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The Repayment Assistance Plan (RAP) in P.L. 119-21, the FY2025 Reconciliation Law

The William D. Ford Federal Direct Loan (Direct Loan) program is the single largest source of federal financial assistance to support students' postsecondary education. When entering into repayment of their Direct Loans, borrowers may choose from various loan repayment plan options, including income-driven repayment (IDR) plans. P.L. 119-21, the FY2025 budget reconciliation law, amends the Higher Education Act (HEA) to change future availability of IDR plans. This includes making available a new IDR plan, the Repayment Assistance Plan (RAP), on July 1, 2026, for borrowers with eligible Direct Loans.

Existing Income Driven Repayment Plans

Existing IDR plans allow borrowers to make monthly payments based on a percentage (5% to 20%) of their discretionary income for a specified duration. "Discretionary income" is defined as the portion of a borrower's adjusted gross income (AGI) that exceeds a specified multiple (100% to 225%) of the federal poverty level (FPL) applicable to the borrower's family size. As such, the minimum monthly payment amount under existing IDR plans is $0.

If a borrower, after making payments according to an IDR plan for a maximum repayment period (10 to 25 years), has not fully repaid their outstanding loan balance, any remaining outstanding principal and interest is forgiven.

Additionally, all IDR plans permit negative amortization, or periods in which monthly payments may be less than the interest that accrues each month. During periods of negative amortization, the borrower may accumulate a balance of unpaid interest that must be paid down before the borrower can repay any loan principal. In certain circumstances, an interest subsidy may be provided for any interest that remains unpaid after the borrower's monthly payment is applied. That is, the remaining unpaid monthly accrued interest is not charged to the borrower.

Currently, there are five IDR plans: the original Income-Based Repayment (IBR) plan; the IBR plan for new borrowers on or after July 1, 2014 (New IBR); the Income-Contingent Repayment (ICR) plan; the Pay As You Earn plan; and the Saving on a Valuable Education (SAVE) plan.

Subsidized, Unsubsidized, Graduate PLUS, and Consolidation Loans are eligible to be repaid according to an IDR plan. Parent borrowers of PLUS Loans on behalf of a dependent child are not eligible to repay such loans according to an IDR plan. However, if a borrower consolidates a Parent PLUS Loan into a Direct Consolidation Loan, they may then repay such loan according to the ICR plan. Additionally, due to a prior administrative issue with the processing of Consolidation Loans, borrowers were able to consolidate their Parent PLUS Loan into a Consolidation Loan and then consolidate that loan again to access other IDR plans for which they would not otherwise be eligible. This has been referred to as the "Double Consolidation Loophole," which the U.S. Department of Education ended on July 1, 2025.

Repayment Assistance Plan (RAP)

P.L. 119-21 amends the HEA to authorize a new IDR plan that will become available to any borrower with eligible Direct Loans on July 1, 2026.

Plan Features

Table 1 presents a comparison of selected plan features among existing IDR plans and the RAP.

Although the RAP shares some characteristics with existing IDR plans (e.g., monthly payments are based on a percentage of a borrower's AGI and outstanding loan balances are forgiven after making payments for a maximum repayment period), it includes features that differ to varying extents from existing IDR plans, such as the following:

- **Income basis.** Monthly payment amounts are based on a borrower's total AGI instead of discretionary income.
- **Percentage of income basis used in monthly payment calculation.** The percentage of a borrower's AGI used for the monthly payment calculation follows a sliding scale based on AGI and ranges from 1% to 10% for AGIs of greater than $10,000, with the applicable percentage increasing by one percentage point for each increment of $10,000 in AGI. For AGIs of $10,000 or less, the monthly payment is $10.
- **Dependent-based reductions in monthly payment.** For each dependent, the borrower's monthly payment is reduced by $50, except that the monthly payment can be no less than $10.
- **Maximum repayment period.** The maximum repayment period is 360 monthly payments (30 years), after which any remaining outstanding balance of principal and interest is forgiven.
- **Interest subsidy for monthly unpaid interest.** Monthly accrued interest that remains unpaid after the monthly payment is applied is not charged to the borrower for loans in negative amortization.

