A Sea of Changes in Student Debt Market To Ramp Up Pressure on Borrowers

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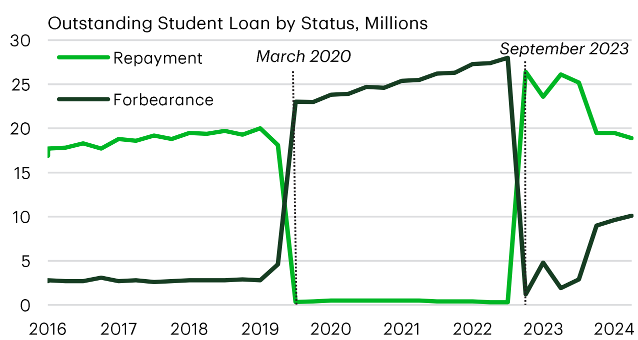
Highlights

- Student loans have been gradually returning to business as usual after prolonged pandemic relief programs. Most recently, credit reporting and unpaid debt collections have resumed, leading to a jump in delinquencies, and an increase in defaults on the horizon.
- In the near term, many borrowers may face reduced credit access and struggle to repay other debts, potentially dampening consumer spending and loan originations.
- In addition, the One Big Beautiful Bill Act (OBBBA) has introduced sweeping reforms to the student debt market over the next few years, restricting access to federal loans and revamping debt repayment programs.
- Impacts from the OBBBA reforms will unfold more gradually, due to lengthy implementation timelines. Higher monthly payments on student loans will make post-secondary education less accessible, and could impact demand for other types of borrowing down the road, such as purchasing a home or vehicle. Reduced federal support for graduate education could drive greater demand for private student loans.

Given the flood of major economic and political developments in the U.S. so far this year, the significant shifts happening in the student debt market haven't received much attention. But the market is experiencing several notable changes with potentially broader knock-on effects. The latest normalization from pandemic-era relief measures is that past-due payments are now being reported to credit bureaus, and collections on defaulted loans have resumed (Exhibit 1, page 6). This marks a major shift for a market—and its 45 million borrowers—that has effectively been on hold for nearly five years. This introduces renewed financial strain on some borrowers, which could have serious consequences for credit scores and may impair borrowers' ability to stay current on other types of credit. These dynamics raise concerns about broader impacts on consumer spending and the economy at large.

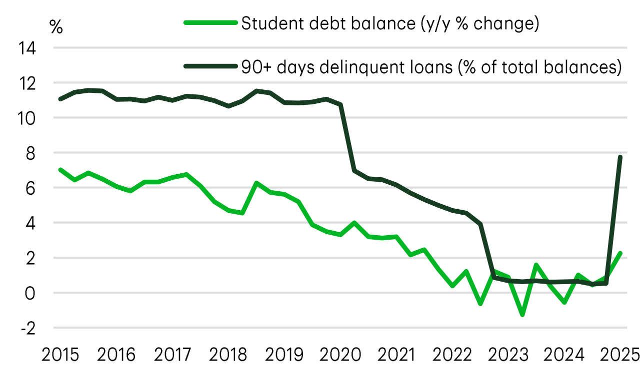
Chart 1: Student Loans Repayments Restart After a Long Pause



Source: Department of Education, TD Economics.

The second change came in the recent One Big Beautiful Bill Act (OBBBA), which enacted one of the most consequential reforms to the student loan programs in decades. These changes affect the repayment plans available to borrowers, federal borrowing limits for students, and the mechanics of loan deferment.

Chart 2: Student Debt Growth Resumes, Delinquencies Begin To Normalize



Source: NY Fed, TD Economics.

The full implications are still unfolding. Millions of current borrowers will need to transition to new repayment plans, likely with higher monthly payments. At the same time, prospective borrowers face a narrower range of financing options. Some programs, such as the Graduate PLUS loan, have been eliminated. Others have seen borrowing caps imposed or eligibility criteria tightened, including the Parent PLUS program.

A Long Transition from the Pandemic Pause

Federal student loan payments were first paused at the onset of the COVID-19 pandemic and remained suspended until October 2023 (Exhibit 1, page 6). During that time, interest accrual and debt collections were also paused. The Biden administration also forgave more than $183 billion in student debt – about 11.5% of the total – benefiting over 5 million borrowers[1] (Chart 1).

As a result of these measures, delinquency rates plummeted, and total student debt balances remained mostly flat (Chart 2). Student loans now represent a smaller share of household debt, declining from 11% before the pandemic to 9% as of Q1 2025. Still, government-issued student debt remains substantial: at $1.63 trillion, exceeding credit card debt and nearly equal to total auto loans.

Interest began accruing again in September 2023, and required payments resumed the following month (Chart 1). To ease the transition, borrowers were given a one-year "on-ramp" period during which missed payments were not reported to credit bureaus. That grace period ended in October 2024, and delinquency data began appearing on credit reports starting in Q1 2025.

