct PLUS Loans, the repayment period begins the day the loan is fully disbursed. However, borrowers who are enrolled on at least a half-time basis qualify for and typically receive an in-school deferment during which they are not required to make payments, but during which interest accrues. Student borrowers are placed in an in-school deferment upon requesting such a deferment or the Secretary receiving notification from the borrower's school or the National Student Loan Data System (NSLDS) that the student is enrolled on at least a half-time basis. Nonetheless, borrowers who receive an in-school deferment have the option to cancel it. Borrowers whose AGI while in school is low enough that it would result in the calculation of a monthly payment amount according to the REPAYE repayment plan that would be insufficient to pay all of the interest that accrues on their loan may consider choosing to cancel receipt of an in-school deferment in favor of receiving a 50% interest subsidy on the portion of the interest that would not be covered by their monthly payment amount.

Application of Payments. Payments made by borrowers repaying according to the REPAYE repayment plan are credited first to interest due on the loan, then to any fees, and then to principal. If a borrower's required monthly payment is for an amount that is less than the amount of interest that accrues on a loan other than a Direct Subsidized Loan or the subsidized component of a Direct Consolidation Loan, or that accrues on a subsidized loan type after the

[129] 34 C.F.R. §685.209(c)(2)(iii).

three-year interest subsidy period described above, the unpaid accrued interest will accumulate, but not be capitalized, so long as the borrower remains in the plan. If a borrower's required monthly payment is sufficient to pay the accrued interest but is insufficient to repay the amount of principal due, then the payment of any principal due in excess of the monthly payment amount owed will be postponed.

If a borrower chooses to leave the REPAYE repayment plan, they may change to any other repayment plan for which they are eligible, as long as the new repayment plan has a maximum term that is not less than the number of years the borrower's loans have already been in repayment or is an available IDR plan. Upon a borrower electing to no longer repay according to the REPAYE repayment plan, any accumulated accrued interest that has not been paid will be capitalized.

Effective July 1, 2023, ED regulations eliminate instances of interest capitalization that are not specified in the HEA, such as when a borrower chooses to leave the REPAYE repayment plan.[130]

Failure to Certify Income and Family Size. To qualify and remain eligible to repay according to the REPAYE repayment plan, borrowers must annually provide certification of their income and family size. Certification of income is normally satisfied by providing the borrower's AGI. However, if the borrower's AGI does not reflect their current income, alternative documentation of income may be provided. If the borrower fails to provide certification of income, any unpaid accrued interest will be capitalized and they will be placed in the REPAYE Alternative Repayment plan. If the borrower fails to certify their family size, a family size of one will be assumed and used for the year.

Effective July 1, 2023, ED regulations eliminate instances of interest capitalization that are not specified in the HEA, such as when a borrower fails to certify their income under the REPAYE repayment plan and is placed in the REPAYE Alternative plan as a result.[131]

REPAYE Alternative Repayment Plan. Borrowers repaying according to the REPAYE repayment plan who fail to provide timely certification of their income are subject to being placed into the REPAYE Alternative Repayment plan. Under the REPAYE Alternative Repayment plan, monthly payment amounts are calculated to equal the amount necessary to repay the borrower's loans in full within the earlier of 10 years from placement into the REPAYE Alternative Repayment plan or the ending of the maximum repayment period of 20 years or 25 years, as applicable.[132] Payments made during periods of repayment according to the REPAYE Alternative Repayment plan count as qualifying payments for loan forgiveness under the various IDR plans; however, they do not count as qualifying payments for the Public Service Loan Forgiveness program.[133]

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[130] ED, *Final Rule*, November 1, 2022.

[131] ED, *Final Rule*, November 1, 2022.

[132] In establishing the REPAYE repayment plan, ED stated that in the absence of a process that allows for borrowers to consent to multi-year access to information on their income, the REPAYE Alternative Repayment plan provides an incentive for borrowers to comply with the requirement to certify their income information in a timely manner and also provides a disincentive for borrowers to fail to provide updated information if their income increases substantially. Department of Education, "Student Assistance General Provisions, Federal Family Education Loan," 80 *Federal Register* 39620, July 9, 2015.

[133] In the Public Service Loan Forgiveness (PSLF) program, after 10 years of qualifying payments made while employed full-time in qualifying public service, a borrower's remaining loan balance may be forgiven. Amounts forgiven under the PSLF program are exempt from taxation under the Internal Revenue Code. For additional information on PSLF, see CRS Report R43571, *Federal Student Loan Forgiveness and Loan Repayment Programs*.

Maximum Repayment Period and Loan Forgiveness. In the REPAYE repayment plan, the maximum repayment period is 20 years for borrowers whose student loan debt was obtained exclusively for undergraduate education; and 25 years for borrowers whose student loan debt includes any amounts obtained for graduate education. A borrower who at any time participates in the REPAYE repayment plan becomes eligible to have any balance that remains on their eligible loans forgiven if for 20 years or 25 years, as applicable, the borrower meets the loan forgiveness eligibility criteria specified in regulations at 34 C.F.R. Section 685.209(c)(5) or had monthly payments suspended under the COVID-19 payment pause. (These criteria are substantially similar to the provisions that are applicable to the IBR plans, as described above.) If after having repaid according to the REPAYE repayment plan a borrower obtains additional loans that are eligible to be repaid according to the plan, a new repayment period will begin for the new loans when they enter repayment.

Adjusted Payment Amounts for Borrowers Who Return to the REPAYE Repayment Plan. If a borrower seeks to return to the REPAYE repayment plan after having left and repaid according to any other repayment plan (including the REPAYE Alternative Repayment plan), they must provide documentation of income for the entire period that they repaid according to another plan. If it is determined that the borrower paid a lesser amount under the other repayment plan (or plans) than they would have been required to repay according to the REPAYE repayment plan, upon returning to the REPAYE repayment plan the borrower's monthly payment amounts will be adjusted upward to ensure that the difference between the two amounts will be paid before the end of the maximum repayment period of 20 or 25 years, as applicable.

Alternative Repayment Plans

Alternative repayment plans are available in more limited situations, on a case-by-case basis, to borrowers who demonstrate that due to exceptional circumstances they are unable to repay according to other available repayment plans.[134] Loan servicers have discretion in determining what constitutes "exceptional circumstances" for purposes of permitting individual borrowers to repay according to any of the alternative repayment plans.[135] If a borrower is permitted to repay according to an alternative repayment plan, they are notified in writing of the terms of the plan and may either accept those terms or select one of the other available repayment plans discussed above.[136] Four variations of alternative repayment plans are available:[137]

1. Alternative Fixed Payment Repayment,
2. Alternative Fixed Term Repayment,
3. Alternative Graduated Payment Repayment, and
4. Alternative Negative Amortization Repayment.

The alternative repayment plans are established in accordance with general guidelines specified in regulations. Details on specific provisions of these plans are communicated to eligible borrowers by loan servicers. A borrower may be provided up to a maximum of 30 years to repay according to an alternative repayment plan, not including periods of deferment and forbearance. There is a minimum monthly payment amount of $5 and payments cannot vary by more than three times the

[134] 34 C.F.R. §685.208(l).

[135] U.S. Department of Education, Office of Federal Student Aid, Loan Servicing and Collection—Frequently Asked Questions, "ARP-Q1: Are there any standard criteria for alternative repayment plans?", https://fsapartners.ed.gov/knowledge-center/faqs/loan-servicing-and-collection-frequently-asked-questions (accessed March 1, 2023).

[136] 34 C.F.R. §685.208(l)((3).

[137] These alternative repayment plans are distinct from the REPAYE Alternative Repayment plan.

amount of the smallest payment.[138] Under the Alternative Negative Amortization Repayment plan, a borrower may be permitted for one year to make monthly payments of less than the amount of the interest that accrues on the loan.[139] In such a case, any unpaid interest will be capitalized; however, capitalization of unpaid interest may not result in the loan balance exceeding 110% of the original principal amount. If this occurs, any additional interest that accrues must be paid by the borrower. Payments made according to an alternative repayment plan do not count toward the periods of repayment that may qualify a borrower for loan forgiveness under the IDR plans or the PSLF program.

Effective July 1, 2023, ED regulations eliminate instances of interest capitalization that are not specified in the HEA, such as following a permitted one-year period of negative amortization under the Alternative Negative Amortization Repayment plan. Accordingly, and also effective July 1, 2023, ED regulations eliminate provisions limiting the amount of interest capitalization under the Alternative Negative Amortization Repayment plan.[140]

Prepayment

The portion of any payment that is in excess of the amount due is considered a *prepayment*. Borrowers of loans made through the Direct Loan program may prepay all or any part of their loans at any time without penalty. Borrowers may obtain information from their Direct Loan servicer on how to provide prepayment, with instructions regarding the application of overpayments. The procedures for applying prepayments to borrowers' accounts are specified in regulations issued by ED.[141]

The procedures that apply for crediting a prepayment to a borrower's loan balance depend on the size of the prepayment amount relative to the borrower's scheduled monthly payment. A borrower with more than one loan who wants a prepayment to be applied to a certain loan or loans (e.g., the loan with the highest interest rate) must specify such when making the prepayment; otherwise, the prepayment will be applied in accordance with HEA regulations and guidelines, which, among other provisions, generally require all of a borrower's loans to be repaid together and under the same repayment plan.[142]

In general, if the amount of a prepayment is less than the next scheduled monthly payment amount according to the borrower's repayment plan, the prepayment is applied in the following order: (1) to charges and collection costs,[143] (2) to accrued interest, and then (3) to outstanding principal. However, if the amount of the prepayment is less than the next scheduled monthly payment amount and the borrower is repaying according to the IBR, PAYE, or REPAYE repayment plans and has a scheduled monthly payment of $0.00, the prepayment is applied in the following order: (1) to accrued interest, (2) to collection costs, (3) to late charges, and then (4) to

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[138] U.S. Department of Education, Office of Federal Student Aid, Loan Repayment Plans, "Alternative Repayment Plans," p. 9, https://fsapartners.ed.gov/sites/default/files/attachments/presentations/41LoanRepaymentPlansV1.pdf.

[139] Email communication with staff of U.S. Department of Education, Office of Legislation and Congressional Affairs, March 16, 2023.

[140] ED, *Final Rule*, November 1, 2022.

[141] 34 C.F.R. §685.211(a).

[142] U.S. Department of Education, Office of Federal Student Aid, Master Promissory Note (MPN) for Direct Subsidized/ Unsubsidized Loans William D. Ford Federal Direct Loan Program, OMN No. 1845-007; and 34 C.F.R. §685.208(a)(4).

[143] While the regulations permit the charging of late fees (see 34 C.F.R. §685.202(d)), in practice Direct Loan servicing has never assessed such fees or charges. U.S. Department of Education, Office of Legislation and Congressional Affairs (OLCA), email communication with the author, March 31, 2023.

outstanding principal. For example, consider a borrower whose next scheduled monthly payment was $200 in January and who was current on making payments. If at the time of making the January payment the borrower made a payment of $300, this would result in a prepayment of $100. The $100 prepayment would be applied toward reducing the outstanding principal balance on the borrower's loans, because they did not have any outstanding charges or accrued interest. The borrower's next scheduled monthly payment of $200 would remain due in February.

If the amount of the prepayment is equal to or greater than the next scheduled monthly payment amount under the borrower's repayment plan, the prepayment is applied in the same order as described above, and, unless the borrower requests otherwise, the due date of the borrower's next payment is advanced and they are notified of the due date for the next payment. For example, consider again a borrower whose next monthly payment was $200 in January and who was current on making payments. If at the time of making the January payment the borrower made a payment of $600, this would result in a prepayment of $400. Because this borrower did not have any outstanding charges or accrued interest, the $400 prepayment would be applied toward the next two payments due (i.e., the February and March payments) and the due date of the borrower's next payment would be advanced to April. If the borrower instead wanted the $400 prepayment to be applied toward reducing the outstanding principal balance and the next scheduled payment to remain due in February, they would need to request this at the time of making the prepayment.[144]

Application of Payments on Delinquent Loans

The loans of borrowers who fall behind on making payments are considered to be delinquent.[145] In general, a federal student loan is considered delinquent when the full payment amount is not satisfied by the payment due date.[146] A borrower may restore a delinquent loan to current status by making payments that are applied to past due amounts. When borrowers make payments on delinquent loans, their payments are generally credited first to the oldest past due amounts owed.

An example of how a delinquent loan may be restored to current status is provided by ED in its contracts for its loan servicers.[147] The example considers a borrower whose scheduled monthly payment amount of $225 is due on the 14th of the month. If as of January 14th, the borrower had paid only $200 for the January payment, the loan would become delinquent, as $25 would remain unpaid. However, if on February 14th, the borrower paid $250, $25 would be applied to the past due amount for January and $225 would be applied to the amount due for February. This would restore the borrower's loan to current status.

[144] The Department of Education's loan servicers provide additional information to borrowers on the treatment of prepayments and on how to submit special payment instructions. For example, see MOHELA, *Payment Information: How Payments Are Applied*, https://www.mohela.com/DL/resourceCenter/HowPaymentsAreApplied.aspx#:~:text=Payments%20made%20over%20the%20required,then%20to%20the%20subsidized%20loan (accessed March 2, 2023).

[145] In general, a borrower who is 270 days or more delinquent on a loan is considered to be in default. Once in default, the entire remaining balance of the loan becomes due immediately, and ED, via its contracted loan servicers, private collections agencies, or other authorized means (e.g., the Treasury Offset Program) may attempt to recoup the entire outstanding balance of the loan.

[146] See, U.S. Department of Education, Office of Federal Student Aid, "When does a loan become delinquent," https://studentaid.gov/help-center/answers/article/delinquent (accessed March 2, 2023).

[147] See, for example, U.S. Department of Education, Office of Federal Student Aid, Loan Servicing Contracts, Title IV Additional Servicing (TIVAS) Contracts (2014): Nelnet Servicing, LLC, p. 14, https://studentaid.gov/sites/default/files/ED-FSA-09-D-0013_MOD_0082_Nelnet.pdf#page=14.

Deferment and Forbearance

Periods of deferment and forbearance provide borrowers with temporary relief from the obligation to make monthly payments that would otherwise be due on their loans. In certain instances, interest subsidies may be provided during periods of deferment; however, with limited exceptions, interest subsidies are not available during periods of forbearance. In general, periods during which borrowers are in a deferment or forbearance are excluded from the repayment period. However, for borrowers who are repaying according to any of the IDR plans, periods of up to three years while in receipt of an economic hardship deferment are included as part of the repayment period. The various forms of deferment and forbearance that are available to borrowers of loans made through the Direct Loan program are described below.

Deferments

A *deferment* is a temporary period during which a borrower's obligation to make regular monthly payments of principal and interest is suspended, and during which an interest subsidy may be provided. Deferments are available during periods while a student is pursuing postsecondary education, participating in a graduate fellowship program or a training program, unemployed or experiencing an economic hardship, performing or has recently completed military service, or receiving treatment for cancer. Deferments are not available to borrowers whose loans are in default status.

In most instances, a borrower must proactively apply for and request a deferment. To qualify for it, the borrower (or, in certain instances, the individual on whose behalf the loan was made for parent borrowers of Direct PLUS Loans) must satisfy certain eligibility criteria. Several deferment types have no maximum period of eligibility, while other types are initially granted for a limited period of time and may be subsequently renewed up to a maximum period of eligibility for the deferment type. Periods of eligibility for deferments are specific to the borrower, as opposed to the borrower's loans. Thus, for those deferment types that have a maximum period of eligibility, if a borrower exhausts their eligibility with one set of loans, no eligibility would remain to qualify for the same type of deferment on any other loans for which they had not received the deferment.

Unless an interest subsidy applies to a borrower's loans, interest will continue to accrue during a period of deferment. While in receipt of a deferment, borrowers have the option either to pay the interest as it accrues or pay it at a later time. In most instances, if the interest that accrues during a period of deferment is not paid as it accrues, it will be capitalized at the end of the deferment period. However, if a borrower's deferment coincides with the individual having a partial financial hardship while repaying according to either of the IBR plans or the PAYE repayment plan, any interest that has accrued during the deferment will not be capitalized so long as the borrower continues to have a partial financial hardship.

The following types of deferments are available to borrowers of loans made through the Direct Loan program.[148]

[148] A borrower who had an outstanding balance on one or more loans that were made through the FFEL program prior to July 1, 1993, when the borrower first obtained a loan through the Direct Loan program may also be able to qualify for additional types of deferments. These additional deferments are specified at 34 C.F.R. §682.210(b).

In-School Deferment

A borrower is eligible to receive an in-school deferment[149] for any period during which they are enrolled at an eligible institution on at least a half-time basis, as determined by the institution attended. Graduate student borrowers of Direct PLUS Loans first disbursed on or after July 1, 2008, (which enter repayment upon being fully dispersed) are also eligible to receive an in-school deferment while they are enrolled in school and during the six-month period after ceasing to be enrolled on at least a half-time basis.[150]

During an in-school deferment, an interest subsidy is provided on Direct Subsidized Loans and on the subsidized component of Direct Consolidation Loans. There is no maximum period of eligibility for an in-school deferment.

Eligible borrowers are typically placed in an in-school deferment automatically on the basis of being enrolled in an eligible institution on at least a half-time basis. However, eligible borrowers may also proactively request an in-school deferment.[151] Borrowers who have been automatically placed in an in-school deferment have the option to cancel it. If these borrowers wish to do so, they have the option to pay any principal and interest that had already been deferred or they may let the interest that had accrued on the deferred payments be capitalized upon cancellation of the deferment.

In-School Deferment for Parent Borrowers of Direct PLUS Loans

Parent borrowers of Direct PLUS Loans for which the first disbursement was made on or after July 1, 2008, are eligible for a deferment for any period during which the student on whose behalf the loan was made would qualify for an in-school deferment.[152] This deferment is also available during the six-month grace period after the student on whose behalf the loan was made first ceases to be enrolled on at least a half-time basis.

Graduate Fellowship Deferment

A borrower may receive a deferment while pursuing a course of study in a graduate fellowship program.[153] Eligibility requirements include that the borrower has earned a bachelor's degree, and that the program operates on a full-time basis, provides financial support for at least six months, and requires the applicant to submit a written statement of objectives and periodic progress reports. There is no maximum period of eligibility for this deferment. It is not available to borrowers who are serving in medical residency or internship programs, except for residency programs in dentistry.

During a graduate fellowship deferment, an interest subsidy is provided on Direct Subsidized Loans and on the subsidized component of Direct Consolidation Loans.

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[149] 34 C.F.R. §685.204(b).

[150] As a grace period is not offered on Direct PLUS Loans, the six-month period corresponds to the grace period available on Direct Subsidized Loans and Direct Unsubsidized Loans.

[151] U.S. Department of Education, Office of Federal Student Aid, "In-School Deferment Request," OMB No. 1845-0011, https://studentaid.gov/sites/default/files/GEN1602Attach18450011SCHFINAL.pdf.

[152] 34 C.F.R. §685.204(c); U.S. Department of Education, Office of Federal Student Aid, "Parent PLUS Borrower Deferment Request," OMB No. 1845-0011, https://studentaid.gov/sites/default/files/ParentPLUSBorrowerDeferment.pdf.

[153] 34 C.F.R. §685.204(d); U.S. Department of Education, Office of Federal Student Aid, "Graduate Fellowship Deferment Request," OMB No. 1845-0011, https://studentaid.gov/sites/default/files/GraduateFellowshipDeferment.pdf.

Rehabilitation Training Program Deferment

A borrower may receive a deferment while pursuing a course of study in a rehabilitation training program for individuals with disabilities.[154] For a borrower to be eligible, the rehabilitation training program must be licensed, approved, certified, or recognized by a state agency or the U.S. Department of Veterans Affairs. It also must provide services according to a written, individualized plan that specifies an expected completion date and must require a substantial commitment by the borrower toward rehabilitation to the extent that it would normally prevent an individual from being employed full-time (i.e., 30 or more hours per week) for at least three months. There is no maximum period of eligibility for this deferment.

During a rehabilitation training program deferment, an interest subsidy is provided on Direct Subsidized Loans and on the subsidized component of Direct Consolidation Loans.

Unemployment Deferment

A borrower who is seeking to obtain full-time employment and is either not employed or is employed less than full-time may be granted an unemployment deferment.[155] To be eligible, a borrower must be either receiving unemployment benefits or must document that they have registered with a public or private employment agency (if one is available within 50 miles) and is diligently seeking to obtain full-time employment. A borrower may receive the deferment for a maximum cumulative period of three years, which may include one or more episodes of unemployment. They are not required to have been employed previously to qualify for it.

A borrower may request that an unemployment deferment begin the date that they became unemployed or began working less than full-time, but that date may be no earlier than six months prior to requesting the deferment. The deferment may be granted for an initial period of six months and may be extended in six-month increments.

During an unemployment deferment, an interest subsidy is provided on Direct Subsidized Loans and on the subsidized component of Direct Consolidation Loans.

Economic Hardship Deferment

A borrower may qualify for a deferment during periods while they are experiencing an economic hardship.[156] To qualify for this deferment on a loan made through the Direct Loan program, a borrower must satisfy at least one of the following criteria:

- the borrower has been granted an economic hardship deferment under the FFEL program or the Perkins Loan program for the same period of time for which the borrower requests an economic hardship deferment on their Direct Loan program loan;
- the borrower is receiving payments under a federal or state public assistance program (e.g., Temporary Assistance for Needy Families [TANF], Supplemental

[154] 34 C.F.R. §685.204(e); U.S. Department of Education, Office of Federal Student Aid, “Rehabilitation Training Deferment Request,” OMB No. 1845-0011, https://studentaid.gov/sites/default/files/RehabilitationTrainingDeferment.pdf.

[155] 34 C.F.R. §685.204(f); U.S. Department of Education, Office of Federal Student Aid, “Unemployment Deferment Request,” OMB No. 1845-0011, https://studentaid.gov/sites/default/files/UnemploymentDeferment.pdf.

[156] 34 C.F.R. §685.204(g); U.S. Department of Education, Office of Federal Student Aid, “Economic Hardship Deferment Request,” OMB No. 1845-0011, https://studentaid.gov/sites/default/files/EconomicHardshipDeferment.pdf.

Security Income [SSI], Supplemental Nutrition Assistance Program [SNAP], state general public assistance, other means-tested benefits);

- the borrower is working full-time and has a monthly income that does not exceed an amount equal to 150% of the poverty line applicable to the borrower's family size, (see **Table 7**) as calculated on a monthly basis; or
- the borrower is serving as a volunteer in the Peace Corps.

The deferment may be granted for periods of up to one year at a time, and may be extended up to a cumulative maximum of three years.[157] Periods of up to three years while a borrower qualifies for an economic hardship deferment may be counted as part of the repayment period for each of the IDR plans. During an economic hardship deferment, an interest subsidy is provided on Direct Subsidized Loans and on the subsidized component of Direct Consolidation Loans.

