CAA Primer on Student Loan Repayment

May 2025

The landscape of student loans and loan repayment plans in the United States is complex. Understanding the legal framework behind how these programs were created and function will help community action agencies (CAAs) navigate changes to the programs and better support staff who are utilizing them.

There are many different loan types that exist for student borrowers, most of which are offered by the federal government and others which are offered by private institutions.[1] This article does not focus on the different loan types but rather discusses the options regarding the repayment and forgiveness of certain federal loans. Keep in mind that not every type of student loan will be eligible for each repayment and forgiveness option. Student loan forgiveness options in particular are often an important recruitment and retention tool for CAAs as employers. For example, Public Service Loan Forgiveness (PSLF) is only available to employees at qualifying employers, including government entities and nonprofits. Thus, eligibility for the PSLF program is often discussed as a benefit of working at a nonprofit or public CAA.

This article provides a brief history of student loan facilitation by the federal government and focuses on the legal framework establishing the different elements of student loan repayment and forgiveness, including PSLF and income-driven repayment (IDR) plans. In general, any plan or program established by statute may only be changed by Congress, whereas anything established by regulation may be changed through federal agency administrative action. Understanding whether different elements of student loan repayment plans are based in statute or regulation helps CAAs not only support current staff but also anticipate where student loans and repayment may change in the future.

History of Loan Facilitation and Servicing

Federal student loans are financial instruments provided by the federal government to help individuals pay for higher education and are governed by federal law. The Higher Education Act (HEA) was first enacted in 1965 and governs financial assistance for higher education programs and institutions.[2] Congress has since amended and reauthorized the HEA, with the most recent reauthorization in 2008.[3] The Department of Education Organization Act (DEOA) issued in 1979 authorized the creation of the U.S. Department of Education (DoEd) and gave the DoEd the authority to administer the student financial assistance programs outlined in Title IV of the HEA.[4] Amendments to the HEA in 1998 established the office of Federal Student Aid (FSA) within the DoEd to manage the operations of federal loan servicing.[5] Both the DoEd and the FSA, along with their authority to administer student loan programs, are based in federal statute.

The FSA is the largest provider of student financial aid in the nation, often making direct loans to borrowers and then contracting with private companies known as student loan servicers to manage the borrower's repayment experience. On behalf of DoEd, loan servicers handle billing, collect payments, process applications for repayment plans and forgiveness, and more. The FSA has historically overseen the entire federal student loan portfolio in collaboration with five major loan servicers.

Repayment Lifecycle

If students have borrowed any federal student loans, different events can trigger the **repayment** of such loans. Once a student borrower graduates, drops below half-time enrollment, or leaves school, the borrower must begin paying off their federal student debt. Repayment terms and timing vary depending on the type of loan. Certain loans provide for a six- or nine-month **grace period** before a borrower is required to start making regular payments, while others go into repayment as soon as the loan is fully disbursed.

Borrowers are generally required to repay their student loan and any interest accrued on the loan through a repayment plan. However, in certain situations the loans may be forgiven, canceled, or discharged. As discussed further below, certain loan repayment plans promise loan **forgiveness** after a certain number of years although the loan balance and interest are not paid in full.

Forbearance refers to a temporary time period in which borrowers are permitted to extend their due date for making student loan payments, make smaller payments, or more commonly, stop making monthly student loan payments. During forbearance, borrowers are often still responsible for the interest that accrues while they are not making payments. There are several types of forbearance with different eligibility and legal parameters, but each is intended to prevent harm to the borrower.

A loan servicer may provide **general forbearance** (sometimes called discretionary forbearance) upon request if the borrower is temporarily unable to make scheduled monthly payments due to financial difficulty, medical expenses, changes in employment, or other reasons acceptable to the loan servicer. The HEA grants the Secretary of Education broad statutory authority to manage the terms of federal loans, including the ability to provide general forbearance, while regulations further detail the terms of the forbearance itself.[6]

If borrowers meet the eligibility requirements for **mandatory forbearance**, the loan servicer is required to grant a forbearance. The HEA explicitly requires that forbearance be granted in certain circumstances. Such mandatory forbearance is only available for certain loan types and is granted for no more than 12 months at a time, with a cumulative limit of three years.[7] For example, certain borrowers must receive forbearance while they are serving in an AmeriCorps position for which they received a national service award or when they are performing a teaching service that would qualify them for teacher loan forgiveness. Mandatory forbearance is specifically required by regulation under such circumstances.[8]