On May 5th, the Department of Education resumed involuntary collections on loans in default. This means borrowers may now face wage garnishments, as well as offsets of tax refunds and Social Security benefits. As of Q2 2024, overall student debt has resumed growing, and delinquency rates have surged—from 0.5% to nearly 8% once credit reporting restarted (Chart 2).

Lastly, on August 1st, interest will begin to accrue on nearly 8 million SAVE plan loans. These borrowers have so far been in administrative forbearance and were not required to make payments and interest did not accrue. On top of restarting their payments, these borrowers will also need to transition to an alternative repayment plan[2].

How Many Borrowers Are at Risk of Default?

Of the current $1.63 trillion in student debt, over 96% is federally managed and spread across 45 million borrowers. The status of these loans is detailed in Table 1. Not all are currently required to make payments. Some borrowers are exempt because they were either still enrolled in school, within their post-graduation grace period, or qualified for deferment or forbearance. A loan becomes delinquent as soon as a payment is missed, but student loan servicers typically wait until it's 90 days overdue to report the delinquency to credit bureaus—giving borrowers a brief buffer. A loan is considered in default, and becomes subject to collections, once it is more than 270 days past due.

Based on these cut offs, approximately 6 million borrowers (or 32%) of all borrowers with due payments—already have a delinquency on their record in Q1 or with another 8% on track to be reported next quarter, with potential defaults looming by year-end. Although the number of loans in default is still below pre-pandemic levels (Chart 3), the risk of a sharp increase is

Table 1: Distribution of Student Loans by Status

Status of Student Loans	Number of Borrowers (Millions)	Share of Borrowers, %
Exempt from repayment	**20.8**	**46%**
In repayment	**18.9**	**42%**
Of which:		
Current	12	63%
<90 Days past due	1.5	8%
90-180 days past due	6	32%
In Default	**5.3**	**12%**
Total	**45**	

Source: National Student Loan Data System, U.S. Department of Education.

significant. Based on the estimation by TransUnion, 3 million borrowers would reach default status by September, meaning that number of defaults could surpass pre-pandemic peak by the end of the year[3].

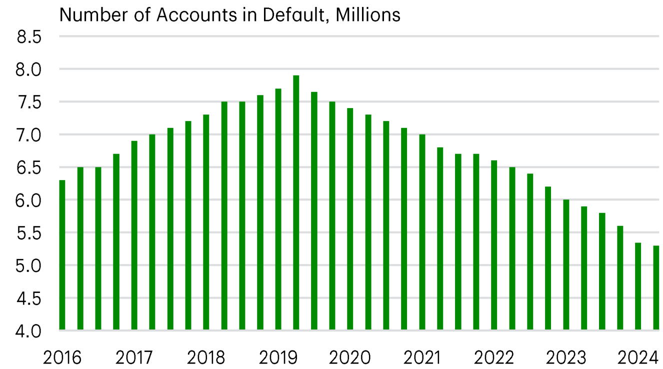
Credit Scores Tumble

Because most student debt is federally managed, the direct impact of rising delinquencies on private lenders will be limited. But indirect effects will still be felt. As repayments and collections resume, borrowers' credit profiles are deteriorating—posing risks to lenders and their portfolios, and impairing borrowers' future borrowing activity. A recent analysis[4] by the New York Federal Reserve found that newly delinquent borrowers experienced a significant deterioration in their credit scores (Table 2). The report notes that the over half of the newly delinquent borrowers already had subprime credit score prior to delinquency. For these borrowers' a further deterioration in their credit score will not meaningfully affect their access to credit.

However, about 2.5 million people had an above-prime credit score at the time of the student loan delinquency and thus would have been able to quality for various credit products. Those borrowers have seen the steepest drop in their credit scores, ranging from 140 to 177 points, and will now face higher borrowing costs or lose access to credit. Putting these numbers in perspective, 2.5 million is equivalent to about half of combined near-prime, prime and super-prime auto loans originated in Q1 of 2025. Not all those borrowers would need a new car loan, but even if a fraction did, their ineligibility for a loan could be a drag on loan originations.

In addition, an increase in monthly credit payment obligations or the prospect of their wages or social security checks being garnished, may affect the ability of student debt holders to service other types of debt.

Chart 3: The Number of Defaulted Borrowers Remains Low, but Could Rise Quickly



Source: National Student Loan Data System, TD Economics.

During the pandemic, many borrowers with student debt, have taken on additional debt, with 53% adding credit cards and 36% a new auto loan[5]. Previous research found that younger borrowers who had student debt and least one other type of debt were likely to default on other debt as well: 40% of borrowers in the sample defaulted only on the student loan, leaving a large portion of borrowers who defaulted on other types of credit as well[6]. Therefore the expected rise in delinquencies and defaults for student loans is likely to lead to rising delinquencies and potentially defaults for other types of loans too.

OBBBA Brings More Change to Student Loans

On top of the restart of payments and reporting, student loans now face of sea of changes that were included in the "One Big, Beautiful Bill," Act. The most significant of these are summarized in Table 3 on page 6, with some further discussion below. Broadly speaking, the new law reduces access to federal education funding—particularly for graduate and professional students, as well as for parents of undergraduate students and accelerates student loan repayment.