Military Service Deferment

A borrower may qualify for a military service deferment on the basis of serving on active duty or performing qualifying National Guard duty during a war or other military operation or national emergency.[158] The deferment is provided for the entire period of qualifying military service, and for an additional 180 days following the completion of military service for borrowers whose period of qualifying service includes or began after October 1, 2007.

During a military service deferment, an interest subsidy is provided on Direct Subsidized Loans and on the subsidized component of Direct Consolidation Loans.[159]

Post-Active Duty Student Deferment

A borrower may qualify for a post-active duty student deferment if they are a member of the National Guard[160] or other reserve component of the Armed Forces (or is a member in retired status) and is called or ordered to active duty while they are enrolled on at least a half-time basis at an eligible institution, or within six months of being enrolled.[161] To qualify, the borrower must have been required to perform at least 30 consecutive days of active duty service on or after October 1, 2007. The deferment is available for a period of up to the lesser of 13 months following the completion of active duty service or until the borrower re-enrolls in an eligible institution on at least a half-time basis. If a borrower qualifies for both the military service

[157] If a borrower qualifies for this deferment based on service in the Peace Corps, it may be granted for the lesser of the duration of their Peace Corps service, or the remainder of their period of eligibility under the three-year maximum without the borrower being required to request an extension.

[158] Qualifying National Guard duty is that which is full-time, performed for more than 30 consecutive days, and a call to active duty authorized by the President or the Secretary of Defense. It does not include National Guard active duty activated by the governor of a state. 34 C.F.R. §685.204(h); U.S. Department of Education, Office of Federal Student Aid, "Military Service and Post-Active Duty Student Deferment Request," OMB No. 1845-0080, https://studentaid.gov/sites/default/files/MilitaryServiceandPostActiveDutyStudentDeferment.pdf.

[159] In addition, for all types of loans made through the Direct Loan program that were first disbursed on or after October 1, 2008, no interest accrues during a period of up to 60 months while the borrower is serving on active duty or is performing qualifying National Guard duty in an area of hostilities during a war or national emergency.

[160] Unlike military service deferment, Post-Active Duty Student Deferment qualifying service includes National Guard active duty activated by the governor of a state, as well as active duty authorized by the President or the Secretary of Defense.

[161] 34 C.F.R. §685.204(i); U.S. Department of Education, Office of Federal Student Aid, "Military Service and Post-Active Duty Student Deferment Request," OMB No. 1845-0080, https://studentaid.gov/sites/default/files/MilitaryServiceandPostActiveDutyStudentDeferment.pdf.

deferment and the post-active duty student deferment, the 180-day post-demobilization period and the 13-month post-active duty service period apply concurrently.

During a post-active duty student deferment, an interest subsidy is provided on Direct Subsidized Loans and on the subsidized component of Direct Consolidation Loans.

Cancer Treatment Deferment

A borrower may receive a cancer treatment deferment on eligible loans during periods while they are receiving treatment for cancer and for the six months thereafter.[162] To qualify for the deferment, the borrower must submit an application on which a physician who is a Doctor of Medicine (M.D.) or a Doctor of Osteopathy (D.O.) certifies that the borrower is receiving treatment for cancer under the physician's care.[163]

During periods while a borrower receives a cancer treatment deferment, no interest accrues on the qualifying loans. Qualifying loans include Direct Subsidized Loans, Direct Unsubsidized Loans, Direct PLUS Loans, and Direct Consolidation Loans that were either made on or after September 28, 2018, or had entered repayment status on or before September 28, 2018.[164] Loans made prior to September 28, 2018, but had not yet entered repayment as of that date due to the borrower being enrolled in school on at least a half-time basis or being in the grace period, are not eligible for this deferment. However, as Direct Consolidation Loans made on or after September 28, 2018, are eligible for the deferment, borrowers of ineligible loans may consider including them in a Direct Consolidation Loan for purposes of qualifying for the deferment.

Forbearance

Forbearance constitutes permission for a borrower to temporarily cease making monthly student loan payments, to make payments in reduced amounts, or to make payments over an extended period of time. With limited exceptions, during periods of forbearance, no interest subsidies are provided and borrowers ultimately remain responsible for paying all of the interest that accrues on their loans. Borrowers have the option of either paying the interest as it accrues during forbearance or letting it be capitalized into the principal balance at the end of the forbearance period.[165] (Effective July 1, 2023, ED regulations eliminate interest capitalization that are not specified in the HEA, such as following periods of forbearance.[166]) In most instances, borrowers must apply for forbearance; and for certain types of it, borrowers must provide supporting documentation to their loan servicer. Forbearance may be granted for an initial period of up to 12 months, and may be renewed upon the borrower's request. Certain types of forbearance are limited to a maximum of 36 months.

Forbearance may be granted for a number of reasons. General or *discretionary forbearance*, may be granted at the discretion of the loan servicer to borrowers who are temporarily unable to make

[162] The cancer treatment deferment is available for periods of cancer treatment occurring on or after September 28, 2018.

[163] U.S. Department of Education, Office of Federal Student Aid, "Deferment for Cancer Treatment for Direct Loan, FFEL, and Perkins Loan Program Borrowers," August 22, 2019, https://fsapartners.ed.gov/knowledge-center/library/electronic-announcements/2019-08-22/deferment-cancer-treatment-direct-loan-ffel-and-perkins-loan-program-borrowers; and U.S. Department of Education, Office of Federal Student Aid, "Cancer Treatment Deferment Request," OMB No. 1845-0154, https://studentaid.gov/sites/default/files/CancerTreatmentDeferment.pdf.

[164] The cancer treatment deferment does not appear to be available for loans that were made prior to September 28, 2019, but had not yet entered repayment prior to that date.

[165] In some limited circumstances, as described below, interest is not capitalized at the end of forbearance.

[166] ED, *Final Rule*, November 1, 2022.

scheduled loan payments. *Administrative forbearance* is granted by the Secretary to borrowers during periods necessary to determine a borrower's eligibility for a number of borrower benefits and for certain other reasons. Certain types of forbearance, referred to as *mandatory forbearance*, are required to be granted to borrowers who satisfy applicable eligibility criteria.

In response to the COVID-19 pandemic, monthly payments due on all types of Direct Loan program loans have been suspended temporarily (i.e., the COVID-19 payment pause). In practice, this is a type of administration forbearance. During this time, borrowers are not required to make payments due on their loans. For additional information, see **Appendix D**.

General (Discretionary) Forbearance

A borrower may request a general forbearance on the basis of experiencing a temporary hardship due to financial difficulties, a change in employment, medical expenses, upon submission of a Public Service Loan Forgiveness application, or other reasons.[167] A general forbearance may be granted at the discretion of a borrower's loan servicer for an initial period of up to 12 months and may be extended in increments of 12 months. A borrower's loan servicer may limit the maximum duration of forbearance; however, there is no statutory or regulatory limit.[168]

Administrative Forbearance

Administrative forbearance may be granted during periods necessary to process requests by a borrower for certain benefits or to determine their eligibility.[169] It may be granted for up to 60 days for the processing of requests for deferment, forbearance, change of repayment plan, and loan consolidation. (Interest that accrues during administrative forbearance for these purposes is not capitalized.) Administrative forbearance is also granted during periods necessary to determine a borrower's eligibility for a student loan discharge (e.g., death or total and permanent disability, closed school, false certification, unauthorized payment, unpaid refund, bankruptcy, borrower defense to repayment) or for loan forgiveness through the Teacher Loan Forgiveness program.

Administrative forbearance is provided to a borrower for up to three years if changes to variable interest rates preclude the borrower's ability to repay their loans in 10 years under the standard or graduated repayment plans. It may also be granted for short periods, such as when payments are overdue at the beginning of an authorized period of deferment or forbearance.

The Secretary may also authorize administrative forbearance in response to a national military mobilization or a local or national emergency.[170]

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[167] 34 C.F.R. §685.205(a)(1); CRS email communication with staff of U.S. Department of Education, Office of Legislation and Congressional Affairs, March 31, 2023; U.S. Department of Education, "General Forbearance Request," OMB No. 1845-0031, https://studentaid.gov/sites/default/files/GeneralForbearance.pdf; U.S. Department of Education, "Public Service Loan Forgiveness (PSLF) & Temporary Expanded PSLF (TEPSLF) Certification & Application, OMB No. 1845-0110, https://studentaid.gov/sites/default/files/public-service-application-for-forgiveness.pdf.

[168] See, U.S. Department of Education, "General Forbearance Request," OMB No. 1845-0031, https://studentaid.gov/sites/default/files/GeneralForbearance.pdf.

[169] 34 C.F.R. §685.205(b).

[170] In response to the COVID-19 pandemic, for March 13, 2020, through October 1, 2023, monthly payments on all types of Direct Loan program loans are suspended. ED will suspend monthly payments on all types of Direct Loan program loans. (In practice, ED is placing all loans in administrative forbearance.) During this time, borrowers will not be required to make payments due on their loans. For additional information, see **Appendix D**.

Medical or Dental Internship or Residency Forbearance

A borrower who is a medical or dental intern or resident and does not or no longer qualifies for a deferment may receive mandatory forbearance. To qualify, the borrower must have been accepted into a medical or dental internship or residency program that either leads to a degree or certificate that is awarded by an IHE, a hospital, or a health care facility that offers postgraduate training, or that must be completed before the borrower may begin professional practice or service.[171] This type of forbearance may be granted for an initial period of up to 12 months and may be extended in increments of up to 12 months for the duration of the borrower's internship or residency.

AmeriCorps National Service Forbearance

A borrower who is serving in a national service position for which they receive a Segal AmeriCorps Education Award may receive mandatory forbearance.[172] It may be granted for an initial period of up to 12 months and may be extended in increments of up to 12 months for the duration of the borrower's national service.

Whereas borrowers are normally responsible for paying the interest that accrues during forbearance, the National Service Trust will pay all or a portion of the interest that accrues during forbearance for a borrower who has earned a Segal AmeriCorps Education Award.[173]

Teacher Loan Forgiveness Program Forbearance

A borrower who is serving in a position that would qualify them for loan forgiveness under the Teacher Loan Forgiveness Program (described below) may receive mandatory forbearance. To be eligible, the borrower must be serving as a full-time teacher at an elementary school, secondary school, or educational service agency that serves low-income families. The borrower's outstanding loan balance is also considered in determining eligibility. This forbearance may be granted "only if the Secretary believes, at the time of the borrower's annual request, that the expected forgiveness amount [i.e., up to $5,000 or up to $17,500, as applicable] will satisfy the anticipated remaining outstanding balance on the borrower's loan at the time of the expected forgiveness."[174] It may be granted for an initial period of up to 12 months and may be extended in increments of up to 12 months for the duration of the five consecutive years of teaching service required to qualify for loan forgiveness.

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[171] 34 C.F.R. §685.205(a)(3); U.S. Department of Education, Mandatory Forbearance Request, "Medical or Dental Internship/Residency, National Guard Duty, or Department of Defense Student Loan Repayment Program Forbearance William D. Ford Federal Direct Loan (Direct Loan Program) / Federal Family Education Loan (FFEL) Program," OMB No. 1845-0018, https://studentaid.gov/sites/default/files/MedicalorDentalInternshipResidencyNationalGuardandDoDStudentLoanRepayment.pdf.

[172] 34 C.F.R. §685.205(4). For additional information on AmeriCorps, see CRS Report RL33931, *The Corporation for National and Community Service: Overview of Programs and Funding*.

[173] Corporation for National and Community Service, AmeriCorps, "Members & Volunteers: Your benefits," https://americorps.gov/members-volunteers/your-benefits (accessed March 14, 2023). This benefit should not be confused with subsidized interest. During periods while a borrower receives an AmeriCorps National Service Forbearance, they continue to be charged interest. The interest may be paid on the borrower's behalf by the National Service Trust.

[174] 34 C.F.R. §685.205(a)(5); U.S. Department of Education, "Teacher Loan Forgiveness Forbearance Request," OMB No. 1845-0059, https://studentaid.gov/sites/default/files/TeacherForbearance.pdf. This type of forbearance is offered to allow a borrower with a low loan balance the opportunity to avoid losing the opportunity to receive the maximum loan forgiveness benefit available to the borrower due to paying down the borrower's loan balance prior to satisfying the program eligibility criteria.

Student Loan Debt Burden Forbearance

A borrower may receive mandatory forbearance on the basis of having a federal student loan debt burden that equals or exceeds 20% of their monthly total income.[175] To qualify, a borrower must demonstrate that their required monthly payments on federal student loans made under Title IV of the HEA (e.g., loans made under the Direct Loan program, the FFEL program, or the Perkins Loan program) equal or exceed 20% of their total monthly taxable income.[176] This type of forbearance may be granted for an initial period of 12 months and may be extended in increments of 12 months for a maximum duration of 36 months.

National Guard Duty Forbearance

Mandatory forbearance is available to a borrower who is a member of the National Guard and qualifies for a Post-Active Duty Student Deferment but does not qualify for a Military Service Deferment or other deferment, and is engaged in active state duty service for 30 or more consecutive days.[177] This type of forbearance may be granted for an initial period of up to 12 months and may be extended in increments of up to 12 months for the duration of the borrower's qualifying National Guard service.

Department of Defense Student Loan Repayment Program Forbearance

Mandatory forbearance is available during periods while a borrower is performing service that qualifies them for partial repayment under a U.S. Department of Defense student loan repayment program.[178] Interest that accrues during this forbearance is not capitalized at the end of the forbearance period. It may be granted for an initial period of up to 12 months and may be extended in increments of up to 12 months for the duration of the borrower's qualifying service.

Loan Discharge and Loan Forgiveness

An important benefit to borrowers of federal student loans made through the Direct Loan program is that their obligation to repay these loans may be discharged or forgiven in a variety of circumstances. Several types of loan discharge and loan forgiveness benefits are available. These may be grouped into three broad categories: loan discharge for borrower hardship, loan forgiveness following IDR plan repayment, and loan forgiveness for public service.

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175 34 C.F.R. §685.205(a)(6).

176 U.S. Department of Education, Mandatory Forbearance Request, "Student Loan Debt Burden," OMB No. 1845-0018, https://studentaid.gov/sites/default/files/StudentLoanDebtBurdenForbearance-en-us.pdf.

177 34 C.F.R. §685.205(a)(7); U.S. Department of Education, Mandatory Forbearance Request, "Medical or Dental Internship/Residency, National Guard Duty, or Department of Defense Student Loan Repayment Program Forbearance William D. Ford Federal Direct Loan (Direct Loan Program) / Federal Family Education Loan (FFEL) Program," OMB No. 1845-0018, https://studentaid.gov/sites/default/files/MedicalorDentalInternshipResidencyNationalGuardandDoDStudentLoanRepayment.pdf.

178 34 C.F.R. §685.205(a)(9); U.S. Department of Education, Mandatory Forbearance Request, "Medical or Dental Internship/Residency, National Guard Duty, or Department of Defense Student Loan Repayment Program Forbearance William D. Ford Federal Direct Loan (Direct Loan Program) / Federal Family Education Loan (FFEL) Program," OMB No. 1845-0018, https://studentaid.gov/sites/default/files/MedicalorDentalInternshipResidencyNationalGuardandDoDStudentLoanRepayment.pdf. P.L. 116-159 amended this provision to make active duty members of the National Oceanic and Atmospheric Administration's Commissioned Officer Corps eligible for forbearance.

For additional information on U.S. Department of Defense student loan repayment programs, see CRS Report R43571, *Federal Student Loan Forgiveness and Loan Repayment Programs*.

In addition, in response to the COVID-19 pandemic, ED has announced a one-time student loan debt relief policy under which qualifying borrowers may have up to $20,000 of their federal student loan debt (including Direct Loan program loans) cancelled. To date, the policy has not been implemented due to lawsuits challenging ED's legal authority to effectuate the policy. For additional information, see **Appendix D**.

Loan Discharge for Borrower Hardship

A borrower who experiences certain types of hardship may have their loan discharged. Types of hardship discharges available to borrowers of loans made through the Direct Loan program are described below. Administrative forbearance (see above) is granted during the period necessary to determine a borrower's eligibility for these types of discharge.

Discharge Due to Death

A borrower's obligation to repay a loan is discharged if they die; and in the case of a Direct PLUS Loan made to a parent borrower, the obligation to repay is discharged if the student on whose behalf the loan was made dies.[179] In the case of a Direct Consolidation Loan that repaid either a Direct PLUS Loan or a FFEL PLUS Loan that was borrowed by a parent on behalf of a student, if the student dies a proportionate share of the Direct Consolidation Loan attributable to the applicable Direct PLUS Loan or FFEL PLUS Loan is discharged.[180] In the case of a Joint Direct Consolidation Loan borrowed by two married individuals, upon the death of one spouse a proportionate share of the loan attributable to the individual who died is discharged.[181]

Total and Permanent Disability Discharge

A borrower's liability to repay a loan is discharged upon the individual being determined to have a total and permanent disability (TPD).[182] A borrower may be determined to be have a total and permanent disability based on any of the following three criteria:[183]

1. **Physician's Certification.** Certification by a physician (M.D. or D.O.) licensed to practice in the United States that the borrower is unable to engage in any substantial gainful activity due to a physical or mental impairment that (a) can be expected to result in death, (b) has lasted continuously for at least 60 months, or (c) can be expected to last continuously for at least 60 months.
2. **SSA Disability Determination**. Documentation from the Social Security Administration (SSA) that the borrower qualifies for Social Security Disability

[179] HEA, §§437 and 455(a)(1). In addition, in the case of a borrower who is the spouse of an individual who was an eligible public servant (i.e., a police officer, firefighter, other safety or rescue personnel, or a member of the Armed Forces) at the time of the September 11, 2001, terrorist attacks and remained so until the eligible public servant's death due to injuries suffered in the attacks, the borrower's obligation to repay a loan made through the Direct Loan program is discharged upon the death of the borrower's spouse. 34 C.F.R. §685.218.

[180] 34 C.F.R. §685.212(a).

[181] 34 C.F.R. §685.220(l).

[182] HEA, §§437 and 455(a)(1). In addition, in the case of a borrower who is the spouse of an individual (or with respect to a Direct PLUS Loan borrowed on behalf of student, in the case of a borrower who is the parent of such an individual) who was an eligible public servant (i.e., a police officer, firefighter, other safety or rescue personnel, or a member of the Armed Forces) at the time of the September 11, 2001, terrorist attacks who became permanently and totally disabled due to injuries suffered in such attacks, and who was treated within 72 hours of such attacks, the borrower's obligation to repay a loan made through the Direct Loan program is discharged. 34 C.F.R. §685.218.

[183] 34 C.F.R. §§685.102(b), 685.213, and 685.218.

Insurance (SSDI) or Supplemental Security Income (SSI) benefits and that their next scheduled disability review will be within five to seven years from the date of the individual's most recent SSA disability determination.[184] Acceptable documentation includes an SSA notice of award for SSDI or SSI benefits and an SSA Benefits Planning Query[185] (BPQY).[186]

3. **VA Service Connected Disability or Unemployability**. Documentation from the Department of Veterans Affairs (VA) that the borrower has a service connected disability (or disabilities) that is 100% disabling or that they are totally disabled based on an individual unemployability rating.

Effective July 1, 2023, ED regulations[187] would specify that, in addition to the criteria above, a borrower may also be determined to have a total and permanent disability based on

- certification by a state-licensed nurse practitioner (NP) or physician assistant (PA), or a certified psychologist at the independent practice level who is licensed to practice in the United States; and
- SSA documentation that a borrower (1) qualifies for SSDI or SSI benefits with a next scheduled disability review of three years; (2) has a disability onset date for SSDI or SSI of, or has been receiving SSDI or SSI benefits based on a disability for, at least five years prior to the application for a TPD discharge; (3) qualifies for SSDI or SSI benefits based on a compassionate allowance;[188] or (4) is currently receiving SSA retirement benefits and met any of the other SSA documentation requirements prior to qualifying for SSA retirement benefits.[189]

On a periodic basis, ED obtains information from SSA and VA on borrowers who might qualify for a TPD discharge on the basis of an SSA disability determination or VA service-connected disability of unemployability determination, respectively, and contacts them to inform them of their potential eligibility.[190] A borrower, or their authorized representative, may apply for a TPD discharge by submitting an application along with any required documentation of the borrower's

[184] This occurs when SSA assigns an individual a Medical Improvement Not Expected (MINE) continuing disability review diary. For additional information, see Appendix B in CRS Report R44948, *Social Security Disability Insurance (SSDI) and Supplemental Security Income (SSI): Eligibility, Benefits, and Financing*.

[185] The Benefit Planning Query provides SSDI beneficiaries and SSI recipients about the status of their disability cash benefits, scheduled medical reviews, health insurance, and work history. Social Security Administration, *Benefits Planning Query Handbook (BPQY)*, March 2021, p. 3, https://www.ssa.gov/disabilityresearch/documents/BPQY_Handbook.pdf.

[186] U.S. Department of Education, Office of Federal Student Aid, Total and Permanent Disability (TPD) Discharge, "TPD 101," https://disabilitydischarge.com/tpd-101 (accessed March 15, 2023).

[187] ED, *Final Rule*, November 1, 2022.

[188] SSA's Compassionate Allowances "are a way to quickly identify diseases and other medical conditions that, by definition, meet Social Security's standards for disability benefits." U.S. Social Security Administration, "Compassionate Allowances," https://www.ssa.gov/compassionateallowances/ (accessed April 4, 2023).

[189] The updated ED regulations also codify the pre-July 1, 2023, ED practice that considered an SSA BPQY as acceptable documentation.

[190] U.S. Department of Education, Office of Management, Privacy Safeguards Division, "Computer Matching Agreement Between the Social Security Administration (SSA) and the U.S. Department of Education (ED) Federal Student Aid (FSA)," https://www2.ed.gov/about/offices/list/om/docs/pirms/ssa-mine-cma.pdf; and "Computer Matching Agreement Between U.S. Department of Veterans Affairs (VA) and the U.S. Department of Education (ED) Federal Student Aid (FSA)," https://www2.ed.gov/about/offices/list/om/docs/pirms/computer-matching-agreement-btwn-ed-and-va.pdf.

disability.[191] A borrower who has been identified as a veteran with a VA service-connected disability or unemployability determination will be granted a TPD discharge without needing to submit an application unless they decide to opt out of the process within 60 days of being notified by ED.[192]

If a borrower's TPD discharge application is approved, they will be considered totally and permanently disabled as of the date of the physician's certification, the date that ED received SSA documentation or the effective date of the VA's service-connected disability or unemployability determination, as applicable.[193] Upon the determination of a borrower being totally and permanently disabled, their obligation to make any further payments on the loans will be discharged and any loan payments that were made after the aforementioned dates will be returned.

