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IN FOCUS

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Direct Loan Program Student Loans: Terms and Conditions

The William D. Ford Federal Direct Loan (Direct Loan) program is the largest source of federal financial aid supporting students' postsecondary educational pursuits. As of March 31, 2026, $1.6 trillion in Direct Loans, borrowed by or on behalf of 38.5 million individuals, were outstanding. When borrowing a loan, a borrower assumes a contractual obligation to repay the debt.

Under the program, the government makes loans to individuals using federal capital. The loans are an asset of the federal government, and the government assumes the risk of losses that may occur as a result of borrower default or loan discharge or forgiveness. The Department of Education's (ED's) Office of Federal Student Aid (FSA) is the primary entity tasked with administering the program. Working with FSA, institutions of higher education originate loans to borrowers, and federal contractors service and collect on Direct Loans.

This In Focus provides a brief overview of the terms and conditions of Direct Loans and reflects changes to the program made by P.L. 119-21. For a comprehensive description, see CRS Report R45931, *Federal Student Loans Made Through the William D. Ford Federal Direct Loan Program: Terms and Conditions for Borrowers*.

Direct Loan Types

Four types of Direct Loans are available. *Direct Subsidized Loans* are available only to undergraduate students with financial need. *Direct Unsubsidized Loans* are available to undergraduate, graduate, and professional students. *Direct PLUS Loans* are available to parents of dependent undergraduate students. (P.L. 119-21 generally eliminated PLUS Loans to graduate and professional students effective July 1, 2026.) *Direct Consolidation Loans* allow individuals who have at least one qualifying federal student loan to borrow a new loan and use the proceeds to pay off their existing federal student loans. The latter three loan types are available to borrowers regardless of financial need.

Eligibility and Borrowing Limits

Direct Loan eligibility varies by loan type, borrower characteristics (e.g., dependency status, financial need), program level (undergraduate, graduate, or professional), and class level (e.g., 1st year, 2nd year). The amount an individual may borrow is subject to annual and aggregate loan limits (**Table 1**) and lifetime maximum aggregate limits, as well as federal need analysis and packaging procedures. In general, loans are available regardless of a borrower's ability to repay. Eligibility to borrow a Direct PLUS Loan depends on an individual's creditworthiness.

Table 1. Annual and Aggregate Loan Limits by Borrower Type and Program Level

Borrower Type and Program Level[a]	Annual Limit	Aggregate Limit
Undergraduate Students		
Total Subsidized and Unsubsidized Loans—Dependent Students[b]		
1st year	$5,500	
2nd year	$6,500	$31,000
3rd year and above	$7,500	
Total Subsidized and Unsubsidized Loans—Independent Students[b]		
1st year	$9,500	
2nd year	$10,500	$57,500
3rd year and above	$12,500	
Graduate Students		
Unsubsidized Loans	$20,500	$100,000
Professional Students		
Unsubsidized Loans	$50,000	$200,000
Parents of Dependent Undergraduate Students		
PLUS Loans, in general[c]	$20,000	$65,000[d]

Sources: HEA §§428, 428H, 451, and 455; 34 C.F.R. §685.203.

a. Table depicts general borrowing limits for undergraduate, graduate, and professional education. Different annual and aggregate loan limits may apply to specific educational programs, (e.g., preparatory coursework for an undergraduate program), to individuals based on their borrowing history (e.g., if they previously borrowed for graduate education), and to individuals who, as of June 30, 2026, were enrolled in a program of study for which they received a Direct Loan (or on whose behalf a Parent PLUS Loan was borrowed).

b. Annual and aggregate limits displayed apply to the combined amount of Direct Subsidized and Unsubsidized Loans that may be borrowed. Separate annual and aggregate limits (not displayed) apply to Direct Subsidized Loans only. For example, aggregate borrowing limits for Direct Subsidized Loans equal $23,000.

c. Reflects total amount of Parent PLUS Loans that may be borrowed on behalf of each dependent undergraduate student.

d. Aggregate amount that may be borrowed, regardless of amounts repaid, forgiven, or discharged.

The lifetime maximum aggregate limit—which caps the amount an individual may borrow, regardless of amounts of loan principal that is paid down, discharged, or forgiven—is $257,500 for student borrowers.