Loan servicers may also place borrowers into an **administrative forbearance**, which is any forbearance initiated by the government or loan servicer, often applied without a borrower request. Reasons for borrowers to be placed on administrative forbearance include major events such as COVID-19, natural disasters, or administrative errors. The length of an administrative forbearance will vary depending on the reason for the forbearance. Interest may or may not accrue during administrative forbearance. The details of such administrative forbearance are outlined in DoEd regulations.[9]

More specifically, a loan servicer may automatically apply **processing forbearance** while waiting to process certain paperwork, such as a borrower's IDR application or consolidation request. Processing forbearance should last no longer than 60 days and typically interest will continue to accrue. Processing forbearance is outlined in DoEd regulations.[10]

When a borrower goes a certain number of days without payment, a number of consequences kick in. The first day after a borrower misses a student loan payment, the loan becomes **delinquent**. After more than 90 days of delinquency, a loan servicer may report the delinquency to consumer reporting agencies, which weakens a borrower's credit. Typically, after more than 270 days of delinquency a loan will go into **default**, however, the number of days before default varies depending on the type of loan. Regulations set out the parameters surrounding a default. Defaulting on a student loan can lead to serious legal and financial consequences that are authorized by statute, such as the sharing of information with consumer reporting agencies and wage garnishment.[11]

Repayment Plans

The HEA requires that the Secretary of Education offer borrowers a variety of **repayment plans** for federal student loans.[12] Typically, when a borrower's loan enters repayment, their loan servicer will automatically place the borrower on the standard repayment plan. The standard repayment plan is the basic repayment plan for many loan types, set by statute to involve fixed monthly payments made for up to 10 years, or between 10 and 30 years for consolidation loans.[13] The borrower is entitled under statute to request a different repayment plan at any time.[14] Many borrowers choose to request IDR plans which involve reduced payments for lower-income borrowers.

Income-Driven Repayment Plans

The HEA created and then expanded access to IDR plans. The HEA requires the DoEd to offer borrowers access to an IDR plan for student loans, outlines certain IDR plans, and permits the Secretary of Education to create new repayment plans.[15] Access to IDR plans is required in statute, however existing IDR plans were created through both regulation (SAVE and PAYE) and under statute (ICR and IBR).

IDR plans are intended to help reduce payments for lower-income federal student loan borrowers by tying borrowers' monthly payments to their income. Under an IDR plan, the less a borrower earns, the less they are required to pay each month. These plans tie payments to borrowers' household income, requiring payments of a fraction (usually 10-15%) of their discretionary income. Outstanding loan balances are typically forgiven after 20 to 25 years of qualifying payments (or 10 years if being used to make qualifying payments under PSLF).[16] Generally, eligibility for IDR plans is based largely on the type of loan a borrower has.

The American Rescue Plan Act temporarily modified the tax treatment of discharged student loan debt by excluding from gross income qualifying student loans that are discharged between December 31, 2020, and January 1, 2026.[17] During this period, student loan debt forgiven through IDR forgiveness is not subject to federal taxation but may be taxable in some states.

Saving on a Valuable Education

Saving on a Valuable Education (SAVE) is the newest IDR plan, created by the DoEd in 2023 to replace the Revised Pay As You Earn Repayment (REPAYE) plan. SAVE offers the most generous terms of the available IDR plans, including no unpaid interest accrual and lower monthly payments, as low as 5% of discretionary income for undergraduate loans and 10% for other loans. Borrowers under the SAVE program are forgiven after 25 years in repayment, or 20 years for undergraduate borrowers. The SAVE plan was created by regulation pursuant to the DoEd's authority under the HEA. Before being replaced with SAVE, REPAYE had similarly capped payments at 10% of discretionary income and offered forgiveness after 20 or 25 years.[18]

Pay As You Earn

Pay As You Earn (PAYE) was created by the DoEd in 2012. PAYE offers monthly payments that are generally equal to 10% of discretionary income. Only certain borrowers (those who borrowed after 2007 and received disbursements after 2011) qualify. Borrowers under the PAYE program are forgiven after 20 years in repayment. The PAYE plan was created through DoEd regulation pursuant to the DoEd's authority under the HEA.[19]