A TPD discharge approved on the basis of a physician's certification or an SSA disability determination is granted on a conditional basis for a three-year period that begins on the date of discharge. During the three-year period, a borrower who has been granted a TPD discharge according to either of these two criteria is subject to having their loans reinstated if the borrower (1) has annual earnings from employment in excess of 100% of the federal poverty guideline for a family of two (see **Table 7**), (2) obtains a new Direct Loan program loan or a TEACH Grant, (3) fails to return any Direct Loan or TEACH Grant disbursements made between the TPD discharge application date and the discharge date, or (4) receives a notice from SSA that they are no longer disabled or that their next scheduled disability review will be sooner than five to seven years from the date of the borrower's most recent SSA disability determination.[194] To show compliance with the annual earnings requirement, borrowers must annually submit to ED documentation[195] of their annual earnings from employment; failure to submit this documentation results in the reinstatement of a borrower's loan.[196] After the three-year period, the TPD discharge becomes permanent. A TPD discharge granted on the basis of a VA service-connected disability or

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[191] U.S. Department of Education, Office of Federal Student Aid, Total and Permanent Disability (TPD) Discharge, "Forms," https://disabilitydischarge.com/Forms (accessed March 15, 2023).

[192] Presidential Memorandum of August 21, 2019, "Discharging the Federal Student Loan Debt of Totally and Permanently Disabled Veterans," 84 *Federal Register* 44677-44678, August 26, 2019; and U.S. Department of Education, "Trump Administration to Automatically Forgive Federal Student Loan Debt for Totally and Permanently Disabled Veterans," August 21, 2019. A borrower might consider opting out of a TPD discharge if the borrower is concerned about the potential for the discharged indebtedness to be included as part of the borrower's taxable income under state tax law or if the borrower intends to subsequently obtain an additional loan through the Direct Loan program. (For such a borrower to subsequently obtain another loan, the borrower must (1) obtain certification from a physician that the borrower is able to engage in substantial gainful activity, and (2) sign a statement acknowledging that the new loan may not be discharged on the basis of any impairment present at the time it is made, unless the impairment becomes substantially worse. 34 C.F.R. §685.200.)

[193] 34 C.F.R. § 685.213(b)(4)(i) and (c)(2)(i).

[194] If a borrower's loan is reinstated, the borrower is not responsible for paying any interest that would have accrued on the loan during the three-year monitoring period. This may be considered as another of the various forms of subsidized interest available on loans made through the Direct Loan program.

[195] U.S. Department of Education, Office of Federal Student Aid, "Total and Permanent Disability Discharge: Meet the Monitoring Requirements", https://studentaid.gov/manage-loans/forgiveness-cancellation/disability-discharge#postdischarge (accessed March 15, 2023).

[196] In response to the COVID-19 pandemic, ED suspended the annual earnings certification requirement through the earlier of 60 days after litigation relating to the Administration's one-time student loan debt relief policy is resolved or 60 days after June 30, 2023. Borrowers whose loans were reinstated on or after March 13, 2020, due to not meeting the annual earnings certification requirement will have their loans automatically returned to discharge status. U.S. Department of Education, Office of Federal Student Aid, "COVID-19 Relief: Total and Permanent Disability Discharge," https://studentaid.gov/announcements-events/covid-19/disability-discharge (accessed March 15, 2023).

unemployability is permanent upon being granted and is not subject to a post-discharge monitoring period.

Effective July 1, 2023, borrowers with a TPD discharge approved on the basis of a physician's, (or NP's, PA's, or certified psychologist's) certification or an SSA disability determination will no longer have their loans reinstated if (1) their annual earnings from employment are in excess of 100% of the federal poverty guideline for a family of two,[197] (2) they receive a notice from SSA that they are no longer disabled or that their next scheduled disability review will be sooner than five to seven years from the date of the borrower's most recent SSA disability determination during the three-year monitoring period, or (3) they do not return any Direct Loan or TEACH Grant disbursements made during the three-year monitoring period.[198] Such borrowers would, however, continue to have their loans reinstated if they obtain a new Direct Loan program loan or a TEACH Grant during the three-year monitoring period.[199]

Closed School Discharge

A borrower's liability to repay a loan is discharged if the borrower (or the student on whose behalf a Direct PLUS Loan is made to a parent borrower) does not complete the program of study for which the loan was made because the school (institution) they attended has closed.[200] In the case of a Direct Consolidation Loan, the portion of the loan attributable to loans borrowed to finance the program of study at the closed school is discharged.

For loans made before July 1, 2020, to qualify for a closed school discharge, a borrower generally must submit an application and certify that (1) the school they attended closed either while the student was enrolled or within 120 days of the student withdrawing,[201] and (2) the student did not complete the program of study for which the loan was obtained through a *teach-out agreement*[202] at another school or by transferring credits earned at the closed school to another school to enroll

[197] The FUTURE Act (P.L. 116-91), among other provisions, authorizes the Internal Revenue Service (with borrower approval) to disclose relevant tax return information to ED for the purpose of monitoring a borrower's earnings and, if necessary, reinstating their loans that were discharged based on TPD. Authorized disclosures include (1) taxpayer identity information, (2) filing status, (3) the fact that no return was filed (if applicable), and (4) the amount of net earnings from self-employment, wages, and taxable income from a farming business. As of the publication date of this report, it appears these procedures have not yet been operationalized. Regardless of this authority, ED decided to eliminate the annual earnings requirement during the three-year monitoring period, noting that the FUTURE Act authority "would not fully absolve borrowers of the burden" associated with earnings monitoring, as the TPD earnings monitoring process looked at the earnings of an individual borrower, and "IRS data are not able to provide individual [earnings] information from married filing jointly tax return." ED "would thus not have enough information to determine if a married borrower filing jointly who received a TPD discharge had earnings that exceeded the thresholds." ED, *Final Rule*, November 1, 2022, p. 65961.

[198] Consistent with current regulations, ED would suspend the processing of a borrower's TPD discharge application until the borrower returns to ED the full amount of any disbursement made after the physician's (or NP's, PA's, or certified psychologist's) certification date or the date ED received SSA disability documentation on a loan made prior to those dates, as applicable.

[199] ED, *Final Rule*, November 1, 2022.

[200] HEA, §437(c); 34 C.F.R. §§685.212 and 685.214.

[201] ED may extend the 120-day look-back period if it determines that exceptional circumstances related to a school's closing justify an extension. Exceptional circumstances may include, for example, the school's loss of accreditation, discontinuation of the majority of its academic programs, action by a state to revoke the school's license to operate or award academic credentials, or a finding by a federal or state government agency that the school violated federal or state law.

[202] A *teach-out agreement* is "a written agreement between institutions that provides for the equitable treatment of students and a reasonable opportunity for students to complete their program of study if an institution, or an institutional location that provides one hundred percent of at least one program offered, ceases to operate before all enrolled students have completed their program of study." 34 C.F.R. §602.3.

in a comparable program.[203] However, if based on information available to the Secretary, a borrower qualifies for a closed school discharge with respect to a school that closed on or after November 1, 2013, and before July 1, 2020, and the borrower did not subsequently re-enroll in any Title IV-eligible IHE within three years of the school's closure, the Secretary is to discharge the borrower's loan without the borrower needing to submit an application for a discharge.

For loans made on or after July 1, 2020, to qualify for a closed school discharge, a borrower must submit an application and certify that (1) the school attended closed either while the student was enrolled or within 180 days of the student withdrawing,[204] (2) that the student did not complete the program of study for which the loan was obtained through a teach-out agreement at another school or by transferring credits earned at the closed school to another school, and (3) that the student has not accepted the opportunity to complete the program of study or a comparable program at another school through either a *teach-out plan* performed by the closing school or a teach-out agreement at another school.[205]

In either case, upon being granted a closed school discharge, a borrower is reimbursed for any amounts they had already repaid on the loan. If the borrower had previously defaulted on the loan, upon being granted a closed school discharge their eligibility to receive additional Title IV federal student aid will be restored and consumer reporting agencies will be instructed to delete any adverse credit history related to the loan.

Effective July 1, 2023, ED regulations make uniform the closed school discharge standards and procedures across Direct Loans, regardless of when a loan was first disbursed. Specifically, to qualify for a closed school discharge, a borrower will be required to submit an application and certify that (1) the school attended closed[206] either while the student was enrolled or within 180 days of the student withdrawing,[207] and (2) that the student did not complete the program of study for which a loan was obtained at another branch or location of the school or through a teach-out agreement at another school. If based on information available to the Secretary, a borrower qualifies for a closed school discharge and the student did not complete their program of study at

[203] For additional information on comparable programs, see U.S. Department of Education, Office of Federal Student Aid, "Has Your School Closed? Here's What to Do: How does ED define a "comparable program of study" when considering eligibility for a closed school loan discharge?," https://studentaid.gov/announcements-events/closed-school (accessed May 21, 2021).

[204] ED may extend the 180-day look-back period if it determines that exceptional circumstances related to a school's closing justify an extension. Exceptional circumstances may include, for example, the revocation or withdrawal of a school's institutional accreditation, the revocation or withdrawal of a school's state authorization to operate or award academic credentials, the termination by ED of a school's participation in an HEA, Title IV program, the teach-out of a school's educational program exceeding the 180-day look-back period, or a failure by the school responsible for the teach-out of the student's educational program to perform the material terms of the teach-out plan or agreement.

[205] HEA, §437(c); 34 C.F.R. §§685.212 and 685.214(c)(2). The 180-day window may be extended in exceptional circumstances. A *teach-out plan* is "a written plan developed by an institution that provides for the equitable treatment of students if an institution, or an institutional location that provides one hundred percent of at least one program, ceases to operate before all students have completed their program of study, and may include, if required by the institution's accrediting agency, a teach-out agreement between institutions." 34 C.F.R. §602.3.

[206] The amended regulations would also update the instances in which a school is considered to be closed. ED would consider a school to be closed on the earlier of (1) the date the school stopped providing educational instruction in programs in which most of its students were enrolled, or (2) a date determined by ED that reflects when the school stopped providing educational instruction to all of its students.

[207] The amended regulations would also update the exceptional circumstances under which ED may extend the 180-day look-back period. Under the updated regulations, exceptional circumstances may include, for example, all of the exceptional circumstances currently applicable to loans made on or after July 1, 2020 (see footnote 204) as well as the school having discontinued a significant share of its academic programs, the school permanently closing all or most of its in-person locations while maintaining online programs, or ED placing the school on the heightened cash monitoring payment method applicable to the HEA Title IV student financial aid programs.

another branch campus or location of the closed school or through a teach-out agreement at another school within one year of the school's closure, the Secretary is to discharge the borrower's loan without the borrower needing to submit an application for a discharge. Also, if a student accepts but did not complete a continuation of their program of study at another branch or location of the school or a teach-out agreement at another school, the Secretary is to discharge the borrower's loan one year after the student's last date of attendance, as applicable.[208]

False Certification and Unauthorized Payment Discharges

A borrower's liability to repay a loan is discharged if the eligibility of the borrower (or of the student in the case of a Direct PLUS Loan made to a parent borrower) to receive the proceeds of the loan was falsely certified by the IHE attended,[209] or if the loan proceeds were disbursed without their authorization (e.g., unauthorized signature).[210] In the case of a Direct Consolidation Loan, a borrower's liability to repay the portion of the loan that is attributable to loans that were falsely certified by the IHE attended, or that were disbursed without their authorization, is discharged. A borrower must submit an application to ED that provides certifications and evidence relating to their eligibility for discharge. Upon being granted a false certification or unauthorized payment discharge, the borrower is reimbursed for any amounts they had already repaid on the loan. If the borrower had previously defaulted on the loan, upon being granted a false certification or unauthorized payment discharge their eligibility to receive additional Title IV federal student aid will be restored and consumer reporting agencies will be instructed to delete any adverse credit history related to the loan.[211]

Unpaid Refund Discharge

If a borrower is owed a refund by an IHE that has not been paid, their liability to repay an amount equal to the unpaid refund and any associated accrued interest and other charges is discharged.[212] An unpaid refund discharge is only available in instances where a borrower is owed a refund by a school that has closed, or by an open IHE that the borrower (or the student on whose behalf a Direct PLUS Loan is made to a parent borrower) is no longer attending.

Borrower Defense to Repayment Discharge

A borrower's liability to repay a loan is discharged in whole or in part, and previous loan payments are refunded, if the borrower (or the student on whose behalf a Direct PLUS Loan was made to a parent borrower) successfully asserts a defense to repayment of the loan. A borrower may assert certain acts or omissions by the IHE for which the loan was borrowed that relates to the making of the loan as a defense to repayment.[213]

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[208] ED, *Final Rule*, November 1, 2022.

[209] Instances of false certification include, for example, if an IHE certified the Title IV eligibility of a student who reported not having a high school diploma or who did not satisfy ability to benefit (ATB) requirements for Title IV eligibility. For additional information on ATB requirements, see *FSA Handbook*, vol. 1, pp. 12-14.

[210] HEA, §437(c); 34 C.F.R. §§685.212 and 685.215.

[211] Effective July 1, 2023, ED regulations make slight adjustments to some of the eligibility criteria for discharge and some of the documentation required in a borrower's discharge application. In addition, the amended regulations establish that a State Attorney General or nonprofit legal services representative may submit an application to ED on behalf of a group of borrowers. ED, *Final Rule*, November 1, 2022.

[212] HEA, §437(c); 34 C.F.R. §§685.212 and 685.216.

[213] HEA, §437(c); 34 C.F.R. §§685.206(c), 685.206(e), 685.212(k), and 685.222. Refunds are limited to the amount of (continued...)

A borrower may assert a defense to repayment according to procedures specified in regulations that are specific to the period during which their loans were made. There are three distinct periods applicable to borrower defense claims. In the case of a Direct Consolidation Loan, the procedures to be used for adjudicating a defense to repayment claim depend on the types of loans that were repaid by it (e.g., loans made through the Direct Loan program, other types of eligible loans) and when it was made.

For loans disbursed prior to July 1, 2017, a borrower defense to repayment "refers to any act or omission of the school attended ... that would give rise to a cause of action against the school under applicable State law."[214] For loans disbursed on or after July 1, 2017, and before July 1, 2020, a borrower may assert a defense to repayment on the basis of a nondefault, contested judgment against the school; a breach of contract by the school; or a substantial misrepresentation by the school to the borrower that the borrower had relied on to their detriment when they decided to attend or continue attending the school, or decided to borrow a loan.[215]

For loans disbursed on or after July 1, 2020, a borrower may assert a defense to repayment on the basis of a misrepresentation of material fact made by the borrower's school about enrollment or the provision of educational services that the borrower relied upon in deciding to borrow a loan and from which they suffered financial harm.[216] For loans disbursed on or after July 1, 2020, a borrower must assert a defense to repayment within three years of ceasing to be enrolled at the IHE.

In the instance that a borrower had previously defaulted on a loan, upon being granted a defense to repayment discharge the borrower's eligibility to receive additional Title IV federal student aid will be restored and consumer reporting agencies will be instructed to delete any adverse credit history related to the loan.

Effective July 1, 2023, ED regulations specify that for borrower defense applications received on or after July 1, 2023, and for applications pending with ED on July 1, 2023 (regardless of the date an applicable loan was disbursed), a borrower may assert a defense to repayment on the basis of:

- a substantial misrepresentation[217] by the school that misled the borrower;
- an omission of fact by the school;[218]

payments made by the borrower "that exceed the amount owed on that portion of the loan not discharged." For additional information, see CRS Report R44737, *The Closure of Institutions of Higher Education: Student Options, Borrower Relief, and Other Implications*.

[214] 34 C.F.R. §685.206(c).

[215] 34 C.F.R. §685.222 and Part 668, Subpart F. A *misrepresentation* means "Any false, erroneous or misleading statement an eligible institution, one of its representatives, or any ineligible institution, organization, or person with whom the eligible institution has an agreement to provide educational programs, or to provide marketing, advertising, recruiting or admissions services makes directly or indirectly to a student, prospective student or any member of the public, or to an accrediting agency, to a State agency, or to the Secretary." 34 C.F.R. §668.71(c).

[216] 34 C.F.R. §685.206(e). A *misrepresentation* means "a statement, act, or omission by an eligible school to a borrower that is false, misleading, or deceptive; that was made with knowledge of its false, misleading, or deceptive nature or with a reckless disregard for the truth; and that directly and clearly relates to (1) enrollment or continuing enrollment at the institution, or (2) the provision of educational services for which the loan was made." *Financial harm* means "the amount of monetary loss that a borrower incurs as a consequence of a misrepresentation" and excludes nonmonetary losses.

[217] Under the amended regulations, the definition of *misrepresentation* would largely mirror the definition used for borrower defense to repayment claims for loans disbursed on or after July 1, 2017, and before July 1, 2020, but would also include an omission of fact.

[218] An *omission of fact* means a misrepresentation "if a reasonable person would have considered the omitted (continued...)

- a failure of the school to perform its obligations under a contract with the student;
- engagement in aggressive and deceptive recruitment conduct by the school;[219]
- ED actions against the school including fines, limitations, suspension actions, denial of the school's application for recertification to participate in the HEA Title IV programs, and the revocation of a school's provisional program participation agreement for the HEA Title IV aid programs,[220] all of which must be based on the school's acts or omissions that could give rise to a borrower defense to repayment claim under the above-listed circumstances; or
- the borrower (as an individual or as a member of a class) or a governmental agency having obtained against the school a favorable judgment under federal or state law based on the school's acts or omissions relating to the making of a loan, or the provision of educational services for which the loan was provided.

In addition, only for loans disbursed prior to July 1, 2017, and in limited circumstances, a borrower may assert a defense to repayment on the basis of any act or omission of the school relating to the making of the loan for enrollment at the school or the provision of educational services for which the loan was provided that would give rise to a cause of action against the school under applicable state law.[221]

Under the amended regulations, upon successfully asserting a borrower defense to repayment, a borrower would receive a discharge of the full amount of their applicable loan and would be entitled to have the full amount of payments made on their applicable loans refunded. As under current standards, for a borrower who had previously defaulted on an applicable loan and who is granted a defense to repayment discharge is to have their eligibility to receive additional Title IV federal student aid restored, and consumer reporting agencies are to be instructed to delete any adverse credit history related to the loan.

Bankruptcy Discharge

Section 523(a)(8) of the Bankruptcy Code provides that student loans (e.g., loans made through the Direct Loan program) are presumed to be not dischargeable in bankruptcy proceedings, unless the debtor is able to demonstrate to the court that "excepting such debt from discharge ... would impose an undue hardship on the debtor and the debtor's dependents."[222] In general, to discharge student loan debt in bankruptcy, the debtor must file a separate lawsuit against the holder of the debt and must prove by a preponderance of the evidence that repayment of the debt would impose an undue hardship.[223] If a borrower's liability to repay a loan made through the Direct Loan

information in making a decision to enroll or continue attendance at the institution." ED, *Final Rule*, November 1, 2022, p. 66041.

[219] This, as well as the three previously delineated bases, generally must have occurred in connection with the borrower's decision to attend or continue attending the school, or the borrower's decision to borrow a loan.

[220] For additional information on program participation agreements, see CRS Report R43159, *Institutional Eligibility for Participation in Title IV Student Financial Aid Programs*.

[221] This option would only be available to borrowers during any reconsideration process of a borrower defense to repayment claim denied under any of the other standards.

[222] 11 U.S.C. §§523(a)(8) and 1328.

[223] See CRS Report R45113, *Bankruptcy and Student Loans*. In November 2022, the Department of Justice (DOJ), in coordination with ED, developed new guidance to help "enhance consistent treatment of the discharge of federal student loans [in bankruptcy], reduce the burden on borrowers of pursuing such proceedings and make it easier to identify cases where discharge is appropriate." U.S. Department of Justice, "Justice Department and Department of Education Announce a Fairer and More Accessible Bankruptcy Discharge Process for Student Loan Borrowers," press (continued...)

program is discharged in bankruptcy, the Secretary will cease to require the borrower to make payments on the loan.[224]

Loan Forgiveness Following IDR Plan Repayment

A borrower who has repaid a loan made through the Direct Loan program according to one or more of the Income-Driven Repayment (IDR) plans for the duration of the applicable maximum repayment period (including periods of repayment according to certain other eligible plans, periods while in receipt of an economic hardship deferment, and periods while payments are suspended under the COVID-19 payment pause (see **Appendix D**) is relieved of the obligation to repay any balance of principal and interest that remains outstanding. The applicable maximum repayment period varies by IDR repayment plan as follows:

- Income-Contingent Repayment Plan: 25 years;
- Original IBR Plan: 25 years;
- IBR Plan for Post-July 1, 2014, New Borrowers: 20 years;
- PAYE Repayment Plan: 20 years;
- REPAYE Repayment Plan for borrowers with debt only for undergraduate education: 20 years; and
- REPAYE Repayment Plan for borrowers with any debt for graduate education: 25 years.

For detailed information on the requirements for a borrower to qualify for loan forgiveness following IDR plan repayment, see the descriptions of the maximum repayment period and loan forgiveness in the prior sections on each of the various IDR plans.

Loan Forgiveness for Public Service

The Direct Loan program makes loan forgiveness benefits available to borrowers who have engaged in certain types of public service for a specified period of time and meet program-specific requirements, as described below.[225]

Teacher Loan Forgiveness Program

A borrower who has completed five consecutive complete academic years of teaching service in a low-income school or educational service agency (ESA) may be relieved of the obligation to repay up to $5,000 for service as a highly qualified teacher, or up to $17,500 for service as a highly qualified special education teacher or secondary school teacher of mathematics or science.[226] Teacher Loan Forgiveness benefits are only available to borrowers who had no

release, November 17, 2022, https://www.justice.gov/opa/pr/justice-department-and-department-education-announce-fairer-and-more-accessible-bankruptcy.

[224] 34 C.F.R. §685.212(c).

[225] Borrowers of loans made through the Direct Loan program may also be able to qualify to receive loan repayment benefits through a number of federal programs. For information on such programs, see CRS Report R43571, *Federal Student Loan Forgiveness and Loan Repayment Programs*.

[226] HEA, §460; 34 C.F.R. §§685.212(h) and 685.217. Breaks in service are authorized for borrowers who return to school on at least a half-time basis to pursue additional postsecondary education related to the qualifying teaching service, who have a condition covered under the Family and Medical Leave Act of 1993 (FMLA), or who are called or ordered to active duty for more than 30 days in a reserve component of the Armed Forces. An eligible school or ESA is (continued...)

outstanding balance on any federal student loan made through the Direct Loan program (or the FFEL program) as of the date the borrower first obtained such a loan on or after October 1, 1998.

Student loan debt attributable to Direct Subsidized Loans, Direct Unsubsidized Loans, and Direct Consolidation Loans (to the extent that the Direct Consolidation Loan repaid a Direct Subsidized Loan, a Direct Unsubsidized Loan, a FFEL Subsidized Stafford Loan, or a FFEL Unsubsidized Stafford Loan) may be forgiven. Loans must have been obtained prior to the end of a borrower's fifth year of qualifying service and may not be in default, unless satisfactory repayment arrangements have been made. A borrower may receive Teacher Loan Forgiveness Program Forbearance during the five years of teaching service required to qualify for benefits.

