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Direct Loan Program: Student Loan Repayment Plans

When an individual borrows from the Direct Loan program, they assume a contractual obligation to repay that debt over a period of time that may span a decade or more. While borrowers are required to make payments on a monthly basis, they may currently choose from among a number of loan repayment plans to repay their loans.

This In Focus provides a brief overview of the loan repayment plans available to borrowers of loans made by the U.S. Department of Education (ED) under the Direct Loan program. For a comprehensive description of loan repayment plans, see CRS Report R45931, *Federal Student Loans Made Through the William D. Ford Federal Direct Loan Program: Terms and Conditions for Borrowers*.

Repayment Plan Categories

Borrowers may currently choose from among numerous options to repay their loans. The available repayment plans fall into three broad categories: fixed repayment plans, income-driven repayment (IDR) plans, and alternative repayment plans.

Fixed repayment plans require monthly payments amortized over a specified period of time (from 10 to 30 years) based on the borrower's loan principal amount and interest rate. Monthly payments are structured so that a borrower repays their loan, plus interest, in full over the specified period of time. There are three types of fixed repayment plans: standard, extended, and graduated plans.

IDR plans require monthly payments based on a borrower's income. There are two types of IDR plans: income-contingent repayment (ICR) plans and income-based repayment (IBR) plans. The ICR plans comprise the Income-Contingent Repayment plan, the Pay As You Earn (PAYE) plan, and the Saving on a Valuable Education (SAVE) plan; however, ED is not currently implementing the SAVE plan as it is the subject of litigation. The IBR plans comprise the Original Income-Based Repayment plan (Original IBR) and the IBR plan for Post-July 1, 2014, New Borrowers (New IBR).

The alternative repayment plans are available in more limited situations to borrowers who demonstrate that the terms of the other repayment plans "are not adequate to accommodate the borrower's exceptional circumstances."

Repayment Plan Eligibility and Availability

The particular repayment plans available to any individual borrower may depend on factors such as 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 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.

In general, borrowers may change from one plan to another plan for which they are eligible at any time. However, a borrower may switch to a non-IDR plan only if doing so would not result in the borrower having a remaining repayment period of fewer than zero months. Additionally, regulations limit future enrollment in certain IDR plans.

Income Driven Repayment Plans

Since its establishment, the Direct Loan program has included a requirement that ED make an IDR plan available to borrowers (other than to parent borrowers of Direct PLUS Loans). Sections 455(d)(1)(D) and 455(e) of the Higher Education Act (HEA) require ED to offer borrowers an ICR plan. Section 493C of HEA authorizes the IBR plans, in which the terms of the plans are specified in greater detail than in the ICR plan authorization.

Regardless of the underlying statutory authorization, all IDR plans authorized prior to P.L. 119-21, the FY2025 budget reconciliation law (hereinafter, *pre-P.L. 119-21 IDR plans*), share some common features:

- **Income basis.** Plans base monthly payments on a borrower's *discretionary income*, which is defined as the portion of a borrower's adjusted gross income (AGI) that exceeds a specified multiple of the federal poverty level (FPL) applicable to the borrower's family size. The specific multiple of the FPL ranges from 100% to 225%, depending on the plan.
- **Percentage of income basis used for monthly payment calculation.** Under these plans, the monthly payment is equal to one-twelfth of 5% to 20% of discretionary income, depending on the plan.
- **Maximum repayment period.** A borrower is required to repay their loan for no longer than a specified maximum repayment period. After repaying under an IDR plan for the maximum repayment period, any remaining outstanding balance of principal and interest is forgiven by the federal government, and the borrower's loan is retired.

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.

Table 1 provides a comparison of common features among pre-P.L. 119-21 IDR plans.

Table 1. Pre-P.L. 119-21 IDR Plans: Selected Features

Plan Feature	ICR	PAYE	SAVE	Original IBR	New IBR
Income basis	AGI above 100% of FPL	AGI above 150% of FPL	AGI above 225% of FPL	AGI above 150% of FPL	AGI above 150% of FPL
Percentage of income basis used for monthly payment	20%	10%	5% to 10% ^a	15%	10%
Maximum repayment period	25 years	20 years	10 to 25 years ^b	25 years	20 years

Source: 34 C.F.R. §685.209.

