



Student Loans: Late Payment Trends, Servicing Practices, and Credit Reporting Issues

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Introduction

A federal student loan made under Title IV of the Higher Education Act of 1965 (P.L. 89-329), as amended, is considered *delinquent* the first day after a borrower fails to make a scheduled payment. The Department of Education (ED), through its contracted loan servicers, *reports delinquencies to the nationwide, private consumer reporting agencies* (CRAs; i.e., Equifax, Experian, TransUnion, Innovis) after 90 days or more of delinquency. Generally, a loan is in *default* after 270 days of a missed scheduled payment, which is reported to CRAs.

Since 2020, the portfolio of ED-held federal student loans (ED-held loans) has experienced unusual fluctuations in delinquency and default trends. This In Focus highlights these trends and how various loan-servicing-related issues may have affected these patterns and borrower credit scores. For purposes of this In Focus, *loan servicing* refers to daily management of a loan. The tasks associated with loan servicing are typically performed by ED-contracted servicers. Their duties include issuing billing statements, collecting regular payments, administering forbearances and alternative repayment plans for past-due borrowers, and reporting loan status to CRAs.

Delinquency and Default Trends

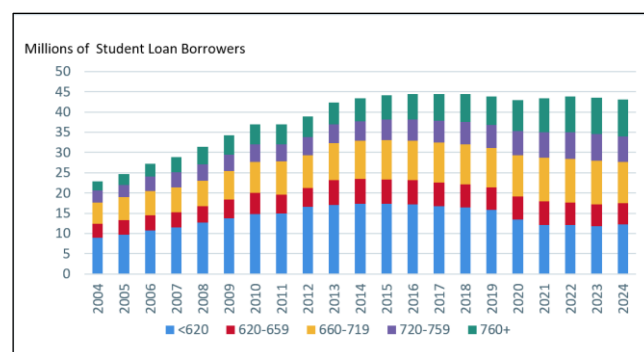
Borrowers of ED-held loans were afforded up to two periods of loan repayment relief in response to and following the COVID-19 pandemic. First, a series of *congressional- and Administration-authorized forbearances* suspended borrowers' monthly payment obligations between March 2020 and August 2023 (the *payment pause*). Second, after P.L. 118-5 ended the payment pause, ED instituted an *on-ramp* policy, from September 2023 through September 2024. Under this policy, monthly student loan payments were due, but ED placed borrowers more than 90 days delinquent in a *retroactive administrative forbearance*. This placed a loan's status to "current repayment" (i.e., not delinquent) and delayed certain consequences of loan delinquency, such as negative credit reporting, until January 2025.

In light of these policies, notable shifts in delinquency rate patterns of ED-held loans began in March 2020. Similar *shifts in default rates* occurred several months later at a more gradual pace, as both policies effectively prevented loans from entering delinquency or default. (Loans in default prior to the policies' implementation remained in default during the policies' effective dates unless a borrower took steps to resolve the default). In the pre-pandemic period from FY2017 Q1 to FY2020 Q1, between 6% and 8% of loans were 31-270 days delinquent. This rate declined to 0% in FY2020 Q3, the first full quarter in which the payment pause was in effect. The

delinquency rate remained at 0% through FY2023 Q4, reflecting the impact of the pandemic-era forbearance policies.

Figure 1 shows that the share of borrowers with better credit scores (teal & purple) generally grew relative to those with weaker credit scores (red & blue) a bit more beginning in 2020. However, these data may not fully reflect a borrower's actual creditworthiness, as they overlap with the COVID-19 student loan forbearance and on-ramp policies.

Figure 1. Student Loan Borrowers by Credit Score
2004-2024



Source: Federal Reserve Bank of New York, *2025 Student Loan Update* (direct download).

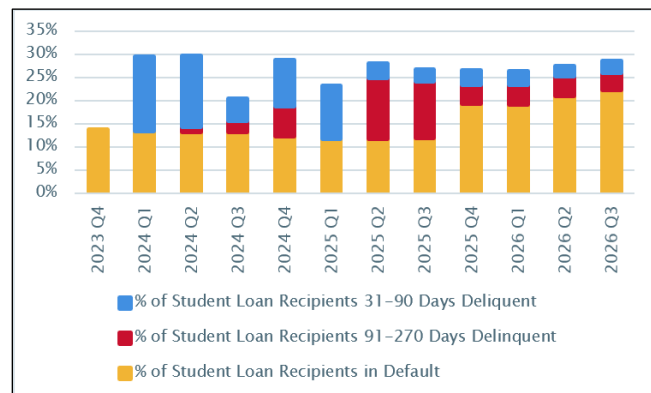
Note: Includes borrowers of non-ED-held student loans.

Additionally, the *Federal Reserve Bank of Boston* found that for borrowers with ED-held loans affected by the payment pause, their credit scores increased to a greater extent than did scores of individuals without student loans. Their analysis suggests that a loan servicing practice—*forbearance*—rather than a borrower's ability to repay their debt influenced the rise in credit scores.