A borrower becomes eligible for loan forgiveness benefits upon completion of the fifth year of qualifying service. If a borrower's student loan debt exceeds the amount to be forgiven, unless otherwise requested by the borrower, loan forgiveness benefits are applied first to Direct Unsubsidized Loans, then to Direct Subsidized Loans, then to the unsubsidized component of Direct Consolidation Loans, and finally to the subsidized component of Direct Consolidation Loans. Loan forgiveness benefits may not be provided for the same service used to qualify for benefits under the Public Service Loan Forgiveness (PSLF) program, the Loan Forgiveness for Service in Areas of National Need Program, or a Segal AmeriCorps Education Award.[227]

Public Service Loan Forgiveness (PSLF) Program

A borrower may be relieved of the obligation to repay the balance of principal and interest that remains outstanding on eligible loans upon having made 120 qualifying monthly payments on or after October 1, 2007, concurrent with the borrower being employed full-time by one or more public service organizations or serving full-time in an AmeriCorps or Peace Corps position.[228] To qualify, a borrower must make 120 separate, full, on-time scheduled monthly payments on loans that are not in default. In general, qualifying payments are those made within 15 days of the due date according to certain repayment plans. Borrowers may make lump sum payments for up to the lesser of 12 months or when their next IDR annual certification is due.[229] Regulations also specify that borrowers using Segal AmeriCorps Education Award benefits, Peace Corps transition payments, or certain Department of Defense student loan repayment benefits may make lump sum payments.[230] Qualifying payments include those made according to one or more of the following repayment plans:

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an entity (1) that qualifies for funds under Title I of the Elementary and Secondary Education Act of 1965 (ESEA), (2) at which more than 30% of students qualify for Title I services, and (3) that is listed in the *Annual Directory of Designated Low-Income Schools for Teacher Cancellation Benefits (Teacher Cancellation Low-Income (TCLI) Directory)*, https://studentloans.gov/myDirectLoan/tcli.action?_ga=2.177690848.493686772.1564697813-1244777594.1562359674. Bureau of Indian Education (BIE) schools are considered eligible schools. Qualifying service may be completed at one or more eligible schools or ESAs.

[227] A parallel Teacher Loan Forgiveness program is available for borrowers of FFEL program loans. If a borrower also has eligible loans made through the FFEL program, combined Teacher Loan Forgiveness program benefits received through the Direct Loan program and the FFEL program may not exceed $5,000 or $17,500, as applicable.

[228] HEA, §455(m); 34 C.F.R. §§685.212(i) and 685.219. For a detailed description of the PSLF program, see CRS Report R45389, *The Public Service Loan Forgiveness Program: Selected Issues*, archived (available to congressional clients upon request).

[229] U.S. Department of Education, Office of Federal Student Aid, Electronic Announcement, "Changes to the Public Service Loan Forgiveness (PSLF) Program and New, Single PSLF Form, October 28, 2020, https://fsapartners.ed.gov/knowledge-center/library/electronic-announcements/2020-10-28/changes-public-service-loan-forgiveness-pslf-program-and-new-single-pslf-form.

[230] 34 C.F.R.§685.219(c)(2).

- Income-Contingent Repayment (ICR) plan;
- Income-Based Repayment (IBR) plans;
- Pay As You Earn (PAYE) repayment plan;
- Revised Pay As You Earn (REPAYE) repayment plan;
- Standard Repayment Plan with a Maximum 10-Year Term; and
- any other of the loan repayment plans (except for the alternative repayment plans [discussed above]) if the monthly payment amount is not less than what would be paid under the Standard Repayment Plan with a Maximum 10-Year Term.

In addition, payment credits received under the IDR account adjustment (see **Appendix D**) for months that coincide with months during which a borrower was employed in PSLF qualifying employment count toward the 120 qualifying monthly payments. Monthly payments suspended under the COVID-19 payment pause (see **Appendix D**) count toward the 120 qualifying monthly payments. Payments made on loans prior to consolidation into a Direct Consolidation Loan, however, do not count toward the 120 qualifying monthly payments on the new Direct Consolidation Loan.

A borrower must be employed by or serving full-time with a public service organization at the time they make each of the required 120 payments, apply for loan forgiveness benefits, and have forgiveness granted.[231] Public service organizations are federal, state, local, or tribal government agencies, organizations, or entities; tribal colleges and universities; public child or family service agencies; nonprofit entities organized under Section 501(c)(3) of the Internal Revenue Code (IRC) that are tax-exempt under IRC Section 501(a); and certain other private nonprofit entities that are providers of public services. Public service organizations exclude labor unions and partisan political organizations. Religious organizations qualify as public service organizations, regardless of whether activities relate to religious instruction, worship services, or proselytizing.[232] Eligible private nonprofit entities include providers of any of the following public services: emergency management, military service, public safety, law enforcement, public interest law services, early childhood education, public service for individuals with disabilities and the elderly, public health, public education, public library services, and school library or other school-based services. Loan forgiveness benefits may not be provided for the same service used to qualify for benefits under the Teacher Loan Forgiveness Program, the Civil Legal Assistance Attorney Loan Repayment Program, or the Loan Forgiveness for Service in Areas of National Need Program.[233]

Effective July 1, 2023, ED regulations make a number of changes to PSLF program rules.[234] Under the new regulations, borrowers would still be required to make 120 qualifying monthly

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[231] Full-time employment means the greater of an average of 30 hours per week or the number of hours the employer considers full time. Employer-provided leave or vacation and FMLA leave are not considered when determining the average number of hours worked. Lump sum payments may be applied to the lesser of either the number that results from dividing the amount of the lump sum payment by the borrower's monthly payment amount as calculated according to one of the authorized repayment plans, or 12 months. 34 C.F.R. §685.219.

[232] U.S. Department of Education, "Federal Perkins Loan Program, Federal Work-Study Programs, Federal Supplemental Educational Opportunity Grant, Federal Family Education Loan Program, William D. Ford Federal Direct Loan Program, National Direct Student Loan Program, Teacher Education Assistance for College and Higher Education Grant Program, Federal Pell Grant Program, Leveraging Educational Assistance Partnership Program, and Gaining Early Awareness and Readiness for Undergraduate Programs," 85 *Federal Register* 49805-07, 49821, August 14, 2020.

[233] For additional information on the latter two programs, see CRS Report R43571, *Federal Student Loan Forgiveness and Loan Repayment Programs*.

[234] ED, *Final Rule*, November 1, 2022.

payments on or after October 1, 2007, while employed full-time[235] in public service. However, qualifying payments are to newly include those not paid on time (i.e., not within 15 days of the scheduled due date) and those paid in multiple installments that equal the full scheduled amount due. Borrowers in IDR plans may make lump sum payments for a period of months not to exceed the period from ED's receipt of the payment until the borrower's next annual IDR recertification date, and borrowers in a standard repayment plan with a 10-year repayment term may make lump sum payments for up to the lesser of 12 months or the date on which ED receives the borrower's next PSLF application.[236]

The new regulations do not change the types of repayment plans under which qualifying payments must be made. They do, however, permit borrowers to newly count the following periods of deferment and forbearance as qualifying monthly payments for the purpose of satisfying the required 120 monthly payments:

- cancer treatment deferment,
- economic hardship deferment,
- military service deferment,
- post-active duty student deferment,
- AmeriCorps national service forbearance,
- National Guard duty forbearance,
- Department of Defense Student Loan Repayment Program forbearance,
- administrative forbearance authorized by ED due to a national military mobilization or other local or national emergency (including the COVID-19 payment pause), and
- administrative forbearance for a period necessary for ED to collect and process documentation supporting a borrower's request for a deferment, forbearance, change in repayment plan, or Consolidation Loan.

For months of deferment or forbearance not listed above, the borrower may obtain credit toward the 120 qualifying monthly payments for those months if they make additional payments equal to or greater than the amount they would have paid under a qualifying repayment during such months or otherwise qualify for a $0 payment under an IDR plan.

The new regulations also establish a mechanism through which borrowers who consolidated any type of Direct Loan into a Direct Consolidation Loan may receive credit toward the 120 required payments on the new Consolidation Loan for payments made prior to consolidation. Specifically, if a borrower consolidates one or more Direct Loans into a Consolidation Loan, the number of qualifying payments on the new Consolidation Loan is to equal the weighted average of the

[235] The amended regulations update the definition of full-time to mean (1) a minimum average of 30 hours per week; (2) a minimum of 30 hours per week through a contractual or employment period of at least 8 months in a 12-month period; or (3) for non-tenure track employment at an institution of higher education, the equivalent of 30 hours per week as determined by multiplying each credit or contract hour taught per week by 3.35. ED has stated it intends to designate this new definition of full-time as eligible for implementation before July 1, 2023. ED, *Final Rule*, November 1, 2022, p. 65906.

[236] While the regulatory language explicitly authorizing borrowers using Segal AmeriCorps Education Award benefits, Peace Corps transition payments, or certain Department of Defense student loan repayment benefits to make lump sum payments, such individuals would still be able to do so under the new rules relating to lump sum payments applicable to all borrowers.

number of otherwise qualifying payments (e.g., made under PSLF qualifying repayment plans) they made on the Direct Loan prior to consolidation.[237]

Under the new regulation, the types of PSLF qualifying employers largely remain the same.[238] Employment as a contracted employee for a PSLF qualifying employer in a position that, under applicable state law, cannot be filled by a direct employee would newly be considered PSLF qualifying employment.[239] Finally, the updated regulations eliminate the criterion that a borrower be employed by a PSLF qualifying employer at the time that forgiveness is granted.

In response to the COVID-19 pandemic, for October 6, 2021-October 31, 2022, ED authorized a set of limited-time waivers of numerous PSLF program rules to enable borrowers to receive credit for past periods of repayment that would not otherwise qualify for PSLF. For additional information, see **Appendix D**.

Temporary Expanded Public Service Loan Forgiveness (TEPSLF) Program

The TEPSLF program was established in response to concerns that some borrowers were experiencing difficulty in deciphering and complying with the requirements for establishing eligibility for loan forgiveness through the PSLF program.[240] A borrower who would qualify for loan forgiveness under the PSLF program except for the fact that, under certain circumstances, some or all of the required 120 monthly payments were nonqualifying may be relieved of the obligation to repay the balance of principal and interest that remains outstanding upon the borrower otherwise satisfying the requirements of the PSLF program as well as the following criteria:

- All of the borrower's nonqualifying monthly payments must have been made according to any of the Extended Repayment Plans or the Graduated Repayment Plans, but in an amount that was less than what would have been paid under the Standard Repayment Plan with a Maximum 10-Year Term.
- The amount of both the borrower's most recent monthly payment and the monthly payment made 12 months prior to application for relief through the TEPLSF program must equal or exceed the monthly payment amount that would have been calculated under one of the IDR plans for which the borrower would have otherwise qualified. (An exception to this criterion is provided to a

[237] It appears that ED intends to calculate the weighted average of number of otherwise qualifying payments made on the Direct Loans prior to consolidation based on the balance of each loan at the time the loans are consolidated. For an example of how this would be calculated, see ED, *Final Rule*, November 1, 2022, p. 65974.

[238] The updated regulations would make clarifications to the definitions of the types of qualifying employers. For example, the updated regulations clarify that nonprofit entities not organized under IRC Section 501(c)(3) and not tax-exempt under IRC Section 501(a) must show that they devote the majority of their full-time equivalent employees to work in at least one of the previously enumerated public services (e.g., public safety, early childhood education).

[239] The regulatory language does not specifically define "direct employee" nor "contracted worker." However, it does define an employee as an individual (1) "to whom an organization issues an IRS Form W-2"; (2) "who receives and IRS form W-2 from an organization that has contracted with a qualifying employer to provide payroll or similar servicers for the qualifying employer, and provides the Form W-2 under that contract"; and (3) "who works as a contracted employee for a qualifying employer in a position or providing services which, under applicable state law, cannot be filled or provided by a direct employee of the qualifying employer." ED, *Final Rule,* November 1, 2022, p. 66064.

[240] For background, see U.S. Government Accountability Office, *Public Service Loan Forgiveness: Education Needs to Provide Better Information for the Loan Servicer and Borrowers*, GAO-18-547, 2918, https://www.gao.gov/assets/700/694304.pdf.

borrower who would otherwise qualify for TEPSLF benefits but over the past five years demonstrates an "unusual fluctuation of income."[241])

Benefits are available on a first-come, first-served basis and are subject to the availability of funds.[242]

Tax Treatment of Discharged and Forgiven Debt

The IRC provides that, in general, student loan debt (as well as other types of debt) that is discharged, forgiven, or repaid on a borrower's behalf is included as part of the individual's gross income for the purposes of federal income taxation.[243] In certain instances, however, discharged or forgiven student loan debt may be excluded from an individual's gross income and, therefore, exempted from consideration in determining federal income tax liability. If loan discharge or loan forgiveness benefits are not specifically excluded from an individual's gross income, the individual may be responsible for paying any income tax liability associated with the benefits received. In the circumstances described below, discharged or forgiven student loan debt may be excluded from an individual's gross income:

- **Loan Discharge in General.** Student loan debt that is discharged for almost any reason, if the discharge occurs after December 31, 2020, and before January 1, 2026. This could include, discharge due to death of the borrower (or due to the death of the student on whose behalf a Direct PLUS Loan was made to a parent borrower), discharge due to the total and permanent disability of the borrower, and loan forgiveness following IDR plan repayment.[244]
- **Closed School Discharge.** Student loan debt that is discharged on the basis of the school attended having closed while the student was enrolled or within 120 days (for loans made prior to July 1, 2020) or 180 days (for loans made on or after July 1, 2020)[245] of the student withdrawing and the student also having not completed the program of study for which the loan was obtained.[246]
- **False Certification and Unauthorized Payment Discharges.** Student loan debt that is discharged on the basis of the proceeds of the loan having been falsely certified by the IHE the borrower attended or having been disbursed without their authorization.[247]
- **Unpaid Refund Discharge.** Student loan debt that is discharged on the basis of a school that has closed or that a borrower no longer attends having not refunded amounts owed to the borrower.[248]

[241] P.L. 115-141.

[242] Up to $500 million in loan forgiveness benefits was made available by P.L. 115-141, an additional $500 million was made available by P.L. 115-245, an additional $75 million was made available by P.L. 116-94, an additional $75 million was made available by P.L. 116-260, and an addition $75 million was made available by P.L. 117-103.

[243] IRC §61(a)(12).

[244] P.L. 117-7.

[245] Effective July 1, 2023, regulations make uniform the look-back period to 180 days, regardless of when a loan was first disbursed. ED, *Final Rule*, November 1, 2022.

[246] HEA §§437(c) and 465(a)(5).

[247] HEA §§437(c) and 465(a)(5).

[248] HEA §§437(c) and 465(a)(5).

- **Bankruptcy Discharge.** Student loan debt that is discharged in bankruptcy proceedings.[249]
- **Insolvency.** Student loan debt that is discharged while an individual is insolvent.[250] Depending on an individual's unique circumstances, it may be possible for a borrower who receives loan forgiveness following IDR plan repayment to be considered insolvent at the time of discharge.
- **Loan Forgiveness for Public Service.** Discharged or forgiven student loan debt may be excluded if a loan was made by certain types of lenders (e.g., the federal government), was borrowed to assist an individual in attending a qualified educational institution, and contains terms providing that some or all of the balance will be cancelled for work for a specified amount of time in certain professions or occupations and for any of a broad class of employers (e.g., public service organizations). Student loan debt that is discharged through the Teacher Loan Forgiveness program, the PSLF program, and the TEPSLF program may be excluded.[251]

Loan Default, Its Consequences, and Resolution

A loan made through the Direct Loan program is considered to be in default once the borrower has failed to make payments when due or has otherwise not adhered to the terms of the promissory note for 270 days.[252] Defaulting on a federal student loan can result in a number of adverse consequences for the borrower. Upon default, the borrower's obligation to repay the loan is *accelerated* (i.e., the entire unpaid balance of principal and accrued interest becomes due in full).[253] In addition, upon defaulting a borrower loses eligibility for certain borrower benefits (e.g., deferment, forbearance, loan forgiveness), as well as eligibility to receive additional Title IV federal student aid.

Defaulting may also result in other adverse effects for the borrower and may present a major obstacle to the borrower's future economic well-being. The Secretary will report defaulted loans to consumer reporting agencies and will take action to collect on them through one or more means. The borrower of a defaulted loan may be assessed a variety of charges for the costs of collecting on it.

Several options are available to borrowers to bring defaulted loans back into good standing. A borrower may remove a loan from default status by rehabilitating the loan, consolidating the loan into a new Direct Consolidation Loan, or paying off the defaulted loan balance.

In response to the COVID-19 pandemic, *involuntary collection* practices (described below), which include administrative wage garnishment; offset of federal income tax returns, Social

[249] IRC §108(a)(1)(A).

[250] IRC §108(a)(1)(B). "For purposes of [IRC §108], the term 'insolvent' means the excess of liabilities over the fair market value of assets. With respect to any discharge, whether or not the taxpayer is insolvent, and the amount by which the taxpayer is insolvent, shall be determined on the basis of the taxpayer's assets and liabilities immediately before the discharge." IRC §108(d)(3).

[251] IRC §108(f), For additional information on this provision, see "Exclusion of Income Attributable to the Discharge of Certain Student Loan Debt and HSC and Certain State Educational Loan Repayments," in CRS Committee Print CP10005, *Tax Expenditures: Compendium of Background Material on Individual Provisions—A Committee Print Prepared for the Senate Committee on the Budget*, 2022, by Jane G. Gravelle et al.

[252] 34 C.F.R. §685.102.

[253] 34 C.F.R. §685.211(d).

Security benefits, and certain other federal benefits; and civil litigation, have been temporarily suspended. In addition, in April 2022, ED announced a new policy "to eliminate the negative effects of default for borrowers who defaulted on their student loan prior to the [COVID-19] pandemic payment pause,"[254] known as the *Fresh Start* initiative. For information on both of these flexibilities, see **Appendix D**.

Consequences of Default for Borrowers

A borrower who defaults on a loan made through the Direct Loan program becomes subject to many consequences, which are briefly described below:

- **Ineligibility for Federal Student Aid.** The borrower becomes ineligible to receive federal student aid made under Title IV of the HEA.[255] A defaulted borrower may regain eligibility by voluntarily making six consecutive, on-time, full monthly payments. A borrower may restore eligibility for Title IV aid though this method only once.
- **Capitalization of Interest.** Any unpaid interest that has accrued (e.g., during periods of negative amortization, during delinquency) may be capitalized into the principal balance of the loan. Effective July 1, 2023, ED regulations eliminate capitalization of unpaid accrued interest upon borrower default.[256]
- **Acceleration.** The entire unpaid balance owed on the borrower's loan becomes due in full.
- **Debt Collection.** Prior to November 8, 2021, upon default, student loan accounts were initially transferred from the borrower's student loan servicer to the Office of Federal Student Aid's (FSA's) Default Management and Collection System (DMCS), FSA's management system for defaulted loans. FSA's Default Resolution Group (DRG) served as the contact center for DMCS. Following transfer from a loan servicer, the DMCS typically would transfer defaulted loans to private collection agencies (PCAs) that were under contract with FSA for collections.[257] The PCA would first contact the borrower before pursuing efforts to collect on the debt. The PCA could offer the borrower the opportunity to rehabilitate the loan or to enter into a voluntary repayment agreement.[258] If the borrower accepted neither offer, or did not honor a voluntary repayment agreement, the PCA could seek to collect on the defaulted loans by means of administrative wage garnishment (AWG). The PCA could also refer defaulted loans to the Treasury Offset Program (TOP) for collection, or could recommend litigation.

[254] ED, Office of Postsecondary Education, Dear Colleague Letter GEN-22-13, "Federal Student Aid Eligibility for Borrowers with Defaulted Loans," August 17, 2022, https://fsapartners.ed.gov/knowledge-center/library/dear-colleague-letters/2022-08-17/federal-student-aid-eligibility-borrowers-defaulted-loans.

[255] Ineligibility for Title IV aid also results from defaulting on a FFEL program loan or a Perkins Loan.

[256] ED, *Final Rule*, November 1, 2022.

[257] Beginning March 20, 2020, it was not possible for Direct Loan borrowers to default on their loans due to the COVID-19 payment pause. Thus, from that time to November 8, 2021, no new borrower accounts were assigned to PCAs; although PCAs were still responsible for assisting borrowers who sought to begin or continue default resolution arrangements.

[258] For additional information on PCAs, see CRS Report R44845, *Administration of the William D. Ford Federal Direct Loan Program*.

On November 8, 2021, ED cancelled its contracts with PCAs and recalled all borrower accounts. FSA's DRG, using the DMCS, is currently responsible for assisting borrowers with their defaulted loans. Thus, those borrowers who are currently in default on their Direct Loans may reach out to ED's DRG to begin or to continue default resolution arrangements (described below).[259] The DRG does not perform the full scope of default collection (i.e., involuntary collection practices) due to the temporary suspension on collection activities in light of the COVID-19 pandemic (see **Appendix D**).

When student loan repayments resume following the end of the COVID-19 student loan payment pause, ED intends that debt collection work will function in much of the same way it did before the pandemic: with defaulted loans being assigned to a contracted entity to perform collection work, including offering borrowers the opportunity to rehabilitate their loan or to enter into a voluntary repayment agreement and collecting debt via other means such as AWG, TOP, or recommendation for litigation.[260]

- **Assessment of Collection Charges.** The borrower may be charged for the costs of collecting on the loan, including loan collection fees, TOP processing fees, court costs, and attorney's fees.[261]
- **Administrative Wage Garnishment (AWG).** Up to 15% of the borrower's *disposable pay* may be garnished to repay the defaulted student loan.[262] Disposable pay is defined as that part of a borrower's compensation that remains after deducting amounts required by law to be withheld. Defaulters must be given written notice of the intent to garnish wages; and they have rights to examine the debt record, have a hearing concerning the existence and amount of the debt or repayment terms, and establish a repayment schedule before garnishment begins.
- **Federal Salary Offset.** Similar to AWG, up to 15% of the disposable pay (including retirement pay) of a borrower who is a current or former federal employee may be offset to repay a defaulted student loan.[263]
- **Treasury Offset Program.** Defaulters become subject to having their federal income tax returns, Social Security benefits, and certain other federal benefits offset through the TOP[264] as payment on their student loans. Up to 100% of federal tax refunds may be offset. Social Security benefits may be offset in an amount up to the lesser of 15% of the borrower's monthly benefit amount, or the amount that their monthly benefit exceeds $750.[265] Special rules apply with regard to the offset of Social Security Disability Insurance (SSDI) benefits. If a

[259] U.S. Department of Education, Office of Federal Student Aid, "COVID-19 Relief: loans in Default," https://studentaid.gov/announcements-events/covid-19/default (accessed March 24, 2023). For additional information on the cessation of debt collection activities due to COVID-19, see CRS Report R46314, *Federal Student Loan Debt Relief in the Context of COVID-19*.

[260] CRS communication with U.S. Department of Education, Office of Legislation and Congressional Affairs, March 24, 2023

[261] 34 C.F.R. §§30.60, 685.202(e), and 685.211(d).

[262] HEA, §488A; 34 C.F.R. Part 30.

[263] 30 C.F.R. Part 31 and Part 32.