Notes: ICR = income-contingent repayment, PAYE = Pay As You Earn, SAVE = Saving on a Valuable Education, IBR = income-based repayment, AGI = adjusted gross income, FPL = federal poverty level.

- Percentage used depends on the borrower's loan composition (i.e., loans borrowed for undergraduate versus graduate/professional education).
- Maximum repayment period depends on borrower's loan composition and loan balance.

Changes to Student Loan Repayment Plans in P.L. 119-21, the FY2025 Budget Reconciliation Law

P.L. 119-21 amends the HEA to change the availability of loan repayment plans for Direct Loan borrowers, including authorization of two new loan repayment plans for certain borrowers and elimination of some currently available repayment plans for other borrowers. Loan repayment plan availability varies based on the date an individual borrows a Direct Loan.

Borrowers who take out new loans on or after July 1, 2026, will have only two repayment plans available to them: the newly authorized tiered standard plan and newly authorized IDR plan called the Repayment Assistance Plan (RAP). Their repayment plan selection is to apply to all of their loans, including existing loans borrowed before July 1, 2026.

For borrowers who have outstanding loans and who do not borrow any new loans on or after July 1, 2026, plan availability will largely remain the same as under the current framework through June 30, 2028, except that the RAP is to become available starting on July 1, 2026. On July 1, 2028, ICR plans are no longer to be an option for

such borrowers. Borrowers enrolled in ICR plans will be required to switch to other available plans by July 1, 2028.

Selected Issues

A number of policy issues and considerations regarding loan repayment plans may garner congressional interest.

Borrower Confusion over Plan Availability and Enrollment

Prior to P.L. 119-21, the number of plans available to borrowers grew through congressional acts and executive actions. There are currently as many as nine different plans from which borrowers may choose. Borrowers may not be aware of them all or which one best meets their needs. Currently, when a borrower enters into repayment, they are automatically enrolled into the standard plan with a 10-year repayment term, unless they select a different plan. Some stakeholders assert that these conditions contribute to low IDR plan take-up by borrowers who struggle the most to repay their loans. While P.L. 119-21 reduced the number of plans available to new borrowers as a way to simplify borrower options, RAP will be the only IDR plan available to new borrowers, and it is considerably different from existing IDR plans. For example, monthly payments under RAP are equal to one-twelfth of 1% to 10% of total AGI as opposed to 5% to 20% of discretionary income. This new IDR plan structure may contribute to increasing confusion in the short term. Confusion over changes in plan structure and availability may also imply challenges for loan servicer implementation based on past servicer performance related to IDR plans. For example, issues of miscalculated payments and other servicer errors when carrying out IDR plans have been reported.

IDR Plan Targeting

All but one of the pre-P.L. 119-21 IDR plans are available to any borrower regardless of their income. Research suggests that borrowers with large loan balances, such as individuals who borrowed for a graduate or professional degree, are more likely to enroll in IDR plans. However, these individuals are also more likely to have greater lifetime earnings than undergraduate borrowers. Some data suggest that these borrowers receive a larger share of the subsidies or benefits available under IDR plans, such as loan forgiveness, relative to undergraduate borrowers, regardless of their lifetime earnings. This means that the federal government and taxpayers are bearing the costs of benefits that go to potentially higher-income individuals.

Federal Costs of Loan Repayment Plans

The Congressional Budget Office had projected that among federal loans disbursed between 2020 and 2029, loans enrolled in pre-P.L. 119-21 IDR plans will result in a government subsidy of \$82.9 billion relative to the negative subsidy of \$72.2 billion generated by loans enrolled in fixed repayment plans, thereby resulting in a net increase in the federal deficit (\$10.7 billion). Many factors could be contributing to IDR plans' higher costs. For example, part of the higher costs may be due to the fact that borrowers enrolled in IDR plans tend to have larger balances. They also tend to repay their loans at a slower rate, which means that they are more likely to see some or all of their outstanding balance forgiven.

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