Following the static student loan delinquency and default rates of the pandemic era, loan portfolio volatility rose along with the adoption of new federal policies. **Figure 2** shows rising delinquencies that are transitioning into defaults over the FY2023 Q4 to FY2026 Q3 period. The rate of recipients with ED-held loans who were 31-270 days delinquent increased from 0% in FY2023 Q4 to 16% the following quarter. Borrowers who exited retroactive administrative forbearance in FY2025 Q1 without curing their delinquency or newly became 31-90 days delinquent transitioned to being 91-270 days delinquent in FY2025 Q2. The default rate remained relatively steady until increasing from 12% (5.3 million recipients) in FY2025 Q3 to 19% (8.8 million recipients) by the next quarter. Over the same period, the share of recipients with loans that were 91-270 days delinquent decreased from 12% (5.5 million) to 4% (1.9 million), likely representing a substantial portion of delinquent borrowers transitioning into default status.

Figure 2. ED-Held Loans: Delinquency, Default Rates

FY2023 Q4 to FY2026 Q3



Source: CRS analysis; U.S. Department of Education, Federal Student Aid Data Center, “[Federal Student Loan Portfolio](#).”

Loan Servicing and Repayment Topics

Various factors contributed to the rising delinquency and defaults on ED-held loans beginning in FY2024 Q1. This discussion focuses on factors related to loan servicing, an issue raised by some current news and research. Economic factors (e.g., [college costs](#), general affordability issues) or [borrower educational experiences](#) are not discussed.

Extended Forbearance Policies

The FY2025 Q4 increase in defaults (sometimes referred to as a “[default cliff](#)”) has been linked to congressional and Administration forbearance policies established in response to and following the COVID-19 pandemic. After the payment pause and on-ramp policies ended, many borrowers may have become [disconnected from their loan servicers](#) and fallen out of the practice of making monthly loan payments. [ED has also noted](#) the higher risk of delinquency or default following prolonged periods of forbearance.

[Observers](#) hypothesize that other forbearance policies may generate more loan defaults. Since July 2024, ED placed millions of borrowers enrolled in the [Saving on a Valuable Education \(SAVE\) repayment plan](#) in forbearance in response to litigation challenging ED’s authority to establish the plan. After a federal court [vacated the SAVE plan](#), borrowers must [enroll in a different repayment plan](#) or be placed in a standard repayment plan. As with previous forbearances, observers argue that prolonged periods without borrowers making payments may increase the likelihood that they become delinquent or default. Furthermore, [research indicates](#) that borrowers in income-driven repayment (IDR) plans, which base monthly payments on income (e.g., the SAVE plan), have lower default rates relative to those in standard repayment plans. Thus, placing SAVE plan enrollees who fail to select an IDR plan into a standard repayment plan raises concerns about potential future defaults.

Loan Servicing Issues

[Historical](#) and [seemingly ongoing issues](#) encountered in the loan administration environment may impact a borrower’s ability to

successfully repay their loans, which may lead to negative impacts on their credit history. For example, in 2024, the [Consumer Financial Protection Bureau reported](#) that “loan servicers routinely made basic payment processing errors,” including misreporting payment amounts. Findings show that [borrowers have received conflicting, confusing, or inaccurate information](#) from their loan servicers, contributing to some inadvertent or mistaken delinquencies appearing on borrower credit reports.

ED directed the transfer of servicing rights among student loan servicers in 2023, which may have contributed to [nearly 2 million credit reporting errors](#). CRAs allegedly were not informed of the transfer, which could have affected credit profiles. For example, a single debt might appear as [two duplicate loans](#), portraying borrowers as carrying higher debt amounts. If a loan appears closed and a “new loan” opened, then borrowers’ credit histories may be incorrectly shortened. Some borrowers’ on-time credit histories may not properly carry forward during transfer.

Finally, implementation of [2025 statutory changes](#) made to the federal student loan programs (e.g., the repeal of some existing and the authorization of new loan repayment plans) may further complicate loan administration.

Negative Credit Reporting Issues

ED servicers may report both favorable and negative (late) payment history to the private CRAs. [Student loan delinquencies can reduce credit scores by more than 150 points](#), limiting borrowers’ future credit access. Similarly, negative payment information reported to the Credit Alert Verification Reporting System (CAIVRS), a federal database managed by the U.S. Department of Housing and Urban Development, can also limit credit access for some borrowers. CAIVRS is used to screen applicants and track delinquencies and defaults for loans that were made or insured by federal agencies such as [the Federal Housing Administration, the Department of Veterans Affairs, the Small Business Administration, and ED](#). Unlike private CRAs, CAIVRS includes only information about federally made or insured loans that are 90 days or more past due—or have defaulted. Only authorized loan originators and federal agencies, and not private CRAs, can access CAIVRS. A federal agency, for example, may report negative information to CAIVRS without notifying private CRAs, causing an individual to appear creditworthy based solely on a private credit inquiry. (Conversely, someone with past-due loans that have no federal guarantee will not appear in CAIVRS.) Notably, individuals must rely on approved lenders to view their CAIVRS status. Thus, if a borrower’s loan status is reported to CAIVRS by ED servicers without the borrower’s knowledge, they may discover the reporting to CAIVRS while applying for a federally guaranteed mortgage or small business loan. Consequently, after resolving issues with ED, some borrowers may still need to dispute inaccurate information.

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