[264] U.S. Department of the Treasury, Bureau of the Fiscal Service, "Treasury Offset Program: What is the Treasury Offset Program?", https://fiscal.treasury.gov/top/how-top-works.html (accessed March 24, 2023).

[265] 31 U.S.C. §3716(c)(3)(A); 31 C.F.R. §285.4(e).

recipient has a disability rating of medical improvement not expected (MINE), the offset of SSDI benefits will be suspended. However, if a recipient's disability benefits are converted to retirement benefits, the offset of Social Security benefits may resume.[266]

- **Civil Lawsuit.** Litigation is employed as a last resort to collect on a defaulted loan. If this option is pursued, the U.S. Department of Justice may sue the defaulter, on behalf of the Office of Federal Student Aid, to compel repayment.
- **Reporting to the Credit Alert Verification Reporting System (CAIVRS).** CAIVRS is a shared database of individuals who have defaulted on their federal debts that is used to prescreen and verify applicant eligibility for various federal direct and guaranteed loans.[267] ED may report information about a borrower's default to CAIVRS.
- **Reporting to Consumer Reporting Agencies.** Information on student loans, including amounts borrowed, amounts owed, and repayment status, is regularly exchanged with consumer reporting agencies. Upon default, information about it will also be shared. Consumer reporting agencies may report information on the status of a borrower's defaulted student loan for seven years from the date of the default.[268]

Resolution of Default

A number of options are available to borrowers to get out of default. As noted above, a borrower may rehabilitate the defaulted loan, obtain a Direct Consolidation Loan and use the proceeds to pay off the defaulted loan, pay the amount owed on the defaulted loan in full, or, in limited circumstances, enter into a compromise agreement.

Repaying a defaulted loan in full may be beyond the means of many borrowers. However, options to do so may include obtaining financing from outside the Direct Loan program to pay off the defaulted debt. A compromise agreement or debt settlement may permit a borrower to satisfy the debt by making a lump sum payment in an amount that is less than the full balance due.[269] Compromise agreements and settlements are offered only after other repayment options have been exhausted.[270]

Loan rehabilitation and loan consolidation are more widely available to and used by borrowers than compromise agreements and settlements. Loan rehabilitation and consolidation are described below.

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[266] U.S. Department of Education, Office of Federal Student Aid, "Understanding Delinquency and Default: Collections: Withholding Money From Your Tax Refund or Other Federal Payments (Treasury Offset)," https://studentaid.ed.gov/sa/repay-loans/default/collections#treasury-offset (accessed March 24, 2023).

[267] U.S. Department of Housing and Urban Development, "CAIVRS-Credit Alert Verification Reporting System," https://www.hud.gov/program_offices/housing/sfh/caivrs (accessed March 27, 2023).

[268] HEA, §430A. If the borrower reenters repayment after having defaulted and then subsequently defaults, information may be reported for seven years from the date of the subsequent default.

[269] 34 C.F.R. §30.70.

[270] U.S. Department of Education, Office of Federal Student Aid, "Loan Servicing and Collection Frequently Ask Questions," SETC-Q1, https://fsapartners.ed.gov/knowledge-center/faqs/loan-servicing-and-collection-frequently-asked-questions (accessed March 27, 2023).

Loan Rehabilitation

Loan rehabilitation offers borrowers who have defaulted on a student loan an opportunity to have their loan(s) reinstated as active and to have their borrower benefits and privileges restored. A defaulter must work with the party responsible for debt collections to enter into a written loan rehabilitation agreement.[271] If during a period of 10 consecutive months a borrower voluntarily makes nine reasonable and affordable monthly payments on a defaulted loan within 20 days of the due date, the defaulted loan is rehabilitated.[272]

One of two methods may be used to determine what constitutes a reasonable and affordable payment amount for purposes of rehabilitating a defaulted loan. A reasonable and affordable payment is initially determined as being an amount equal to the greater of either one-twelfth of 15% of any portion of the borrower's AGI that is in excess of 150% of the poverty line applicable to the borrower's family size (see **Table 7**), or $5. However, a borrower is permitted to object to the initial determination and may instead elect to have the amount calculated according to an alternative formula that is based on an itemized accounting of their monthly income and expenses.[273] In either case, the borrower is required to provide documentation of income and, as applicable, expenses for purposes of determining a reasonable and affordable payment amount.

Only payments that are voluntarily made by a borrower may be counted as among the nine reasonable and affordable payments required for loan rehabilitation. Involuntary payments may continue to be collected (e.g., through administrative wage garnishment or the TOP) while a borrower pursues loan rehabilitation.[274] Monthly payments suspended under the COVID-19 payment pause (see **Appendix D**) count toward the nine monthly payments required for loan rehabilitation, but only to the extent that such suspended payments occurred while a loan rehabilitation agreement was in place.[275]

Upon a loan being rehabilitated, the borrower again becomes eligible for full borrower privileges, such as deferments and loan forgiveness; other means of collecting on the loan while it was in default will cease. The borrower's loan will then be transferred to a nondefault loan servicer and they will be placed in one of the alternative repayment plans (discussed above) for a period of 90 days. The borrower may then apply for another repayment plan for which they are eligible; if the borrower does not apply for a repayment plan, they will be placed in a standard repayment plan.[276] Consumer reporting agencies will also be instructed to remove any record of the default from the borrower's credit history; however, records of late or missed payments that led to the loan defaulting will not be removed.[277]

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[271] 34 C.F.R. §685.211(f)(1)(iv).

[272] 34 C.F.R. §685.211(f); U.S. Department of Education, Federal Student Aid, "Getting Out of Default: Loan Rehabilitation," https://studentaid.gov/manage-loans/default/get-out#loan-rehab (accessed March 27, 2023).

[273] 34 C.F.R. §685.211(f); U.S. Department of Education, "Loan Rehabilitation: Income and Expense Information," OMB No. 1845-0120, https://fsapartners.ed.gov/sites/default/files/attachments/2020-07/LoanRehabIncomeExpenseInfoFormOMB1845-0120.pdf.

[274] Upon a borrower making five voluntary payments on a defaulted loan coincidental with collections through administrative wage garnishment, the Secretary may suspend AWG. 34 C.F.R. §685.211(f)(11).

[275] U.S. Department of Education, Office of Federal Student Aid, "COVID-19 Relief: Loans in Default," https://studentaid.gov/announcements-events/covid-19/default (accessed March 27, 2023).

[276] U.S. Department of Education, Office of Federal Student Aid, "Loan Servicing and Collection Frequently Ask Questions" LRQ-12, https://fsapartners.ed.gov/knowledge-center/faqs/loan-servicing-and-collection-frequently-asked-questions (accessed March 27, 2023).

[277] Late payments remain in a borrower's credit report for seven years.

A defaulted loan may be rehabilitated only once. Defaulted loans upon which a court judgement has been obtained through a civil lawsuit are not eligible to be rehabilitated.

Loan Consolidation

A borrower may use the proceeds of a new Direct Consolidation Loan to pay off one or more defaulted loans. To become eligible to do so, a borrower must make what are considered satisfactory repayment arrangements.[278]

One approach is for the borrower, prior to consolidation, to make three voluntary, consecutive, on-time, full monthly payments that are considered reasonable and affordable, based on the borrower's total financial circumstances. These payments must be made within 20 days of the due date and may not be involuntary payments (e.g., payments collected through administrative wage garnishment or the TOP). A borrower who chooses this approach may repay the new Direct Consolidation Loan according to any available repayment plan.

Another approach is for the borrower to agree to repay the new Direct Consolidation Loan according to one of the IDR plans for which the borrower is eligible.[279] If the borrower obtains a Direct Consolidation Loan for purposes of repaying a Direct PLUS Loan or a FFEL PLUS Loan made to a parent borrower, they must repay the new loan according to the Income-Contingent Repayment plan, which is the only IDR plan available to borrowers of parent loans.

Several restrictions limit the availability of loan consolidation as an option for borrowers to bring defaulted loans into good standing. If the borrower's loan was subject to AWG, this must first be lifted for the loan to be eligible for consolidation. A loan on which a court judgment has been secured through litigation is not eligible for loan consolidation.[280] If the borrower's defaulted loan is a Direct Consolidation Loan, the borrower must include at least one other eligible loan in the new Direct Consolidation Loan. If the borrower's defaulted loan is a FFEL Consolidation Loan, the borrower may include the loan in a new Direct Consolidation Loan without including any other loans; however, the borrower must repay according to one of the IDR plans.

If a borrower consolidates a loan out of default, collection fees will be assessed on the outstanding principal and interest of the defaulted loan, and these fees will be included as part of the original principal balance of the new Direct Consolidation Loan. Upon a defaulted loan being repaid by a Direct Consolidation Loan, the borrower regains eligibility for full borrower privileges, such as deferments and loan forgiveness, as well as eligibility for additional federal student aid. However, in contrast to loan rehabilitation, repaying a defaulted loan with a Direct Consolidation Loan will not remove the record of default from the borrower's credit history.[281]

Loan Counseling and Disclosures

This report seeks to provide a comprehensive overview of the terms and conditions of federal student loans made through the Direct Loan program. These loan terms and conditions are

[278] 34 C.F.R. §685.102(b).

[279] 34 C.F.R. §685.220(d)(3).

[280] If the judgment is vacated, a defaulted loan may be consolidated; however, the federal government generally does not vacate judgments on defaulted loans. U.S. Department of Education, Office of Federal Student Aid, "Loan Servicing and Collection: Frequently Asked Questions, JPJ-Q2, https://fsapartners.ed.gov/knowledge-center/faqs/loan-servicing-and-collection-frequently-asked-questions (accessed March 27, 2023).

[281] U.S. Department of Education, Federal Student Aid, "Getting Out of Default: Loan Consolidation," https://studentaid.gov/manage-loans/default/get-out#loan-consolidation (accessed March 27, 2023).

voluminous and complex. For many individuals, the process of borrowing a federal student loan may be among their first experiences with making a major financial transaction; thus, it is imperative for borrowers to understand the terms and conditions of the loans they obtain and their associated rights and responsibilities as borrowers.

As part of the process of obtaining a federal student loan, borrowers are required to undergo financial counseling that provides them with information about their loans and the obligations they assume as borrowers. First-time borrowers must be provided with entrance counseling, which provides them with comprehensive information on the loans they are about to obtain. Borrowers who have received an adverse credit determination but have been able to establish eligibility to borrow Direct PLUS Loans must receive PLUS Loan credit counseling. At the time of obtaining a loan, borrowers are required to sign a promissory note, which is a contract that establishes the borrower's legal obligation to repay. The promissory note is accompanied by a rights and responsibilities statement that uses plain language to disclose the terms and conditions of the loan. Prior to a borrower ceasing to be enrolled on at least a half-time basis, they must be provided with exit counseling.

Entrance Counseling

The institution attended by a first-time borrower of a Direct Subsidized Loan or a Direct Unsubsidized Loan,[282] or by a first-time graduate or professional student borrower of a Direct PLUS Loan[283] is required to ensure that they receive entrance counseling prior to the first installment of the loan being disbursed. Entrance counseling may be provided through an in-person counseling session, a written document provided to the borrower, or an online interactive medium.[284] Irrespective of the means through which entrance counseling is provided, the institution must ensure that an individual who has expertise in federal student aid is available shortly after the session to respond to any questions a borrower might have.

Entrance counseling is designed to provide a borrower with comprehensive information on both the terms and conditions of the loan and the borrower's rights and responsibilities with regard to the loan.[285] Entrance counseling must satisfy the following requirements:[286]

- explain the master promissory note;
- emphasize to the borrower the seriousness and importance of the obligation to repay the loan;
- describe the likely consequences of default, which include adverse credit reports, the collection of delinquent debt, and litigation;

[282] A first-time borrower is an individual who has not previously borrowed a Direct Subsidized Loan, Direct Unsubsidized Loan, FFEL program Subsidized or Unsubsidized Loan, of a Federal SLS Loan. 34 C.F.R. §685.304(a)(1).

[283] A first-time graduate or professional student borrower is an individual who has not previously borrowed a Direct PLUS Loan of FFEL PLUS Loan for graduate or professional education. 34 C.F.R. §685.304(a)(2).

[284] For example, see U.S. Department of Education, Office of Federal Student Aid, "Complete Your Student Loan Entrance Counseling Requirement," https://studentloans.gov/myDirectLoan/demoEntranceCounseling.action#!/ecDemo/1 (accessed March 28, 2023).

[285] For detailed information on entrance counseling, see U.S. Department of Education, Office of Federal Student Aid, "Direct Loan Entrance Counseling Guide," Updated September 2021, https://studentaid.gov/sites/default/files/loan-entrance-counseling-color.pdf.

[286] HEA §485(l); 34 C.F.R. §685.304(a).

- emphasize that the borrower is required to repay the loan in full, irrespective of whether they complete the program of study on time or at all, are unable to obtain employment, or are dissatisfied with the program;
- provide the borrower with sample monthly payment amounts based on either a range of amounts that might be borrowed or the average cumulative amount borrowed by other students in the same program at the same school;
- explain potential implications that accepting the loan might have on the borrower's eligibility to receive other forms of student aid;
- provide information on interest accrual and capitalization;
- inform the borrower of the option to pay the interest that accrues on Direct Unsubsidized Loans and Direct PLUS Loans while they are enrolled in school;
- explain the meaning of half-time enrollment and the consequences of not maintaining half-time enrollment;
- explain the importance of informing the school if the borrower chooses to withdraw so that exit counseling can be provided;
- provide information about, and how the borrower can access, the National Student Loan Data System (NSLDS);
- provide the name of and contact information for an individual the borrower may contact if the borrower has any questions about the terms and conditions of the loan and the borrower's rights and responsibilities with regard to the loan;
- through June 30, 2023, for loans first disbursed on or after July 1, 2020, and if the school requires as a condition of enrollment that the borrower enter into a pre-dispute arbitration agreement, a written description of the school's dispute resolution process that the borrower has agreed to pursue, how and when the agreement applies, how the borrower enters into the arbitration process, and who to contact if the borrower has any questions[287]; and
- explain to first-time graduate student borrowers of a Direct PLUS Loan who have previously borrowed a Direct Subsidized Loan or a Direct Unsubsidized Loan the differences between these loan types with regard to interest rates, the accrual of interest, and the start of the repayment period.

PLUS Loan Credit Counseling For Borrowers with Adverse Credit

Any parent borrower or graduate or professional student borrower with an adverse credit determination who becomes eligible to borrow a Direct PLUS Loan, either by obtaining an endorser or by providing documentation of extenuating circumstances, must receive special PLUS Loan credit counseling.[288] The counseling is also available on a voluntary basis to Direct

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[287] ED, *Final Rule*, November 1, 2022. Effective July 1, 2023, as a condition of participation in the HEA Title IV programs, IHEs are prohibited from requiring borrowers to agree to mandatory pre-dispute arbitration agreements or the waiver of class action lawsuits.

[288] 34 C.F.R. §685.200(b)(5) and (c)(2). See, for example, U.S. Department of Education, Office of Federal Student Aid, "PLUS Credit Counseling Demo," https://studentaid.gov/app/demoPlusCounseling.action (accessed March 28, 2023).

PLUS Loan borrowers who have not received an adverse credit determination.[289] This counseling includes information similar to what is currently provided in PLUS Loan entrance counseling.[290]

Master Promissory Note and Plain Language Disclosure

The terms and conditions of federal student loans made through the Direct Loan program are specified in a promissory note,[291] which is a contract that establishes the borrower's obligation to repay the loan. A master promissory note (MPN) is a type of promissory note under which loans may be made to a borrower for a single academic year or for multiple academic years. One type of MPN is used for making Direct Subsidized Loans and Direct Unsubsidized Loans[292] and another type of MPN is used for making Direct PLUS Loans.[293] A different type of promissory note is used for making Direct Consolidation Loans.[294]

The MPN must be read and signed by a student or parent borrower before loan funds may be disbursed. The IHE a student attends may choose to use a MPN with either a single-year or a multiyear feature. IHEs that use a single-year MPN may only make loans under the MPN for one academic year. IHEs that use the multiyear feature may make one or more loans under the same MPN for up to 10 academic years.

IHEs that use a multiyear MPN must confirm a borrower's acceptance of a new loan for each subsequent year by either obtaining a borrower's written confirmation of acceptance (affirmative confirmation) or by not receiving a borrower's notification that they are specifically declining the loan in whole or in part (passive confirmation).[295] Under current regulations, IHEs are encouraged, but not required, to obtain affirmative confirmation from the student that they accept the loan before disbursing loan funds.[296]

Attached to the MPN is a Plain Language Disclosure (PLD) form that explains loan terms and conditions and the borrower's rights and responsibilities in simplified terms. The PLD is provided to borrowers prior to each disbursement of a loan made through the Direct Loan program, regardless of whether an IHE uses a single-year or multiyear MPN.[297]

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[289] U.S. Department of Education, Office of Postsecondary Education, "William D. Ford Federal Direct Loan Program: Final Regulations," 79 *Federal Register* 63322, October 23, 2014.

[290] OMB No. 1845-0129, "PLUS Adverse Credit Reconsideration Loan Counseling," https://www.reginfo.gov/public/do/DownloadDocument?objectID=103302201.

[291] The promissory note for Direct Loans also specifies that amendments to the HEA may amend a loan's terms and conditions and that any such amendments would be applied to a loan in accordance with the effective date of the amendment.

[292] U.S. Department of Education, Office of Federal Student Aid, "Master Promissory Note: Direct Subsidized Loans and Direct Unsubsidized Loans, William D. Ford Federal Direct Loan Program," OMB No. 1845-0007, https://fsapartners.ed.gov/sites/default/files/attachments/2020-04/SubUnsubMPN.pdf.

[293] U.S. Department of Education, Office of Federal Student Aid, "Master Promissory Note: Direct PLUS Loans, William D. Ford Federal Direct Loan Program," OMB No. 1845-0007, https://fsapartners.ed.gov/sites/default/files/attachments/2020-04/PLUSMPN.pdf.

[294] U.S. Department of Education, Office of Federal Student Aid, "Direct Consolidation Loan Application and Promissory Note, William D. Ford Federal Direct Loan Program," OMB No. 1845-0053, https://studentaid.gov/app-static/images/ApplicationAndPromissoryNote.pdf.

[295] 34 C.F.R. §668.165(a).

[296] 34 C.F.R. §668.165(a)(2).

[297] See, for example, U.S. Department of Education, Office of Federal Student Aid, "Plain Language Disclosure for Direct Subsidized Loans and Direct Unsubsidized Loans William D. Ford Federal Direct Loan Program (Direct Loan Program)," https://fsapartners.ed.gov/sites/default/files/attachments/2020-04/SubUnsubPLD.pdf.

Exit Counseling

Prior to a student borrower ceasing to be enrolled on at least a half-time basis, the institution a borrower attends must provide them with exit counseling.[298] It may be provided through an in-person counseling session, an audiovisual presentation, or an online interactive medium.[299] Irrespective of the means through which exit counseling is provided, the institution must ensure that an individual who has expertise in federal student aid is available shortly after the session to respond to any questions a borrower might have.

Exit counseling is designed to provide the borrower with comprehensive information on both the terms and conditions of the loan and the borrower's rights and responsibilities with regard to the obligation to repay the loan.[300] Exit counseling must satisfy the following requirements:[301]

- inform the borrower of the average anticipated monthly payment amount based on either the individual's actual student loan debt or the average cumulative amount borrowed by other students at the same school or in the same program of study at the same school;
- provide a review of the repayment plan options available to the borrower, along with a description of the various features of each plan and sample information showing average anticipated monthly payment amounts and differences in interest and total payments under each plan;
- explain options to prepay a loan, to repay according to a shorter schedule, and to change repayment plans;
- provide information on loan consolidation and how it affects the length of repayment and total interest paid; how it affects borrower benefits, such as grace periods, loan forgiveness, loan cancellation, and deferment; and options to prepay a loan or change repayment plans;
- include debt-management strategies designed to facilitate repayment;
- explain how to contact the borrower's loan servicer;
- explain the master promissory note;
- emphasize to the borrower the seriousness and importance of the obligation to repay the loan;
- emphasize that the borrower is required to repay the loan in full, irrespective of whether they complete the program of study on time or at all, is unable to obtain employment, or is dissatisfied with the program;
- describe the likely consequences of default, which include adverse credit reports, the collection of delinquent debt, and litigation;

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[298] 34 C.F.R. §685.304(b). If a borrower withdraws without notifying the school or fails to complete exit counseling, the school must provide exit counseling to him or her either through electronic means or by sending exit counseling materials via mail to the last known address or by email to an address not associated with the school.

[299] U.S. Department of Education, Office of Federal Student Aid, "Exit Counseling (Demonstration Module)," https://studentaid.gov/exit-counseling/demo/table-of-contents.

[300] For detailed information on entrance counseling, see U.S. Department of Education, Office of Federal Student Aid, "Direct Loan Exit Counseling Guide," Updated July 2021, https://studentaid.gov/sites/default/files/exit-counseling.pdf.

[301] HEA §485(b); 34 C.F.R. §685.304(b).

- provide a general description of the terms and conditions under which a borrower may receive full or partial discharge or forgiveness of principal and interest, may defer repayment of principal or interest, or may be granted forbearance;
- provide descriptions of federal student assistance programs and other information and ED publications as required by HEA Section 485(d);
- review information on the availability of the FSA Ombudsman Group;
- provide information about, and how the borrower can access, the NSLDS;
- provide a general description of tax benefits that may be available to borrowers;
- require the borrower to provide current and expected future contact information, next of kin, and (if known) expected employer; and
- explain that the borrower may be contacted by third-party student loan debt relief companies, that the borrower should use caution when interacting with such companies, and that the services offered by such companies are offered to borrowers free of charge through ED or the borrower's loan servicer.

Additional Information on Loan Terms and Conditions

The loan counseling and disclosures described above are designed to ensure that borrowers are provided with information about the terms and conditions of their loans, as required by law. **Appendix A** presents a list of additional resources that may be accessed by policymakers and others who may be interested in obtaining more detailed information about borrowers' rights, responsibilities, and obligations with regard to Direct Loan program loans.