Interest

Interest is charged on Direct Loans. All loans currently being made through the program have fixed interest rates that remain constant from loan disbursement until it is paid in full. Generally, for new loans made in each award year, the applicable interest rate (**Table 2**) is (1) the bond equivalent rate of the 10-year U.S. Treasury notes auctioned at the final auction preceding June 1, plus (2) an add-on rate, which varies by loan type and program level for which the loan was borrowed. Interest rate caps apply. For Direct Consolidation Loans, interest rates equal the weighted average of the interest rates in effect on the loans being consolidated, rounded to the nearest highest one-eighth of 1%. Interest subsidies are largely limited to Direct Subsidized Loans; however, subsidies may be available for all loan types in certain cases.

Table 2. Interest Rates on Direct Loans Made July 1, 2026, through June 30, 2027

Borrower Type	Subsidized Loan	Unsubsidized Loan	PLUS Loan
Undergraduate students	6.52%	6.52%	n.a.
Graduate & professional students	n.a.	8.07%	9.07%
Parents of dependent undergraduate students	n.a.	n.a.	9.07%

Source: U.S. Department of Education, Office of Federal Student Aid, "(General-26-33) Interest Rates for Federal Direct Loans First Disbursed Between July 1, 2026 and June 30, 2027," June 4, 2026.

Note: n.a. = not applicable.

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. Origination fees are calculated as a proportion of the loan principal borrowed and are deducted from the loan proceeds before it is disbursed to a borrower. The HEA specifies a loan origination fee of 1% for Direct Subsidized and Unsubsidized Loans and of 4% for Direct PLUS Loans. Budget sequestration orders that apply to direct (mandatory) spending require the origination fee to be increased in a given fiscal year.

Loan Repayment Plans

Borrowers may choose from among multiple options to repay their Direct Loans. Fixed repayment plans require monthly payments over a prescribed repayment period (10-30 years), based on the borrower's loan principal amount and interest rate. Monthly payments are structured to cover the interest that accrues and allow a borrower to pay off their loan balance over the prescribed repayment period.

Income driven repayment (IDR) plans require monthly payments based on a specified percentage (e.g., 10%) of a borrower's income basis. Under these plans, monthly payments may be less than the interest that accrues and, under some, may be as low as $0. Any remaining loan balances after a maximum repayment period of 20-30 years are forgiven.

Alternative repayment plans are available on a case-by-case basis in situations in which borrowers demonstrate that the terms of the other repayment plans "are not adequate to accommodate [their] exceptional circumstances."

Plan availability, in part, depends on the date an individual borrows a Direct Loan. One set of plans (comprising a fixed repayment and an IDR plan) is available to borrowers of new loans on or after July 1, 2026; another set (comprising multiple fixed repayment, IDR, and alternative repayment plans) is available to individuals who borrowed loans before July 1, 2026, and who do not borrow a new loan.

Deferment and Forbearance

Deferment is a temporary period during which a borrower's obligation to make regular monthly payments on their loan is suspended and during which an interest subsidy may be provided. Deferments are available for a variety of reasons, such as when a student is pursing postsecondary education.

Forbearance is a temporary period during which a borrower may cease making monthly payments, make payments in reduced amounts, or make payments over an extended period. Typically, an interest subsidy is unavailable during forbearance. Forbearance is available for several reasons, such as when a borrower experiences temporary hardship.

Loan Discharge and Loan Forgiveness

ED may discharge a borrower's obligation to repay all or a portion of their loans on the basis of borrower adversity (e.g., total and permanent disability, bankruptcy). ED may forgive all or part of a borrower's loans following an extended period of repayment according to an IDR plan or completion of a period of public service.

Loan Default

A Direct Loan is in default if the borrower fails to make payments when due or otherwise fails to adhere to the loan's terms for 270 days. On default, the loan balance becomes due in full and the borrower loses eligibility for many borrower benefits (e.g., deferment, forgiveness) and access to other forms of federal student aid. The government uses numerous means to collect defaulted student loan debt such as administrative wage garnishment and offset of federal income tax returns and Social Security benefits. A borrower may bring a defaulted loan back into good standing through several options.

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