- **Matching principal payment.** The RAP provides a matching principal payment for a borrower who repays less than $50 in total monthly principal. This reduction in principal is equal to the lesser of (1) $50 or (2) the total monthly payment, minus the total monthly principal repaid by the borrower.

Table 1. Selected Plan Features of Existing IDR Plans and the RAP

IDR Plan Feature	Existing IDR Plans	RAP
Eligible loans	Subsidized, Unsubsidized, Grad PLUS, and Consolidation Loans (Consolidated Parent PLUS Loans may be eligible for some plans)	Subsidized, Unsubsidized, Grad PLUS, and Consolidation Loans (excluding excepted Consolidation Loans)[a]
Income basis for monthly payment	Discretionary income (AGI above 150% to 225% of FPL)	AGI
Percentage of income basis used for monthly payment calculation	5% to 20%	1% to 10% for AGIs above $10,000;[b] for AGIs of $10,000 or less, monthly payment is $10
Minimum monthly payment	$0	$10
Dependent-based reductions in monthly payment	None	$50 per dependent
Maximum repayment period	10 to 25 years	30 years
Interest subsidy	Varies[c]	All loans in negative amortization
Matching principal payment	None	For borrowers who repay less than $50 in monthly principal, it is equal to the lesser of $50 or monthly payment, minus monthly principal repaid

Source: 34 C.F.R. §685.209 and P.L. 119-21.

Notes: Enumerated features may not apply to all existing IDR plans or may apply in varying degrees. FPL = federal poverty level.

a. Excepted Consolidation Loans are Consolidation Loans that include a Parent PLUS Loan.

b. The applicable percentage increases by one percentage point for each increment of $10,000 in AGI. For AGIs above $100,000, the applicable percentage is capped at 10%.

c. Under most of the existing IDR plans, the interest subsidy is only available for Subsidized Loans for the first three years of repayment. Under SAVE, the interest subsidy is available for all loan types during any period of negative amortization.

Plan Eligibility

Subsidized, Unsubsidized, Graduate PLUS, and Consolidation Loans are eligible to be repaid according to the RAP. Parent PLUS Loans and "excepted Consolidation Loans" (Consolidation Loans that include a Parent PLUS Loan) are not eligible for the RAP.

Although the RAP will be one of the IDR plans available to borrowers of existing Direct Loans (made before July 1, 2026), the RAP will be the only IDR plan available to borrowers of new Direct Loans (made on or after July 1, 2026).

Implications of the RAP

For most borrowers, the RAP may not necessarily result in substantial changes to monthly payment amounts or differences in borrower repayment outcomes. Some borrowers, particularly those with low debt-to-income ratios, may pay off their loans in fewer months, and as a result, pay less out of pocket over the course of repayment under the RAP relative to some of the other IDR plans. This is due, in part, to the availability of a more generous interest subsidy and a matching principal payment. In contrast, borrowers with substantially high debt-to-income ratios, such as professional degree borrowers, who would be more likely to reach the maximum repayment period under all IDR plans may end up paying more out of pocket over the lifetime of their loans under the RAP than under the other plans. This is largely due to a longer maximum repayment period under the RAP. Additionally, borrowers who have a very low income over the course of repayment may also pay more out of pocket under the RAP during repayment relative to the other plans because the income protection embedded in the existing IDR plans could enable a borrower to make $0 monthly payments for some period of time.

For borrowers with existing loans who take out new loans on or after July 1, 2026, the RAP will be the only IDR plan available for repaying all of their Direct Loans, regardless of when they were borrowed. In such a case, the borrower will lose any IDR plan benefits previously applicable to their existing loans and become subject to new repayment plan terms and conditions. For example, if a borrower had existing loans enrolled in New IBR with a 20-year maximum repayment period and took out a new loan on or after July 1, 2026, then the RAP will be the only IDR plan available for repaying all of their loans, with a 30-year maximum repayment period.

The Congressional Budget Office estimates that the totality of changes to student loan repayment in P.L. 119-21 will result in a decrease of $270.5 billion in federal outlays over the FY2025-FY2034 period. These savings stem from a number of reasons, including the estimated likelihood that borrowers would repay more of their loans under the RAP relative to current IDR plans.

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