Appendix A. Directory of Resources

Higher Education Act of 1965 (P.L. 89-329, as amended), Title IV, Part D—William D. Ford Federal Direct Program (https://www.govinfo.gov/content/pkg/COMPS-765/pdf/COMPS-765.pdf)

Title 20 U.S.C. Chapter 28, Subchapter IV, Part D—William D. Ford Federal Direct Loan Program (https://uscode.house.gov/browse/prelim@title20/chapter28/subchapter4/partD&edition=prelim)

Title 34 C.F.R. Part 685—William D. Ford Federal Direct Loan Program (https://www.ecfr.gov/cgi-bin/text-idx?SID=e878c5d6ea6116593e8394e25ec1f3c9&mc=true&node=pt34.4.685&rgn=div5)

U.S. Department of Education, Office of Federal Student Aid, FSA Partners, Loan Servicing and Collection (https://fsapartners.ed.gov/knowledge-center/library/functional-area/Loan%20Servicing%20and%20Collection)

U.S. Department of Education, Office of Federal Student Aid, 2022-2023 Federal Student Aid Handbook (https://fsapartners.ed.gov/knowledge-center/fsa-handbook/pdf/2022-2023)

U.S. Department of Education, Office of Federal Student Aid, "Manage Loans" (https://studentaid.gov/h/manage-loans)

U.S. Department of Education, FSA Ombudsman Group, P.O. Box 1843, Monticello, KY 42633, 1-877-577-2575 (https://studentaid.gov/feedback-ombudsman/disputes/prepare)

CRS Report R44845, *Administration of the William D. Ford Federal Direct Loan Program*

CRS Report R43571, *Federal Student Loan Forgiveness and Loan Repayment Programs*

CRS Report R46314, *Federal Student Loan Debt Relief in the Context of COVID-19*

Appendix B. Glossary of Terms

Acceleration	Demand for immediate repayment of the entire outstanding balance of a loan.
Bond equivalent rate	Also called the bond equivalent yield, coupon equivalent yield, or the investment yield; a Treasury bill's yield based on the purchase price, discount, and a 365- or 366-day year. It can be used to compare the yield on a discount bill to the yield on a nominal coupon bond that pays semiannual interest. Bond equivalent yield means the annualized yield computed by doubling the semiannual yield. U.S. Department of the Treasury, "Daily Treasury Bill Rates" (https://home.treasury.gov/resource-center/data-chart-center/interest-rates/TextView?type=daily_treasury_bill_rates&field_tdr_date_value_month=202303).
Capitalized interest (Capitalization)	Unpaid interest that has been added to the principal balance of a loan.
Cost of Attendance (COA)	The cost in dollars of a period of enrollment (such as an academic year). The COA for a student is an estimate of their educational expenses for the period of enrollment.
Default	Failure to repay a loan according to the terms agreed to in the promissory note. Default occurs on a loan made through the Direct Loan program after 270 days of nonpayment.
Deferment	A period during which a borrower is entitled to have payments of principal and interest on federal education loans postponed if the borrower meets applicable eligibility criteria
Direct Loan program loan	A loan made under the William D. Ford Federal Direct Loan Program.
Disbursement	Payment of federal student aid funds to the student by the school. Students generally receive their federal student aid in two or more disbursements.
Discharge	Cancellation of the balance due on a loan on the basis of borrower hardship. (See also *loan forgiveness*)
Discretionary income	The difference between a borrower's annual income and a specified percentage of the federal poverty guideline for the borrower's family size and state of residence.
Disposable pay	The amount that remains from an employee's pay after deductions. 34 C.F.R. §31.2.
Economic hardship (deferment)	A period of up to three years during which a borrower is receiving payments under a federal or state public assistance program, is working full-time and has a monthly income that does not exceed 150% of the poverty line, or is serving as a volunteer in the Peace Corps.
Endorser	An individual who agrees to repay a Direct PLUS Loan if the borrower does not repay it.
Forbearance	A period during which a borrower may temporarily stop making loan payments, temporarily make smaller payments, or extend the time for making payments.
Full-time student (enrollment)	An enrolled student carrying a full-time academic workload, as determined by the institution, under a standard applicable to all students enrolled in a particular educational program.
Grace period	A period of six months after a borrower of a Direct Subsidized Loan or a Direct Unsubsidized Loan graduates, leaves school, or drops below half-time enrollment, during which the borrower is not required to make payments.
Half-time student (enrollment)	An enrolled student who is carrying a half-time academic workload, as determined by the institution, that amounts to at least half of the workload of the applicable minimum requirement outlined in the definition of a full-time student, except that a student enrolled solely in a program of study by correspondence must be carrying a workload of at least 12 hours of work per week, or be earning at least six credit hours per semester, trimester, or quarter. Note that regardless of the amount of work, no student enrolled solely in correspondence study is considered more than a half-time student.
In school	The period during which borrowers are enrolled in a postsecondary educational program. For purposes of eligibility for loan deferments, a student must be enrolled at least half-time as an eligible student to be considered "in-school."
Income-driven repayment (IDR) plan	A loan repayment plan under which a borrower's monthly payment amounts vary according to their income. Under the Direct Loan program, a borrower's monthly payments are capped at a specified percentage of their discretionary income and any loan balance that remains outstanding after a specified maximum repayment period is to be forgiven.

	U.S. Department of Education, Office of Federal Student Aid, "Income-Driven Repayment (IDR) Plans," https://studentaid.gov/manage-loans/repayment/plans/income-driven.
Interest	The cost of borrowing money. Interest is an expense calculated as a percentage of the outstanding (unpaid) principal balance.
Interest accrual	The process through which interest accumulates over time.
Interest rate	The price charged per unit of money borrowed per year, or other unit of time, usually expressed as a percentage.
Loan forgiveness	Cancellation or reduction of the balance due on a loan following an extended period of repayment according to an income-driven repayment plan or completion of a period of public service
Loan origination fee	The amount a borrower is required to pay the Department of Education to help defray the costs of subsidizing a Direct Loan.
Loan principal	Initially, the amount borrowed plus any fees charged by the lender. Later, it includes capitalized interest, charges and fees allowed by regulation, less any amount paid and credited to principal, and any amount cancelled, forgiven, or discharged.
Loan servicer	An entity that collects payments on loans, responds to customer service inquiries, and performs other administrative tasks associated with maintaining a loan (e.g., processing requests for a change in repayment plans). A federal loan servicer is a loan servicer for the U.S. Department of Education.
Master promissory note (MPN)	A promissory note under which the borrower may receive loans for a single academic year or multiple academic years.
Negative amortization	A period of time during which a borrower's monthly payment amount may sometimes be less than the amount of interest that accrues on the borrower's loans. U.S. Department of Education, Office of Federal Student Aid, "Income-Driven Plans Questions and Answers" (https://studentaid.gov/manage-loans/repayment/plans/income-driven/questions).
New borrower	An individual who has no outstanding balance on a loan made through either the Direct Loan program or the FFEL program at the time the borrower receives a loan through the Direct Loan program on or after a specific date.
Partial financial hardship (in IBR plans and PAYE repayment plan)	A period during which the total annual payments for all of a borrower's eligible loans, as calculated according to a standard 10-year repayment period, are greater than an applicable percentage (e.g., 10% or 15%) of the borrower's discretionary income. For a married borrower, the eligible loans and discretionary income of the borrower's spouse may also be included in the calculation.
Prepayment	A loan payment made before it is due under the terms of the applicable promissory note.
Principal balance	The amount of principal that remains unpaid on a loan.
Promissory note	A legally binding contract between a lender and a borrower that contains the terms and conditions of the loan, including how the loan is to be repaid. It becomes legally binding when signed (executed) by the borrower. Most federal education loans are made under a Master Promissory Note (MPN).
Rehabilitation (of a defaulted loan)	Process by which a borrower may bring a loan out of default by adhering to specified repayment requirements.
Remaining accrued interest (IBR, PAYE, and REPAYE repayment plans)	A portion of accrued interest that the Secretary of Education does not charge a borrower if the borrower's monthly payment amount is not sufficient to pay the accrued interest on their loans due to the loans being negatively amortized. 34 C.F.R. §§685.209(a) and (c) and 685.221.
Repayment period	The time during which a borrower is obligated to make payments on a loan according to the terms and conditions of the loan's promissory note and the repayment plan the borrower chooses. For Direct Subsidized Loans and Direct Unsubsidized Loans, repayment begins the day after the grace period ends. For Direct PLUS Loans, repayment begins the day after the loan is fully disbursed.

Satisfactory repayment arrangement	For the purpose of regaining eligibility for federal student aid funds, the agreement of a borrower to make a predetermined number of on-time, voluntary monthly payments on a defaulted loan, or an overpayment of federal student aid. For the purpose of consolidating a defaulted loan, the making of three consecutive, voluntary, on-time, full monthly payments on a defaulted loan. The required monthly payment amount may not be more than is reasonable and affordable based on the borrower's total financial circumstances.
Subsidized component of a Direct Consolidation Loan (Direct Subsidized Consolidation Loan)	The portion of a Direct Consolidation Loan attributable to certain subsidized Title IV education loans that were repaid by the consolidation loan. Interest is not charged to the borrower during deferment periods, or, for a borrower whose consolidation application was received before July 1, 2006, during in-school and grace periods. 34 C.F.R. §685.102(b).
Subsidized interest (interest subsidy)	Interest that is not charged, or is only partially charged, which would otherwise accrue on a loan during a specified period of time. 34 C.F.R. §§685.102(b), 685.209(a) and (c) and 685.221.
Teach-out agreement	A written agreement between institutions that provides for the equitable treatment of students and a reasonable opportunity for students to complete their program of study if an institution, or an institutional location that provides one hundred percent of at least one program offered, ceases to operate before all enrolled students have completed their program of study.
Teach-out plan	A written plan developed by an institution that provides for the equitable treatment of students if an institution, or an institutional location that provides 100% of at least one program, ceases to operate (or plans to cease operations) before all enrolled students have completed their program of study, and may include, if required by the institution's accrediting agency, a teach-out agreement between institutions.
Unsubsidized component of a Direct Consolidation Loan (Direct Unsubsidized Consolidation Loan)	The portion of a Direct Consolidation Loan attributable to unsubsidized Title IV education loans, certain subsidized Title IV education loans, and certain other federal education loans that were repaid by the consolidation loan. The borrower is responsible for the interest that accrues during any period. 34 C.F.R. §685.102(b).
Variable interest rate	An interest rate on a loan that fluctuates over the term of a loan on the basis of changes in an index that reflects changes in market rates.
Voluntary payments	Payments made directly by a borrower who owes a federal student aid debt and that do not include payments obtained by federal offset, garnishment, or income or asset execution.

Source: U.S. Department of Education, Office of Federal Student Aid, *2020-2021 Federal Student Aid Handbook*, Appendix A: Federal Student Aid Glossary and Acronyms; 34 C.F.R. Parts 600 and 685; U.S. Department of Education, Office of Federal Student Aid; U.S. Department of the Treasury.

Notes: Definitions of terms generally are from the *Federal Student Aid Handbook* and federal regulations. Generally, in instances where the definitions are from sources other than the *Federal Student Aid Handbook*, citations are noted at the end of the definitions.

Appendix C. Historical Tables on Selected Loan Terms and Conditions

Table C-1. History of Annual and Aggregate Loan Limits for Direct Loan Program Loans, by Borrower Type and Academic Level

(dollars)

	Direct Subsidized Loans	Direct Subsidized Loans and Direct Unsubsidized Loans Combined		Direct PLUS Loans
Borrower Type and Program Level	**All Eligible Borrowers**	**Dependent Students**	**Independent Students**	**All Eligible Borrowers**
July 1, 1994, to September 30, 1998				
Undergraduate students				
Annual loan limits				
1st year	2,625	2,625	6,625	n.a.
2nd year	3,500	3,500	7,500	n.a.
3rd year and above	5,500	5,500	10,500	n.a.
Aggregate loan limits[a,b,c]				
All	23,000	23,000	46,000	n.a.
Graduate and professional students				
Annual loan limits				
In general	8,500	n.a.	18,500	n.a.
Health professions programs[d,e]	8,500	n.a.	38,500 to 45,167	n.a.
Health professions programs[d,f]	8,500	n.a.	31,000 to 35,167	n.a.
Aggregate loan limits[a,b,c]				
In general	65,500	n.a.	138,500	n.a.
Health professions programs[g]	65,500	n.a.	189,125	n.a.
Parents of dependent undergraduate students				
Annual loan limits				
In general	n.a.	n.a.	n.a.	Up to COA-EFA[h]
Aggregate loan limits[a,b]				
In general	n.a.	n.a.	n.a.	Not limited
October 1, 1998, to June 30, 2007				
Undergraduate students				
Annual loan limits				
Preparatory coursework for undergraduate program	2,625	2,625	6,625	n.a.

	Direct Subsidized Loans	Direct Subsidized Loans and Direct Unsubsidized Loans Combined		Direct PLUS Loans
Borrower Type and Program Level	**All Eligible Borrowers**	**Dependent Students**	**Independent Students**	**All Eligible Borrowers**
1st year	2,625	2,625	6,625	n.a.
2nd year	3,500	3,500	7,500	n.a.
3rd year and above	5,500	5,500	10,500	n.a.
Preparatory coursework for graduate program[i]	5,500	5,500	10,500	n.a.
Teacher certification[i]	5,500	5,500	10,500	n.a.
Aggregate loan limits[a,b,c]				
In general	23,000	23,000	46,000	n.a.
Graduate and professional students				
Annual loan limits				
In general	8,500	n.a.	18,500	n.a.
Health professions programs[d,e]	8,500	n.a.	38,500 to 45,167	n.a.
Health professions programs[d,f]	8,500	n.a.	31,000 to 35,167	n.a.
Aggregate loan limits[a,b,c]				
In general	65,500	n.a.	138,500	n.a.
Health professions programs[g]	65,500	n.a.	189,125	n.a.
Parents of dependent undergraduate students				
Annual loan limits				
In general	n.a.	n.a.	n.a.	Up to COA-EFA[h]
Aggregate loan limits[a,b]				
In general	n.a.	n.a.	n.a.	Not limited
July 1, 2007, to June 30, 2008				
Undergraduate students				
Annual loan limits				
Preparatory coursework for undergraduate program	2,625	2,625	6,625	n.a.
1st year	3,500	3,500	7,500	n.a.
2nd year	4,500	4,500	8,500	n.a.
3rd year and above	5,500	5,500	10,500	n.a.
Preparatory coursework for graduate program[i]	5,500	5,500	10,500	n.a.
Teacher certification[i]	5,500	5,500	10,500	n.a.

Borrower Type and Program Level	Direct Subsidized Loans	Direct Subsidized Loans and Direct Unsubsidized Loans Combined		Direct PLUS Loans
	All Eligible Borrowers	Dependent Students	Independent Students	All Eligible Borrowers
Aggregate loan limits[a,b,c]				
In general	23,000	23,000	46,000	n.a.
Graduate and professional students				
Annual loan limits				
In general	8,500	n.a.	20,500	Up to COA-EFA[h]
Health professions programs[d,e]	8,500	n.a.	40,500 to 47,167	Up to COA-EFA[h]
Health professions programs[d,f]	8,500	n.a.	33,000 to 37,167	Up to COA-EFA[h]
Aggregate loan limits[a,b,c]		n.a.		
In general	65,500	n.a.	138,500	Not limited
Health professions programs[g,j]	65,500	n.a.	189,125	Not limited
Parents of dependent undergraduate students				
Annual loan limits				
In general	n.a.	n.a.	n.a.	Up to COA-EFA[h]
Aggregate loan limits[a,b]				
In general	n.a.	n.a.	n.a.	Not limited
July 1, 2008, to June 30, 2012				
Undergraduate students				
Annual loan limits				
Preparatory coursework for undergraduate program	2,625	2,625	8,625	n.a.
1st year	3,500	5,500	9,500	n.a.
2nd year	4,500	6,500	10,500	n.a.
3rd year and above	5,500	7,500	12,500	n.a.
Preparatory coursework for graduate program[i]	5,500	5,500	12,500	n.a.
Teacher certification[i]	5,500	5,500	12,500	n.a.
Aggregate loan limits[a,b,c]				
In general	23,000	31,000	57,500	n.a.
Graduate and professional students				
Annual loan limits				
In general	8,500	n.a.	20,500	Up to COA-EFA[h]

Borrower Type and Program Level	Direct Subsidized Loans	Direct Subsidized Loans and Direct Unsubsidized Loans Combined		Direct PLUS Loans
	All Eligible Borrowers	Dependent Students	Independent Students	All Eligible Borrowers
Health professions programs[d,e]	8,500	n.a.	40,500 to 47,167	Up to COA-EFA[h]
Health professions programs[d,f]	8,500	n.a.	33,000 to 37,167	Up to COA-EFA[h]
Aggregate loan limits[a,b,c]				
In general	65,500	n.a.	138,500	Not limited
Health professions[j]	65,500	n.a.	224,000	Not limited
Parents of dependent undergraduate students				
Annual loan limits				
In general	n.a.	n.a.	n.a.	Up to COA-EFA[h]
Aggregate loan limits[a,b]				
In general	n.a.	n.a.	n.a.	Not limited
On or after July 1, 2012				
Undergraduate students				
Annual loan limits				
Preparatory coursework for undergraduate program	2,625	2,625	8,625[k]	n.a.
1st year	3,500	5,500	9,500[k]	n.a.
2nd year	4,500	6,500	10,500[k]	n.a.
3rd year and above	5,500	7,500	12,500[k]	n.a.
Preparatory coursework for graduate program[i]	5,500	5,500	12,500[k]	n.a.
Teacher certification[i]	5,500	5,500	12,500[k]	n.a.
Aggregate loan limits[a,b,c]				
In general	23,000	31,000	57,500[k]	n.a.
Graduate and professional students				
Annual loan limits				
In general	n.a.	n.a.	20,500[l]	Up to COA-EFA[h]
Health professions programs[d,e]	n.a.	n.a.	40,500 to 47,167[l]	Up to COA-EFA[h]
Health professions programs[d,f]	n.a.	n.a.	33,000 to 37,167[l]	Up to COA-EFA[h]
Aggregate loan limits[a,b,c,m]				
In general	65,500[n]	n.a.	138,500	Not limited
Health professions[j]	65,500[n]	n.a.	224,000	Not limited

Borrower Type and Program Level	Direct Subsidized Loans	Direct Subsidized Loans and Direct Unsubsidized Loans Combined		Direct PLUS Loans
	All Eligible Borrowers	Dependent Students	Independent Students	All Eligible Borrowers
Parents of dependent undergraduate students				
Annual loan limits				
In general	n.a.	n.a.	n.a.	Up to COA-EFA[h]
Aggregate loan limits[a,b]				
In general	n.a.	n.a.	n.a.	Not limited

Source: HEA §§428, 428A, 428B, and 428H; P.L. 89-329; P.L. 90-575; P.L. 92-318; P.L. 92-391; P.L. 94-482; P.L. 95-566; P.L. 96-374; P.L. 97-35; P.L. 99-498; P.L. 100-297; P.L. 102-325; P.L. 103-66; P.L. 103-208; P.L. 105-244; P.L. 109-171; P.L. 110-227; P.L. 112-25; Department of Education, Office of Postsecondary Education, Dear Colleague Letters GEN-96-14; GEN-97-14, GEN-05-09, GEN-08-04, and GEN-08-08; 45 C.F.R. §177.14(a)(3) (1967 edition).

Notes: "n.a." means not applicable

a. Includes Subsidized Stafford Loans and Unsubsidized Stafford Loans borrowed through the FFEL program.

b. Accrued interest and other charges that have not been capitalized do not count toward aggregate loan limits.

c. Direct Subsidized Loans and Direct Unsubsidized Loans (and comparable loans made through the FFEL program) that have been included in a Direct Consolidation Loan remain attributable to the aggregate limits for Direct Subsidized Loans and total Direct Subsidized Loans and Direct Unsubsidized Loans combined in accordance with their proportionate share of the Direct Consolidation Loan.

d. In accordance with authority provided the Secretary under P.L. 104-134, effective July 1, 1996, increased Direct Unsubsidized Loan borrowing limits were extended to students who became unable to borrow under the Health Education Assistance Loan (HEAL) program.

e. Students enrolled in programs in the following disciplines are eligible to annually borrow an additional $20,000 more than regular students in Direct Unsubsidized Loans for programs with nine-month academic years, and an additional $26,667 for programs with 12-month academic years: Doctor of Allopathic Medicine, Doctor of Osteopathic Medicine, Doctor of Dentistry, Doctor of Veterinary Medicine, Doctor of Optometry, Doctor of Podiatric Medicine; and effective May 1, 2005, Doctor of Naturopathic Medicine, and Doctor of Naturopathy. (Amounts are prorated for 10- and 11-month programs.)

f. Students enrolled in programs in the following disciplines are eligible to annually borrow an additional $12,500 more than regular students in Direct Unsubsidized Loans for programs with nine-month academic years, and an additional $16,667 for programs with 12-month academic years: Doctor of Pharmacy, Graduate in Public Health, Doctor of Chiropractic, Doctoral Degree in Clinical Psychology, Masters or Doctoral Degree in Health Administration. (Amounts are prorated for 10- and 11-month programs.)

g. On December 1, 1997, aggregate loan limits of $189,500 were established for borrowers enrolled in certain health professions programs.

h. There is no statutorily specified dollar amount borrowing limit for Direct PLUS Loans; however, borrowers must be credit-worthy and all aid combined may not exceed COA.

i. For individuals who have obtained a baccalaureate degree.

j. Effective April 14, 2008, aggregate loan limits of $224,000 were established for borrowers enrolled in certain health professions programs.

k. These loan limits also apply to dependent undergraduate students whose parents are unable to obtain Direct PLUS Loans.

l. Direct Subsidized Loans are not currently available to graduate students.

m. Aggregate loan limits for graduate and professional students include amounts borrowed for undergraduate study.

n. The aggregate loan limit for Direct Subsidized Loans to graduate and professional students applies to loans borrowed for programs of instruction beginning before July 1, 2012.

