

# The Facts on Student Loans

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## Overview

Federal student loans, issued by the U.S. Department of Education, are an integral part of students' ability to access and afford college. The Education Department's Office of Federal Student Aid (FSA) administers the loan program, including overseeing student loan servicers, the contractors who manage the day-to-day system. (While the department also oversees the collection of defaulted loans, it has recently indicated that it is exploring moving related functions to the Treasury.) According to [College Board's Trend in Aid 2024](#) report, during the 2023-24 academic year, 24 percent of undergraduate students took out federal student loans, a share that has declined over the last decade. Students across all levels of higher education also leave school with loans: Today, almost 43 million Americans hold more than \$1.6 trillion in student debt.

## Key Challenges

- **The loan system is complex, hard to navigate, and facing large-scale changes.** Currently, when borrowers enter repayment, they can enroll in an unwieldy number of repayment options. They can select from a range of fixed payment plans, in which they pay a set monthly installment until their balances are paid off. They can opt into one of several income-driven repayment (IDR) plans, in which they make payments based on their income and family size and can access forgiveness after a certain number of payments. And they can pause their payments through deferments and forbearances. This landscape will be changing dramatically in the coming months and years. While some of the changes will take steps to streamline the repayment system, they will also result in higher payments for those with the lowest incomes.
  - Through the *One Big Beautiful Bill Act* (OBBBA), Congress created a new fixed payment plan and an IDR plan for future borrowers and created loan caps for graduate students and parents who borrow for children pursuing an undergraduate degree. The *OBBBA* also eliminated certain payment options for current borrowers, including the SAVE plan, the newest IDR plan which provides the most generous terms for many. (SAVE and other aspects of IDR are also the subject of lawsuits and an injunction.)
  - The Trump Administration is revisiting aspects of the Public Service Loan Forgiveness (PSLF) program—which offers loan forgiveness to borrowers who work for governments or nonprofit organizations after 10 years of payments—through negotiated rulemaking.
- **[Many borrowers are trapped in debt](#)—but it isn't always because of large balances.** As of March 2025, more than 5 million borrowers are in default on a federally managed student loan, which occurs when they miss 270 days' worth of payments. Defaulting on student loans can lead to [devastating financial consequences](#) for borrowers. For example, they can have their wages, tax returns, and federal benefits—

including Social Security, the Earned Income Tax Credit, and the Child Tax Credit—garnished. Low-income and -resource borrowers, those who do not complete a degree or credential, [older borrowers](#), and borrowers of color (particularly Black borrowers), among others, are more likely to default on their loans. Many borrowers who default are trapped in that status for years, likely to default again if they are able to exit.

- **Those who most need access to affordable repayment plans are least likely to enroll.** IDR generally makes loan repayment more affordable for borrowers. [However, research indicates](#) many of the borrowers who would benefit most from an IDR plan have not enrolled in one.
- **FSA is understaffed and under-resourced** during the best of times. Recent large-scale staff cuts have made the Education Department’s job more challenging, including its ability to oversee loan servicers and communicate with borrowers. These activities [are critical](#) during this period of upheaval: Student loan repayment started again in the fall of 2023 for tens of millions of borrowers after an extended pause during the Covid-19 pandemic. This year, after a 12-month “on ramp,” borrowers are facing the consequences of nonpayment for the first time in five years

## Policy Goals

Legislative, regulatory, and administrative policy solutions must ensure that repayment plans are affordable and easier to access and understand, including being as automated as possible, and ensure that the Education Department and contractors are held to high standards as they communicate with borrowers and manage their accounts. Policy reforms should:

- **Help borrowers successfully repay their loans and avoid default.** Policies to prevent default, such as facilitating enrollment in, and automatic annual recertification for, IDR plans are important first steps. The department is currently implementing the 2019 *FUTURE Act*, a law that allows the IRS to share certain tax information with the department, but they can do more to assist borrowers with financial hardships in making sure their student loans are in good standing. This includes facilitating automatic enrollment in IDR when borrowers are behind on their payments and allowing access to IDR when borrowers are in default.
- **Help borrowers exit default and avoid redefaulting.** Those in default should be able to exit more easily and quickly. For example, Congress could establish a fast, flexible pathway out of default that borrowers could use multiple times. This route would ideally ensure default doesn’t push borrowers into, or deeper into, poverty. Once a loan enters default, interest should not continue to accrue. This is standard practice for other forms of credit. In addition, the Education Department should streamline transitions between the repayment and default systems and expand—and evaluate—its outreach and communication with borrowers.
- **Support and adequately fund the Department of Education.** The Education Department needs adequate funding and staffing to smoothly implement policy changes coming down the pike. These resources help the Department communicate with borrowers more effectively, ensure strong oversight of servicers, and fix other systemic issues in the student loan system that have been accumulating for decades. If Congress does not adequately fund FSA, even when relief programs are available, those who most need the support are likely to be left behind.
- **Improve quality and strengthen accountability.** While reforms to the student loan repayment and default systems are necessary, ensuring institutions are providing access to high-quality programs that lead to upward economic mobility, ensuring degrees and programs are affordable based on the earnings a borrower is expected to receive, and reconsidering accountability around loan performance such as through the cohort default rate (CDR), are also critical.