Income-Based Repayment

Income-Based Repayment (IBR) was created in 2007. IBR sets payments at 10% of discretionary income for borrowers that first borrowed after July 1, 2014, and at 15% for borrowers before that date. IBR also offers forgiveness after 20 years for borrowers that first borrowed after July 1, 2014, and after 25 years for borrowers before that date. IBR is statutory, as it was established as part of the College Cost Reduction and Access Act of 2007, which amended the HEA.[20]

Income-Contingent Repayment

Income-Contingent Repayment (ICR) was the first IDR plan, introduced in the 1990s. It sets payments at 20% of discretionary income and offers forgiveness after 25 years. ICR is authorized in statute directly by the HEA.[21] The HEA then provides the Secretary of Education with the authority to promulgate regulations establishing the specifics of the ICR plan. For example, regulations detail that the ICR plan is the only IDR plan currently available to Parent PLUS borrowers (generally parents of a dependent undergraduate student) if they have consolidated their loan.[22]

Loan Forgiveness

Congress created PSLF to encourage graduates to work in public service roles by offering eventual debt relief. PSLF was created as part of the College Cost Reduction and Access Act of 2007. While the existence of the PSLF program is based in statute, DoEd regulations detail the specifics of the program, such as eligibility, the application process, repayment, and loan forgiveness under the program.[23]

PSLF promises student loan forgiveness for borrowers of Federal Direct loans who make 10 years of monthly payments (120 qualifying payments) while working full-time for a qualifying public service employer. PSLF is a loan forgiveness plan, under which borrowers may make payments under a variety of repayment plans, including all IDR plans. In other words, different employees at the same employer all working towards PSLF may be on different repayment plans. Qualifying employers include federal, state, local, or tribal government organizations, public child or family service agencies, 501(c)(3) nonprofits, and certain other nonprofit organizations.

Employees on the PSLF program should verify their income each year. As such, all CAAs with staff eligible for PSLF will experience the employment certification process. PSLF borrowers use the PSLF form to certify employment. The form may be signed manually or electronically by the employer and must be signed by an individual who has access to their employment or service records and is authorized by the employer to certify employment.

END NOTES

[1] While there are many student loan types, the citations in this article largely reference only certain loan types, namely loans under the William D. Ford Federal Direct Loan Program (Federal Direct) and the Federal Family Education Loan (FFEL) Program.

[2] Pub. L. No. 89-329.

[3] Pub. L. No. 110-315.

[4] Pub. L. No. 96-88.

[5] Pub. L. No. 105-244.

[6] 20 U.S.C. § 1082(a)(6); 34 C.F.R. § 682.211; 34 C.F.R. § 685.205.

[7] 20 U.S.C. § 1087dd(e).

[8] 34 C.F.R. § 682.211(h); 34 C.F.R. § 685.205(a).

[9] 34 CFR 682.211(i); 34 C.F.R. § 685.205(b).

[10] 34 C.F.R. § 682.211(f)(11); 34 C.F.R. § 685.205(b)(9).

[11] 20 U.S.C. § 1085(l); 20 U.S.C. § 1080a; 20 U.S.C. § 1095a; 34 C.F.R. § 682.200(b); 34 C.F.R. § 685.102(b).

[12] 20 U.S.C. § 1087e(d).

[13] 20 U.S.C. § 1078(b)(9)(A)(i); 20 U.S.C. § 1078-3(c)(2); 20 U.S.C. § 1087e(e)(7).

[14] 20 U.S.C. 1083(b)(6).

[15] 20 U.S.C. § 1098e.

[16] 20 U.S.C. § 1098e.

[17] Pub. L. No. 117-2.

[18] 88 FR 43820.

[19] 34 C.F.R. § 685.209.

[20] 20 U.S.C. § 1098e.

[21] 20 U.S.C. 1087e(d)-(e).

[22] 90 FR 3695.

[23] 34 CFR § 685.219; 20 U.S.C. § 1087e(m).

This material is supported by Grant Number 90ET0505-02 from the ACF Office of Community Services, Community Services Block Grant within the Administration for Children and Families, a division of the U.S. Department of Health and Human Services. Neither the Administration for Children and Families nor any of its components operate, control, are responsible for, or necessarily endorse this material (including, without limitation, its content and any services or tools provided). The opinions, findings, conclusions, and recommendations expressed are those of the author(s) and do not necessarily reflect the views of the Administration for Children and Families and the ACF Office of Community Services, Community Services Block Grant.