Table C-2. History of Interest Rate Formulas for Direct Subsidized Loans, Direct Unsubsidized Loans, and Direct PLUS Loans

Disbursement Period, Borrower Type, and Loan Period (if applicable)	Variable Interest Rate Formula or Fixed Interest Rate in Effect[a] Direct Subsidized Loans	Direct Unsubsidized Loans	Direct PLUS Loans
July 1, 1994, to June 30, 1995			
Undergraduate students	91-day T-bill + 3.1% (8.25% cap), variable[b]	91-day T-bill + 3.1% (8.25% cap), variable[b]	n.a.
Graduate and professional students	91-day T-bill + 3.1% (8.25% cap), variable[b]	91-day T-bill + 3.1% (8.25% cap), variable[b]	n.a.
Parent borrowers	n.a.	n.a.	52-week T-bill[c] + 3.1% (9% cap), variable[b]
July 1, 1995, to June 30, 1998			
Undergraduate students: In-school, grace, and deferment	91-day T-bill + 2.5% (8.25% cap), variable[b]	91-day T-bill + 2.5% (8.25% cap), variable[b]	n.a.
Undergraduate students: Repayment periods	91-day T-bill + 3.1% (8.25% cap), variable[b]	91-day T-bill + 3.1% (8.25% cap), variable[b]	n.a.
Graduate and professional students: In-school, grace, and deferment	91-day T-bill + 2.5% (8.25% cap), variable[b]	91-day T-bill + 2.5% (8.25% cap), variable[b]	n.a.
Graduate and professional students: Repayment periods	91-day T-bill + 3.1% (8.25% cap), variable[b]	91-day T-bill + 3.1% (8.25% cap), variable[b]	n.a.
Parent borrowers	n.a.	n.a.	52-week T-bill[c] + 3.1% (9% cap), variable
July 1, 1998, to June 30, 2006			
Undergraduate students: In-school, grace, and deferment	91-day T-bill + 1.7% (8.25% cap), variable[b]	91-day T-bill + 1.7% (8.25% cap), variable[b]	n.a.
Undergraduate students: Repayment periods	91-day T-bill + 2.3% (8.25% cap), variable[b]	91-day T-bill + 2.3% (8.25% cap), variable[b]	n.a.
Graduate and professional students: In-school, grace, and deferment	91-day T-bill + 1.7% (8.25% cap), variable[b]	91-day T-bill + 1.7% (8.25% cap), variable[b]	n.a.
Graduate and professional students: Repayment periods	91-day T-bill + 2.3% (8.25% cap), variable[b]	91-day T-bill + 2.3% (8.25% cap), variable[b]	n.a.
Parent borrowers	n.a.	n.a.	91-day T-bill + 3.1% (9% cap), variable[b]
July 1, 2006, to June 30, 2007			
Undergraduate students	6.8%, fixed rate	6.8%, fixed rate	n.a.
Graduate and professional students	6.8%, fixed rate	6.8%, fixed rate	n.a.
Parent borrowers	n.a.	n.a.	7.9%, fixed rate

Disbursement Period, Borrower Type, and Loan Period (if applicable)	Variable Interest Rate Formula or Fixed Interest Rate in Effect[a] Direct Subsidized Loans	Direct Unsubsidized Loans	Direct PLUS Loans
July 1, 2007, to June 30, 2009			
Undergraduate students	6.0%, fixed rate	6.8%, fixed rate	n.a.
Graduate and professional students	6.8%, fixed rate	6.8%, fixed rate	7.9%, fixed rate
Parent borrowers	n.a.	n.a.	7.9%, fixed rate
July 1, 2009, to June 30, 2010			
Undergraduate students	5.6%, fixed rate	6.8%, fixed rate	n.a.
Graduate and professional students	6.8%, fixed rate	6.8%, fixed rate	7.9%, fixed rate
Parent borrowers	n.a.	n.a.	7.9%, fixed rate
July 1, 2010, to June 30, 2011			
Undergraduate students	4.5%, fixed rate	6.8%, fixed rate	n.a.
Graduate and professional students	6.8%, fixed rate	6.8%, fixed rate	7.9%, fixed rate
Parent borrowers	n.a.	n.a.	7.9%, fixed rate
July 1, 2011, to June 30, 2012			
Undergraduate students	3.4%, fixed rate	6.8%, fixed rate	n.a.
Graduate and professional students	6.8%, fixed rate	6.8%, fixed rate	7.9%, fixed rate
Parent borrowers	n.a.	n.a.	7.9%, fixed rate
July 1, 2012, to June 30, 2013			
Undergraduate students	3.4%, fixed rate	6.8%, fixed rate	n.a.
Graduate and professional students	n.a.	6.8%, fixed rate	7.9%, fixed rate
Parent borrowers	n.a.	n.a.	7.9%, fixed rate
On or after July 1, 2013			
Undergraduate students	10-yr T-note + 2.05% (8.25% cap), fixed rate	10-yr T-note + 2.05% (8.25% cap), fixed rate	n.a.
Graduate and professional students	n.a.	10-yr T-note + 3.6% (9.5% cap), fixed rate	10-yr T-note + 4.6% (10.5% cap), fixed rate
Parent borrowers	n.a.	n.a.	10-yr T-note + 4.6% (10.5% cap), fixed rate

Source: HEA §§427A, 428, and 455(b); (20 U.S.C. §§1077a, 1078 and 1087e(b)).

Note: "n.a." means not applicable.

a. Interest rates shown are rates for new borrowers with no outstanding loan balance on loans made prior to July 1, 1994. Different interest rate procedures apply to borrowers with an outstanding balance on a loan made under HEA, Title IV, Part B prior to July 1, 1994.

b. Rates adjust every July 1 based on last auction prior to June 1.

c. The Consolidated Appropriations Act, 2001 (P.L. 106-554) includes an amendment to the HEA that changed the index used in the formulas that determine interest rates for PLUS Loans disbursed between July 1, 1987, and June 30, 1998. The amendment substituted the one-year constant maturity Treasury yield for the 52-week Treasury bill. This change, which affects interest rate adjustments made for any 12-month period beginning on or after July 1, 2001, became necessary because the Department of the Treasury stopped issuing 52-week Treasury bills.

Table C-3. History of Interest Rate Formulas for Direct Consolidation Loans

Disbursement Period	Direct Consolidation Loan Interest Rate Formula in Effect
July 1, 1994, to June 30, 1995	
Direct Subsidized Consolidation Loans[a] and Direct Unsubsidized Consolidation Loans[b]	91-day T-bill + 3.1% (8.25% cap), variable rate[c]
Direct PLUS Consolidation Loans[d]	52-week T-bill[e] + 3.1% (9% cap), variable rate[c]
July 1, 1995, to June 30, 1998	
Direct Subsidized Consolidation Loans[a] and Direct Unsubsidized Consolidation Loans[b]	
In-school, grace, and deferment periods	91-day T-bill + 2.5% (8.25% cap), variable rate[c]
Repayment periods	91-day T-bill + 3.1% (8.25% cap), variable rate[c]
Direct PLUS Consolidation Loans[d]	52-week T-bill[e] + 3.1% (9% cap), variable rate[c]
July 1, 1998, to September 30, 1998	
Direct Subsidized Consolidation Loans[a] and Direct Unsubsidized Consolidation Loans[b]	
In-school, grace, and deferment periods	91-day T-bill + 1.7% (8.25% cap), variable rate[c]
Repayment periods	91-day T-bill + 2.3% (8.25% cap), variable rate[c]
Direct PLUS Consolidation Loans[d]	52-week T-bill[e] + 3.1% (9% cap), variable rate[c]
October 1, 1998, to January 31, 1999	
Direct Consolidation Loans	91-day T-bill + 2.3% (8.25% cap), variable rate[c]
February 1, 1999, to June 30, 2013	
Direct Consolidation Loans	Weighted average of the interest rates on the loans consolidated, rounded to the nearest higher one-eighth of 1% (8.25% cap), fixed rate
On or after July 1, 2013	
Direct Consolidation Loans	Weighted average of the interest rates on the loans consolidated, rounded to the nearest higher one-eighth of 1% (no cap), fixed rate

Source: HEA §§428C and 455(b); (20 U.S.C. §§1078-3 and 1087e(b)); and 34 C.F.R. §685.202(a)(3).

Notes: "n.a." means not applicable.

a. This refers to the subsidized component of a Direct Consolidation Loan.

b. This refers to the unsubsidized component of a Direct Consolidation Loan, excluding the portion of a Direct Consolidation Loan attributable to Direct PLUS Loans, Direct PLUS Consolidation Loans, and FFEL PLUS Loans that were repaid by the Direct Consolidation Loan.

c. Rates adjust every July 1 based on last auction prior to June 1.

d. This refers to the unsubsidized component of a Direct Consolidation Loan attributable to Direct PLUS Loans, Direct PLUS Consolidation Loans, and FFEL PLUS Loans that were repaid by the Direct Consolidation Loan.

e. For outstanding Direct PLUS Consolidation Loans with rate setting formulas tied to the 52-week Treasury bill, for periods beginning July 1, 2001, the average weekly one-year constant maturity Treasury yield was substituted for the bond equivalent rate of 52-week Treasury bills. This change became necessary because the Department of Treasury decided to stop issuing 52-week Treasury bills.

Table C-4. History of Interest Rates in Effect for Direct Loan program loans

For the period of July 1 through June 30 (%)

Disbursement Period, Loan Type, and Loan Period (if applicable)	1994-1995	1995-1996	1996-1997	1997-1998	1998-1999	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024
July 1, 1994, to June 30, 1995																														
Direct Subsidized Loans, Direct Unsubsidized Loans, Direct Subsidized Consolidation Loans,[a] and Direct Unsubsidized Consolidation Loans[b]																														
91-day T-bill + 3.1% (8.25% cap), variable	7.43	8.25	8.25	8.25	8.25	7.72	8.25	6.79	4.86	4.22	4.17	6.10	7.94	8.02	5.01	3.28	3.27	3.16	3.19	3.15	3.13	3.12	3.45	4.08	5.03	5.46	3.23	3.12	4.24	TBD
Direct PLUS Loans and Direct PLUS Consolidation Loans[c]																														
52-wk. T-bill + 3.1% (9% cap), variable[d]	8.38	8.98	8.72	8.98	8.53	7.98	9.00	6.56	5.23	4.05	5.26	6.50	8.34	8.05	5.67	3.58	3.39	3.27	3.29	3.23	3.20	3.12	3.65	4.32	5.44	5.08	3.27	3.19	5.93	TBD
July 1, 1995, to June 30, 1998																														
Direct Subsidized Loans, Direct Unsubsidized Loans, Direct Subsidized Consolidation Loans,[a] and Direct Unsubsidized Consolidation Loans[b]																														
In-school, grace, and deferment periods																														
91-day T-bill + 2.5% (8.25% cap), variable	—	8.25	7.66	7.66	7.66	7.12	8.25	6.19	4.26	3.62	3.57	5.50	7.34	7.42	4.41	2.68	2.67	2.56	2.59	2.55	2.53	2.52	2.85	3.48	4.43	4.86	2.63	2.52	3.64	TBD
Repayment periods																														
91-day T-bill + 3.1% (8.25% cap), variable	—	8.25	8.25	8.25	8.25	7.72	8.25	6.79	4.86	4.22	4.17	6.10	7.94	8.02	5.01	3.28	3.27	3.16	3.19	3.15	3.13	3.12	3.45	4.08	5.03	5.46	3.23	3.12	4.24	TBD
Direct PLUS Loans and Direct PLUS Consolidation Loans[c]																														
52-wk. T-bill + 3.1% (9% cap), variable[d]	—	8.98	8.72	8.98	8.53	7.98	9.00	6.56	5.23	4.05	5.26	6.50	8.34	8.05	5.67	3.58	3.39	3.27	3.29	3.23	3.20	3.12	3.65	4.32	5.44	5.08	3.27	3.19	5.93	TBD
July 1, 1998, to September 30, 1998																														
Direct Subsidized Loans, Direct Unsubsidized Loans, Direct Subsidized Consolidation Loans,[a] and Direct Unsubsidized Consolidation Loans[b]																														
In-school, grace, and deferment periods																														

Disbursement Period, Loan Type, and Loan Period (if applicable)	1994-1995	1995-1996	1996-1997	1997-1998	1998-1999	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024
91-day T-bill + 1.7% (8.25% cap), variable	—	—	—	—	6.86	6.32	7.59	5.39	3.46	2.82	2.77	4.70	6.54	6.62	3.61	1.88	1.87	1.76	1.79	1.75	1.73	1.72	2.05	2.68	3.63	4.06	1.83	1.72	2.84	TBD
Repayment periods																														
91-day T-bill + 2.3% (8.25% cap), variable	—	—	—	—	7.46	6.92	8.19	5.99	4.06	3.42	3.37	5.30	7.14	7.22	4.21	2.48	2.47	2.36	2.39	2.35	2.33	2.32	2.65	3.28	4.23	4.66	2.43	2.32	3.44	TBD
Direct PLUS Loans Direct PLUS Consolidation Loans[c]																														
91-day T-bill + 3.1% (9% cap), variable	—	—	—	—	8.26	7.72	8.99	6.79	4.86	4.22	4.17	6.10	7.94	8.02	5.01	3.28	3.27	3.16	3.19	3.15	3.13	3.12	3.45	4.08	5.03	5.08	3.23	3.12	4.24	TBD
October 1, 1998-January 31, 1999																														
Direct Subsidized Loans and Direct Unsubsidized Loans																														
In-school, grace, and deferment periods																														
91-day T-bill + 1.7% (8.25% cap), variable	—	—	—	—	6.86	6.32	7.59	5.39	3.46	2.82	2.77	4.70	6.54	6.62	3.61	1.88	1.87	1.76	1.79	1.75	1.73	1.72	2.05	2.68	3.63	4.06	1.83	1.72	2.84	TBD
Repayment periods																														
91-day T-bill + 2.3% (8.25% cap), variable	—	—	—	—	7.46	6.92	8.19	5.99	4.06	3.42	3.37	5.30	7.14	7.22	4.21	2.48	2.47	2.36	2.39	2.35	2.33	2.32	2.65	3.28	4.23	4.66	2.43	2.32	3.44	TBD
Direct PLUS Loans																														
91-day T-bill + 3.1% (9% cap), variable	—	—	—	—	8.26	7.72	8.99	6.79	4.86	4.22	4.17	6.10	7.94	8.02	5.01	3.28	3.27	3.16	3.19	3.15	3.13	3.12	3.45	4.08	5.03	5.08	3.23	3.12	4.24	TBD
Direct Consolidation Loans[f]																														
91-day T-bill + 2.3% (8.25%), variable	—	—	—	—	7.46	6.92	8.19	5.99	4.06	3.42	3.37	5.3	7.14	7.22	4.21	2.48	2.47	2.36	2.39	2.35	2.33	2.32	2.65	3.28	4.23	4.66	2.43	2.32	3.44	TBD

Disbursement Period, Loan Type, and Loan Period (if applicable)	1994-1995	1995-1996	1996-1997	1997-1998	1998-1999	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024
February 1, 1999-June 30, 2006																														
Direct Subsidized Loans and Direct Unsubsidized Loans																														
In-school, grace, and deferment periods																														
91-day T-bill + 1.7% (8.25% cap), variable	—	—	—	—	6.86	6.32	7.59	5.39	3.46	2.82	2.77	4.70	6.54	6.62	3.61	1.88	1.87	1.76	1.79	1.75	1.73	1.72	2.05	2.68	3.63	4.06	1.83	1.72	2.84	TBD
Repayment periods																														
91-day T-bill + 2.3% (8.25% cap), variable	—	—	—	—	7.46	6.92	8.19	5.99	4.06	3.42	3.37	5.30	7.14	7.22	4.21	2.48	2.47	2.36	2.39	2.35	2.33	2.32	2.65	3.28	4.23	4.66	2.43	2.32	3.44	TBD
Direct PLUS Loans																														
91-day T-bill + 3.1% (9% cap), variable	—	—	—	—	8.26	7.72	8.99	6.79	4.86	4.22	4.17	6.10	7.94	8.02	5.01	3.28	3.27	3.16	3.19	3.15	3.13	3.12	3.45	4.08	5.03	5.08	3.23	3.12	4.24	TBD
July 1, 2006, to June 30, 2008																														
Direct Subsidized Loans and Direct Unsubsidized Loans																														
6.8% fixed rate	—	—	—	—	—	—	—	—	—	—	—	—	6.80	6.80	6.80	6.80	6.80	6.80	6.80	6.80	6.80	6.80	6.80	6.80	6.80	6.80	6.80	6.80	6.80	6.80
Direct PLUS Loans																														
7.9% fixed rate	—	—	—	—	—	—	—	—	—	—	—	—	7.90	7.90	7.90	7.90	7.90	7.90	7.90	7.90	7.90	7.90	7.90	7.90	7.90	7.90	7.90	7.90	7.90	7.90
July 1, 2008, to June 30, 2009																														
Direct Subsidized Loans to Undergraduate Students																														
6.0% fixed rate	—	—	—	—	—	—	—	—	—	—	—	—	—	—	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
Direct Unsubsidized Loans to Undergraduate Students, and Direct Subsidized Loans and Direct Unsubsidized Loans to Graduate Students																														
6.8% fixed rate	—	—	—	—	—	—	—	—	—	—	—	—	—	—	6.80	6.80	6.80	6.80	6.80	6.80	6.80	6.80	6.80	6.80	6.80	6.80	6.80	6.80	6.80	6.80
Direct PLUS Loans																														
7.9% fixed rate	—	—	—	—	—	—	—	—	—	—	—	—	—	—	7.90	7.90	7.90	7.90	7.90	7.90	7.90	7.90	7.90	7.90	7.90	7.90	7.90	7.90	7.90	7.90

Disbursement Period, Loan Type, and Loan Period (if applicable)	1994-1995	1995-1996	1996-1997	1997-1998	1998-1999	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024
July 1, 2009, to June 30, 2010																														
Direct Subsidized Loans to Undergraduate Students																														
5.6% loans	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	5.60	5.60	5.60	5.60	5.60	5.60	5.60	5.60	5.60	5.60	5.60	5.60	5.60	5.60	5.60
Direct Unsubsidized Loans to Undergraduate Students, and Direct Subsidized Loans and Direct Unsubsidized Loans to Graduate Students																														
6.8% fixed rate	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	6.80	6.80	6.80	6.80	6.80	6.80	6.80	6.80	6.80	6.80	6.80	6.80	6.80	6.80	6.80
Direct PLUS																														
7.9% fixed rate	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	7.90	7.90	7.90	7.90	7.90	7.90	7.90	7.90	7.90	7.90	7.90	7.90	7.90	7.90	7.90
July 1, 2010, to June 30, 2011																														
Direct Subsidized Loans to Undergraduate Students																														
4.5% fixed rate	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50
Direct Unsubsidized Loans to Undergraduate Students, and Direct Subsidized Loans and Direct Unsubsidized Loans to Graduate Students																														
6.8% fixed rate	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	6.80	6.80	6.80	6.80	6.80	6.80	6.80	6.80	6.80	6.80	6.80	6.80	6.80	6.80
PLUS Loans																														
7.9% fixed rate	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	7.90	7.90	7.90	7.90	7.90	7.90	7.90	7.90	7.90	7.90	7.90	7.90	7.90	7.90
July 1, 2011, to June 30, 2012																														
Direct Subsidized Loans to Undergraduate Students																														
3.4% fixed rate	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	3.40	3.40	3.40	3.40	3.40	3.40	3.40	3.40	3.40	3.40	3.40	3.40	3.40
Direct Unsubsidized Loans to Undergraduate Students, and Direct Subsidized Loans and Direct Unsubsidized Loans to Graduate Students																														
6.8% fixed rate	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	6.80	6.80	6.80	6.80	6.80	6.80	6.80	6.80	6.80	6.80	6.80	6.80	6.80
PLUS Loans																														
7.9% fixed rate	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	7.90	7.90	7.90	7.90	7.90	7.90	7.90	7.90	7.90	7.90	7.90	7.90	7.90

Disbursement Period, Loan Type, and Loan Period (if applicable)	1994-1995	1995-1996	1996-1997	1997-1998	1998-1999	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024
July 1, 2012, to June 30, 2013																														
Direct Subsidized Loans to Undergraduate Students																														
3.4% fixed rate	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	3.40	3.40	3.40	3.40	3.40	3.40	3.40	3.40	3.40	3.40	3.40	3.40
Direct Unsubsidized Loans to Undergraduate Students, and Direct Subsidized Loans and Direct Unsubsidized Loans to Graduate Students																														
6.8% fixed rate	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	6.80	6.80	6.80	6.80	6.80	6.80	6.80	6.80	6.80	6.80	6.80	6.80
PLUS Loans																														
7.9% fixed rate	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	7.90	7.90	7.90	7.90	7.90	7.90	7.90	7.90	7.90	7.90	7.90	7.90
July 1, 2013, to June 30, 2014																														
Direct Subsidized Loans and Direct Unsubsidized Loans to Undergraduate Students																														
10-yr T-note + 2.05% (8.25% cap), fixed	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	3.86	3.86	3.86	3.86	3.86	3.86	3.86	3.86	3.86	3.86	3.86
Direct Unsubsidized Loans to Graduate Students																														
10-yr T-note + 3.60% (9.50% cap), fixed	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	5.41	5.41	5.41	5.41	5.41	5.41	5.41	5.41	5.41	5.41	5.41
Direct PLUS Loans																														
10-yr T-note + 4.6% (10.5% cap), fixed	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	6.41	6.41	6.41	6.41	6.41	6.41	6.41	6.41	6.41	6.41	6.41
July 1, 2014, to June 30, 2015																														
Direct Subsidized Loans and Direct Unsubsidized Loans to Undergraduate Students																														
10-yr T-note + 2.05% (8.25% cap), fixed	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	4.66	4.66	4.66	4.66	4.66	4.66	4.66	4.66	4.66	4.66

Disbursement Period, Loan Type, and Loan Period (if applicable)	1994-1995	1995-1996	1996-1997	1997-1998	1998-1999	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024
Direct Unsubsidized Loans to Graduate Students																														
10-yr T-note + 3.60% (9.50% cap), fixed	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	6.21	6.21	6.21	6.21	6.21	6.21	6.21	6.21	6.21	6.21
Direct PLUS Loans																														
10-yr T-note + 4.6% (10.5% cap), fixed	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	7.21	7.21	7.21	7.21	7.21	7.21	7.21	7.21	7.21	7.21
July 1, 2015, to June30, 2016																														
Direct Subsidized Loans and Direct Unsubsidized Loans to Undergraduate Students																														
10-yr T-note + 2.05% (8.25% cap), fixed	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	4.29	4.29	4.29	4.29	4.29	4.29	4.29	4.29	4.29
Direct Unsubsidized Loans to Graduate Students																														
10-yr T-note + 3.60% (9.50% cap), fixed	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	5.84	5.84	5.84	5.84	5.84	5.84	5.84	5.84	5.84
Direct PLUS Loans																														
10-yr T-note + 4.6% (10.5% cap), fixed	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	6.84	6.84	6.84	6.84	6.84	6.84	6.84	6.84	6.84
July 1, 2016, to June30, 2017																														
Direct Subsidized Loans and Direct Unsubsidized Loans to Undergraduate Students																														
10-yr T-note + 2.05% (8.25% cap), fixed	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	3.76	3.76	3.76	3.76	3.76	3.76	3.76	3.76

Disbursement Period, Loan Type, and Loan Period (if applicable)	1994-1995	1995-1996	1996-1997	1997-1998	1998-1999	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024
Direct Unsubsidized Loans to Graduate Students																														
10-yr T-note + 3.60% (9.50% cap), fixed	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	5.31	5.31	5.31	5.31	5.31	5.31	5.31	5.31
Direct PLUS Loans																														
10-yr T-note + 4.6% (10.5% cap), fixed	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	6.31	6.31	6.31	6.31	6.31	6.31	6.31	6.31
July 1, 2017, to June 30, 2018																														
Direct Subsidized Loans and Direct Unsubsidized Loans to Undergraduate Students																														
10-yr T-note + 2.05% (8.25% cap), fixed	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	4.45	4.45	4.45	4.45	4.45	4.45	4.45
Direct Unsubsidized Loans to Graduate Students																														
10-yr T-note + 3.60% (9.50% cap), fixed	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	6.00	6.00	6.00	6.00	6.00	6.00	6.00
Direct PLUS Loans																														
10-yr T-note + 4.6% (10.5% cap), fixed	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	7.00	7.00	7.00	7.00	7.00	7.00	7.00
July 1, 2018, to June 30, 2019																														
Direct Subsidized Loans and Direct Unsubsidized Loans to Undergraduate Students																														
10-yr T-note + 2.05% (8.25% cap), fixed	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	5.05	5.05	5.05	5.05	5.05	5.05

Disbursement Period, Loan Type, and Loan Period (if applicable)	1994-1995	1995-1996	1996-1997	1997-1998	1998-1999	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024
Direct Unsubsidized Loans to Graduate Students																														
10-yr T-note + 3.60% (9.50% cap), fixed	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	6.60	6.60	6.60	6.60	6.60	6.60
Direct PLUS Loans																														
10-yr T-note + 4.6% (10.5% cap), fixed	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	7.60	7.60	7.60	7.60	7.60	7.60
July 1, 2019, to June 30, 2020																														
Direct Subsidized Loans and Direct Unsubsidized Loans to Undergraduate Students																														
10-yr T-note + 2.05% (8.25% cap), fixed	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	4.53	4.53	4.53	4.53	4.53
Direct Unsubsidized Loans to Graduate Students																														
10-yr T-note + 3.60% (9.50% cap), fixed	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	6.08	6.08	6.08	6.08	6.08
Direct PLUS Loans																														
10-yr T-note + 4.6% (10.5% cap), fixed	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	7.08	7.08	7.08	7.08	7.08
July 1, 2020, to June 30, 2021																														
Direct Subsidized Loans and Direct Unsubsidized Loans to Undergraduate Students																														
10-yr T-note + 2.05% (8.25% cap), fixed	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	2.75	2.75	2.75	2.75

Disbursement Period, Loan Type, and Loan Period (if applicable)	1994-1995	1995-1996	1996-1997	1997-1998	1998-1999	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024
Direct Unsubsidized Loans to Graduate Students																														
10-yr T-note + 3.60% (9.50% cap), fixed	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	4.30	4.30	4.30	4.30
Direct PLUS Loans																														
10-yr T-note + 4.6% (10.5% cap), fixed	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	5.30	5.30	5.30	5.30
July 1, 2021, to June 30, 2022																														
Direct Subsidized Loans and Direct Unsubsidized Loans to Undergraduate Students																														
10-yr T-note + 2.05% (8.25% cap), fixed	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	3.73	3.73	3.73
Direct Unsubsidized Loans to Graduate Students																														
10-yr T-note + 3.60% (9.50% cap), fixed	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	5.28	5.28	5.28
Direct PLUS Loans																														
10-yr T-note + 4.6% (10.5% cap), fixed	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	6.28	6.28	6.28
July 1, 2022, to June 30, 2023																														
Direct Subsidized Loans and Direct Unsubsidized Loans to Undergraduate Students																														
10-yr T-note + 2.05% (8.25% cap), fixed	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	4.99	4.99

Disbursement Period, Loan Type, and Loan Period (if applicable)	1994-1995	1995-1996	1996-1997	1997-1998	1998-1999	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024
Direct Unsubsidized Loans to Graduate Students																														
10-yr T-note + 3.60% (9.50% cap), fixed	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	6.54	6.54
Direct PLUS Loans																														
10-yr T-note + 4.6% (10.5% cap), fixed	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	7.54	7.54
July 1, 2022, to June 30, 2023																														
Direct Subsidized Loans and Direct Unsubsidized Loans to Undergraduate Students																														
10-yr T-note + 2.05% (8.25% cap), fixed	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	5.49
Direct Unsubsidized Loans to Graduate Students																														
10-yr T-note + 3.60% (9.50% cap), fixed	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	7.05
Direct PLUS Loans																														
10-yr T-note + 4.6% (10.5% cap), fixed	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	8.05

Sources: U.S. Department of Education, Office of Federal Student Aid, "Annual Notice of Interest Rates for Variable-Rate Federal Student Loans Made Under the William D. Ford Federal Direct Loan Program," 87 *Federal Register* 50320-50322, August 16, 2022 and prior notices; U.S. Department of Education, Office of Federal Student Aid, "Annual Notice of Interest Rates for Fixed-Rate Federal Student Loans Made Under the William D. Ford Federal Direct Loan Program," 87 *Federal Register* 50326-50328, August 16, 2022, and prior notices; U.S. Department of Education, Office of Federal Student Aid, "Federal Stafford, Federal PLUS, Federal SLS, and Federal Consolidation Interest Rate Calculations for the Period July 1, 2022-June 30, 2023 (Updated July 1, 2022)," June 13, 2022; and U.S. Department of Education, Office of Federal Student Aid, Electronic Announcement, DL-23-03, "FY23 Interest Rates for Direct Loans First Disbursed Between July 1, 2023 and June 30, 2024," May 16, 2023, https://fsapartners.ed.gov/knowledge-center/library/electronic-announcements/2023-05-16/interest-rates-direct-loans-first-disbursed-between-july-1-2023-and-june-30-2024,

TBD means to be determined.

a. This refers to the subsidized component of a Direct Consolidation Loan.

b. This refers to the unsubsidized component of a Direct Consolidation Loan, excluding the portion of a Direct Consolidation Loan attributable to Direct PLUS Loans, Direct PLUS Consolidation Loans, and FFEL PLUS Loans that were repaid by the Direct Consolidation Loan.

c. This refers to the unsubsidized component of a Direct Consolidation Loan attributable to Direct PLUS Loans, Direct PLUS Consolidation Loans, and FFEL PLUS Loans that were repaid by the Direct Consolidation Loan.

d. The Consolidated Appropriations Act for FY2001 (P.L. 106-554) includes an amendment to the HEA that changed the index used in the formulas that determine interest rates for PLUS Loans made under the FFEL and Direct Loan programs disbursed between July 1, 1987, and June 30, 1998. The amendment substituted the one-year constant maturity Treasury yield for the 52-week Treasury bill. This change, which affects interest rate adjustments made for any 12-month period beginning on or after July 1, 2001, became necessary because the Department of the Treasury stopped issuing 52-week Treasury bills.

e. For Direct PLUS Consolidation Loans, the application for such loans must have been received before October 1, 1998, and the loan must have been first disbursed on or after July 1, 1998.

f. Applications for the Direct Consolidation Loan must have been received on or after October 1, 1998, and before February 1, 1999.

Table C-5. History of Direct Loan Origination Fees

Disbursement Period	Direct Subsidized Loans (%)	Direct Unsubsidized Loans (%)	Direct PLUS Loans (%)
July 1, 1994, through August 14, 1999	4.000	4.000	4.000
August 15, 1999, through June 30, 2006	3.000[a]	3.000[a]	4.000
July 1, 2006, through June 30, 2007	3.000	3.000	4.000
July 1, 2007, through June 30, 2008	2.500	2.500	4.000
July 1, 2008, through June 30, 2009	2.000	2.000	4.000
July 1, 2009, through June 30, 2010	1.500	1.500	4.000
July 1, 2010, through June 30, 2013	1.000	1.000	4.000
July 1, 2013, through November 30, 2013[b]	1.051	1.051	4.204
December 1, 2013, through September 30, 2014[b]	1.072	1.072	4.288
October 1, 2014, through September 30, 2015[b]	1.073	1.073	4.292
October 1, 2015, through September 30, 2016[b]	1.068	1.068	4.272
October 1, 2016, through September 30, 2017[b]	1.069	1.069	4.276
October 1, 2017, through September 30, 2018[b]	1.066	1.066	4.264
October 1, 2018, through September 30, 2019[b]	1.062	1.062	4.248
October 1, 2019, through September 30, 2020[b]	1.059	1.059	4.236
October 1, 2020, through September 30, 2021[b]	1.057	1.057	4.228
October 1, 2021, through September 30, 2022[b]	1.057	1.057	4.228
October 1, 2022, through September 30, 2023[b]	1.057	1.057	4.228
October 1, 2023, through September 30, 2024[b]	1.057	1.057	4.228

Sources: HEA, §455(c); 20 U.S.C. §1087e(c); U.S. Department of Education, Direct Loan Task Force, Direct Loan Bulletin, DLB 99-39, "Meeting Our Promise – Procedures on Processing the Reduced Loan Origination Fee," June 1, 1999, https://ifap.ed.gov/dlbulletins/doc0188_bodyoftext.htm; U.S. Department of Education, "William D. Ford Federal Direct Loan Program: Final Regulations," 64 *Federal Register* 46252-24255, August 24, 1999, https://www.govinfo.gov/content/pkg/FR-1999-08-24/pdf/99-21957.pdf; and BBEDCA, §256(b); U.S. Department of Education, Office of Federal Student Aid,"FY24 Sequester-Required Changes to the Title IV Student Aid Programs," Electronic Announcement GENERAL-23-37, May 15, 2023, https://fsapartners.ed.gov/knowledge-center/library/electronic-announcements/2023-05-15/fy-24-sequester-required-changes-title-iv-student-aid-programs and prior notices.

a. During the period from August 15, 1999 through June 30, 2006, the Department of Education charged a reduced loan origination fee of 3.0% on Direct Subsidized Loans and Direct Unsubsidized Loans.

b. Origination fee increased due to a sequestration order being in effect.

Appendix D. COVID-19 Flexibilities

In response to the COVID-19 pandemic, lawmakers and the Department of Education (ED) have provided various types of relief for federal student loans borrowers. In general, this relief is available for a temporary period; although, some forms of relief may have a lasting impact on borrowers' loans for years into the future. Several key forms of COVID-19 student loan relief are presented in this Appendix. For detailed information about these and other forms of COVID-19 student loan relief, see CRS Report R46314, *Federal Student Loan Debt Relief in the Context of COVID-19*.

Interest Accrual Pause

From March 13, 2020, through September 1, 2023, the accrual of interest on all types of Direct Loan program loans is suspended.[302] Thus, borrowers will not be responsible for paying interest on their Direct Loan program loans during this period.

Payment Pause

From March 13, 2020, through October 1, 2023, monthly payments on all types of Direct Loan program loans are suspended.[303] (In practice, ED is placing all loans in administrative forbearance.) During this time, borrowers are not required to make payments due on their loans. This special administrative forbearance is frequently called the *payment pause*.

Whereas interest typically accrues on loans during periods of forbearance, the interest accrual pause (see above) ensures that interest does not accrue on loans during all but the final month of the payment pause. In addition, suspended payments will count toward the maximum periods under the income-driven repayment plans (see the "Income-Driven Repayment [IDR] Plans" section), loan rehabilitation for defaulted loans (see the "Loan Rehabilitation" section), and the 120 required monthly payments under the Public Service Loan Forgiveness program (see the "Public Service Loan Forgiveness [PSLF] program" section).

Income-Driven Repayment (IDR) Plan Account Adjustment

Under all of the IDR plans, borrowers may have any remaining outstanding balance of their Direct Loan program loans forgiven after making payments according to the plans for a maximum repayment period (20 years/240 months or 25 years/300 months). Typically, only payments made on selected repayment plans count toward the maximum repayment period under the IDR plans, and with the exception of the economic hardship deferment and the COVID-19 payment pause, periods of deferment or forbearance do not count toward the maximum repayment period under the IDR plans. Payments made on any loans, including FFEL program

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[302] The Fiscal Responsibility Act of 2023 (P.L. 118-5) specifies that the interest accrual pause shall cease to be effective 60 days after June 30, 2023. While 60 days after June 30, 2023, is August 29, 2023, ED has indicated that interest accrual will not begin until September 1, 2023. U.S. Department of Education, Office of Federal Student Aid, "COVID-19 Emergency Relief and Federal Student Aid," https://studentaid.gov/announcements-events/covid-19 (accessed June 15, 2023).

[303] The Fiscal Responsibility Act of 2023 (P.L. 118-5) specifies that the payment pause shall cease to be effective 60 days after June 30, 2023. While 60 days after June 30, 2023, is August 29, 2023, ED has indicated that student loan payments will not be due until October 2023. U.S. Department of Education, Office of Federal Student Aid, "COVID-19 Emergency Relief and Federal Student Aid," https://studentaid.gov/announcements-events/covid-19 (accessed June 15, 2023).

loans, prior to consolidation do not count toward the maximum repayment period for the Consolidation Loan.

In April 2022, in response to the COVID-19 pandemic and to address "historical failures in the administration of the federal student loan programs,"[304] ED announced a one-time adjustment to borrower loan accounts to revise the number of IDR-qualifying payments for purposes of satisfying the maximum repayment period under the IDR plans. Through the account adjustment, borrowers are to receive IDR payment credit for the following periods:

- any months in which a borrower's loan was in repayment status "regardless of the payments made, loan type, or repayment plan";
- a minimum of 12 months or more of consecutive forbearance;
- 36 or more months of cumulative forbearance, with any combination of forbearance periods counting toward the cumulative amount;
- months spent in economic hardship deferment or military deferments after 2013;
- months spent in any type of deferment, excluding in-school deferment, prior to 2013; and
- months in repayment prior to consolidation.

ED intends to automatically forgive the loans of borrowers who have accumulated at least 240 months or 300 months in repayment, even if they are not currently enrolled in an IDR plan, "by the end of 2023."[305] To receive automatic forgiveness, a borrower will need to meet one of the following requirements, all of which include the terms of the above-described account adjustment:

- Borrowers with only undergraduate student loan debt must have been in repayment for 240 months.
- Borrowers with undergraduate and graduate student loan debt, or graduate student loan debt only, and who are currently enrolled in the PAYE repayment plan must have been in repayment for 240 months.
- Borrowers with undergraduate and graduate student loan debt, or graduate student loan debt only, and who are currently not enrolled in the PAYE repayment plan must have been in repayment for 300 months.
- Parent PLUS Loans and Consolidation Loans used to repay Parent PLUS Loans must have been in repayment for 300 months.[306]

All other borrowers who will not receive automatic forgiveness are to see their loan accounts updated in 2024.[307]

[304] U.S. Department of Education, "Department of Education Announces Actions to Fix Longstanding Failures in the Student Loan Programs," press release, April 19, 2022, https://www.ed.gov/news/press-releases/department-education-announces-actions-fix-longstanding-failures-student-loan-programs.

[305] U.S. Department of Education, Office of Federal Student Aid, "Income-Driven Repayment Account Adjustment," https://studentaid.gov/announcements-events/idr-account-adjustment (accessed May 19, 2023).

[306] Ibid.

[307] Ibid.

Limited Public Service Loan Forgiveness (PSLF) Waiver

Under the PSLF program, Direct Loan borrowers who, on or after October 1, 2007, are employed full-time in certain public service jobs for 10 years while making 120 qualifying monthly payments on their loans may have any remaining balance of their loans forgiven. Typically, only payments made on selected repayment plans count toward the required 120 qualifying payments, and with the exception of the COVID-19 payment pause, periods of deferment or forbearance do not count toward the required 120 payments. Payments made late, made for less than the monthly amount due, and made on any loans (including FFEL program loans) prior to consolidation also do not count toward the required 120 payments. Borrowers must be employed full-time in a public service job at the time PSLF benefits are granted. PSLF benefits may not be provided for the same service used to qualify for benefits under the Teacher Loan Forgiveness Program, the Civil Legal Assistance Attorney Loan Repayment Program, or the Loan Forgiveness for Service in Areas of National Need Program.

In October 2021, ED announced a series of limited-time waivers of numerous PSLF program rules to enable borrowers to receive credit for past periods of repayment that would not otherwise qualify for PSLF. Through October 31, 2022, borrowers could receive PSLF payment credit for the following:

- periods of repayment on Direct Loan program, FFEL program, and other older HEA authorized program loans, even if payments were made according to a nonqualifying repayment plan, made late, or made for less than the amount due;
- periods of deferment before 2013;
- periods of economic hardship deferment on or after January 1, 2013;
- periods of forbearance of 12 consecutive months or greater;
- periods of forbearance of 36 cumulative months or greater; and
- periods of military service deferment.

In addition, ED waived the requirement that a borrower be employed full-time in qualifying public service at the time of application for and forgiveness under PSLF, and the prohibition against periods of service performed to receive benefits under the Teacher Loan Forgiveness program also counting towards periods of PSLF qualifying employment.[308]

One-Time Student Loan Debt Relief

On August 24, 2022, invoking the Higher Education Relief Opportunities for Students Act of 2003 (HEROES Act; P.L. 108-76, as amended), ED announced a "one-time debt relief"[309] policy "to address the financial harms of the [COVID-19] pandemic for low- and middle-income borrowers."[310] Under the policy, the Administration intends to cancel the following:

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308 U.S. Department of Education, Office of Federal Student Aid, "The Limited PSLF Waiver Opportunity Ended on Oct. 31, 2022," https://studentaid.gov/announcements-events/pslf-limited-waiver#key-points (accessed March 23, 2023).

309 U.S. Department of Education, Office of Federal Student Aid, "One-time Federal Student Loan Debt Relief," https://studentaid.gov/manage-loans/forgiveness-cancellation/debt-relief-info (accessed April 3, 2023).

310 U.S. Department of Education, "Fact Sheet: President Biden Announces Student Loan Relief for Borrowers Who Need It Most," press release, August 24, 2022, https://www.whitehouse.gov/briefing-room/statements-releases/2022/08/24/fact-sheet-president-biden-announces-student-loan-relief-for-borrowers-who-need-it-most/.

- up to $10,000 in student loans for borrowers whose annual income in 2020 or 2021 was less than $125,000 (for individuals or married borrowers who file their federal income taxes separately), or $250,000 (for married couples filing jointly, heads of households, or qualifying widow(er)s); borrowers enrolled in postsecondary education as dependent students between July 1, 2021, and June 30, 2022, will be eligible for cancellation based on parental income; and
- an additional $10,000, for a total of up to $20,000, in student loans for borrowers who meet the above criteria and received at least one Pell Grant in any amount at any point.[311]

Borrowers' cancellation benefits are to be capped at the amount of their outstanding debt. Borrowers who made voluntary payments on their loans during the COVID-19 payment pause and qualify for debt relief may automatically receive refunds of those payments in limited circumstances.[312]

These benefits are available for Direct Loan program loans—as well as Federal Family Education Loan (FFEL) program and Perkins Loan program loans held by ED and defaulted FFEL program loans held by guaranty agencies—disbursed on or before June 30, 2022, except that for Consolidation Loans only the underlying loans that were repaid by the Consolidation Loan must have been disbursed on or before June 30, 2022.[313]

The policy has not yet been implemented due to lawsuits challenging ED's legal authority to effectuate it. The Supreme Court heard oral arguments for the lawsuits on February 28, 2023.[314] Thus, loan cancellation under the policy would occur, if at all, only if the Supreme Court renders a decision in favor of the Administration.

Collection Pause

From March 13, 2020, through one year after the COVID-19 payment pause ends[315] (see above), involuntary collection practices are suspended. Involuntary collection practices include administrative wage garnishment; offset of federal income tax returns, Social Security benefits, and certain other federal benefits; and civil litigation on Direct Loan program loans. In addition, ED and its contractors are not engaging in proactive collection activities (e.g., are not making collection calls or sending letters or billing statements to defaulted borrowers). However, borrowers may contact ED and its contractors to begin or continue default resolution arrangements (see the "Resolution of Default" section).[316]

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311 For additional information, see CRS Insight IN11997, *The Biden Administration's One-Time Student Loan Debt Relief Policy*.

312 U.S. Department of Education, "One-time Federal Student Loan Debt Relief," https://studentaid.gov/manage-loans/forgiveness-cancellation/debt-relief-info#refunds (accessed April 3, 2023).

313 Direct Consolidation Loans comprised of any FFEL or Perkins Loan program loans not held by ED are eligible for debt relief, so long as the borrower applied for consolidation before September 29, 2022.

314 Transcript of Oral Argument, *Nebraska v. Biden*, No. 22-506 (February 28, 2023), https://www.supremecourt.gov/oral_arguments/argument_transcripts/2022/22-506_22p3.pdf and transcript and Transcript of Oral Argument, *Dep't. of Educ. v. Brown* No. 22-535 (February 28, 2023), https://www.supremecourt.gov/oral_arguments/argument_transcripts/2022/22-535_4g15.pdf.

315 CRS communication with staff of U.S. Department of Education, Office of Legislation and Congressional Affairs, February 27, 2023.

316 U.S. Department of Education, Office of Federal Student Aid, "Coronavirus and Forbearance Info for Students, Borrowers, and Parents," Loans in Default, https://studentaid.gov/announcements-events/coronavirus#defaulted-loan-
(continued...)

Fresh Start Initiative

A borrower who defaults on a Direct Loan program loan becomes subject to many consequences, and has multiple options available to them for bringing their loan out of default. In April 2022, ED announced a new policy "to eliminate the negative effects of default for borrowers who defaulted on their student loans prior to the [COVID-19] pandemic payment pause." [317] Under this Fresh Start Initiative, all qualifying borrowers of defaulted Direct Loans will have several Title IV student aid benefits temporarily restored that are otherwise unavailable when a borrower is in default on their loan. If such borrowers use the Fresh Start Initiative to get out of default, they would be able to retain those benefits long-term.

Under the initiative, ED has, for a temporary period, automatically provided the following benefits to all qualifying defaulted borrowers:

- restored eligibility for Title IV federal student aid;
- reporting of defaulted loans as "current" rather than "in collections" to credit reporting agencies; and
- discontinued reporting of borrowers' default status to the Credit Alert Verification Reporting System (CAIVRS).[318]

Borrowers who take the following actions will be permitted to keep the above-listed benefits long-term: (1) accept Title IV student aid under the Fresh Start Initiative, or (2) request to have their loans placed in repayment status after receiving notification from ED that their loans are being reported to consumer reporting agencies as current rather than in collections.

In addition, other benefits not available to defaulted borrowers, such as eligibility for IDR plans or loan forgiveness programs, will be restored. These borrowers' loans will also be transferred to a nondefault loan servicer, their loans will be returned to in-repayment status, and ED will ask consumer reporting agencies to remove the record of default from the borrower's credit report. Borrowers who use the Fresh Start Initiative to bring their loans out of default or who rehabilitated their loans during the COVID-19 payment pause would not have these actions counted as their one opportunity to rehabilitate their loans.[319]

Many of the benefits available to borrowers under the initiative are to be available until one year after the end of the COVID-19 payment pause (referred to as the *Fresh Start period*). Borrowers who do not take either of the above-described actions during the Fresh Start period will again be subject to collections after that period ends and will have their loans reported as in collections to consumer reporting agencies.

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questions (accessed May 24, 2021). For additional information on the cessation of debt collection activities due to COVID-19, see CRS Report R46314, *Federal Student Loan Debt Relief in the Context of COVID-19*.

[317] U.S. Department of Education, Office of Postsecondary Education, "Federal Student Aid Eligibility for Borrowers with Defaulted Loans," Dear Colleague Letter GEN-22-13, August 17, 2022, https://fsapartners.ed.gov/knowledge-center/library/dear-colleague-letters/2022-08-17/federal-student-aid-eligibility-borrowers-defaulted-loans.

[318] CAIVRS is a database of individuals who have defaulted on federal debts and is used to prescreen and verify applicant eligibility for various federal direct and guaranteed loans. For additional information, see Department of Housing and Urban Development, "CAIVRS-Credit Alert Verification Reporting System," https://www.hud.gov/program_offices/housing/sfh/caivrs (accessed June 13, 2023).

[319] U.S. Department of Education, Office of Federal Student Aid, "A Fresh Start for Federal Student Loan Borrowers in Default," https://studentaid.gov/announcements-events/default-fresh-start (accessed March 27, 2023).

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