Table 2: Credit Scores Tumble For Newly Delinquent Borrowers

Credit Score	Risk Profiles	Number of Borrowers (Millions)	Share of Newly Delinquent Borrowers	Average Credit Score Change
Less than 620	Subprime	3.2	56.6%	-74
620 - 719	Near-prime, Prime	2	35.9%	-140
Greater than 720	Super-prime	0.4	7.5%	-177

Source: NY Fed Consumer Credit Panel, Equifax

Borrowing Caps on Graduate Loans Could Increase Demand for Private Loans

While undergraduate limits remain unchanged, the law imposes new restrictions on how much graduate and professional students, such as those in medical or law school, can borrow from the federal government (see Table 3). Specifically, it caps total lifetime federal loans at $100,000 for graduate students and $200,000 for students in professional programs from July 1st, 2026. About 20% of master's students and 8% of students in doctoral programs borrow above those new limits. Professional programs, such as medical programs, are most likely to be affected, with over 40% of medical students currently borrowing above the limit[7].

Currently around 8%—or approximately 3.5 million borrowers—carry balances exceeding $100,000. However, this relatively small group accounts for nearly 40% of all outstanding federal student loan debt (Table 4). These borrowers will be most exposed to new borrowing limits.

Graduate loan limits and termination of Grad PLUS loans will likely reduce the government's role in the student loan market going forward. Based on the Congressional Budget Office estimate, these changes are projected to save the government around $44 billion over the next 10 years, and will likely create room for private lenders to fill the gap.

Table 4: Student Debt Distribution by Loan Size

Debt Size	Balances, $	Borrowers, Millions	Share of Balances, %	Share of Borrowers, %
Less than 5K	19.8	7.2	1.2	16.0
5K to 10K	54.8	7.4	3.3	16.5
10K to 20K	131.7	9.1	8.0	20.1
20K to 40K	276.8	9.8	16.9	21.6
40K to 60K	208.5	4.2	12.7	9.4
60K to 80K	174.4	2.5	10.6	5.6
80K to 100K	123.3	1.4	7.5	3.1
100K to 200K	338.9	2.5	20.6	5.4
200K+	313.5	1.1	19.1	2.3

Source: U.S. Department of Education, TD Economics (as of calendar Q1 2025).

Table 5: Share of Student Loans in Various Income-Based Repayment Plans

Repayment Plan	Share of Balances, %	Share of Borrowers, %
Income-Contingent	3.9	3.7
Income-Based	9.2	6.1
Pay As You Earn*	7.9	4.0
SAVE	34.6	24.3

Source: Department of Education, TD Economics.

Student Loan Repayment Changes to Lead to Higher Payments

The new law has also revamped the student-loan repayment program, replacing the numerous previous repayment streams with just two plans: the Repayment Assistance Plan (RAP) and the standard repayment plan (Table 3, page 6). The standard plan sets fixed monthly payments, like an auto loan, with amortization period of 10 to 25 years depending on the initial balance. Payments do not vary with borrowers income.

In terms of the income-based repayments plans, most current repayment plans (ICR, SAVE, PAYE) will be phased out by July 1, 2028 and replaced with the single RAP (expected to launch on July 1, 2026). As of Q1 2025, 32% (10 million) of borrowers were in the three income-based plans mentioned above and will need to transition to new plans, with 24% (or nearly 8 million borrowers) in the SAVE plan alone (Table 5).

Changes to repayment programs are expected to save the government about $270 billion. As for borrowers, changes will limit the number of repayment options available to them. New repayment plans are going to speed up loan repayment but will result in higher monthly payments for many borrowers, particularly when compared to the discontinued SAVE plan (the largest of the four income-based plans)[7,8] (Table 6).

Other RAP features will also expedite loan repayment. In cases when borrower's monthly payment is insufficient to cover even the accrued interest on a loan, RAP plan will waive the unpaid portion of the interest for borrowers in good standing and will also provide a credit of up to $50 toward the principal to insure loan balance declines every month.

While loans are expected to be paid off sooner under the new plans, higher monthly payments will weigh on

Table 6: Estimated Monthly Payments under SAVE and RAP

Yearly Income	SAVE (Monthly Payment)	RAP (Monthly Payment)
$25k	0	$42
$40k	$40	$133
$60k	$207	$300
$90k	$457	$675
$200k	$1,373	$1,667

Source: Calculations by savingforcollege.com.

the consumer spending, credit quality and loan origination. The negative impact on aggregate consumption and credit origination from these changes is likely to be relatively modest. Student debt holders account for less than 10% of the population, and the full transition to new plans will take a few years.

Deferring Loan Payments Is No Longer an Option

In addition, after July 2027, borrowers will no longer be able to use the economic hardship or unemployment deferments to pause payments. For borrowers in the RAP plan this would imply that they would need to continue making the minimum $10 payment. Previously, borrowers could pause payments for up to three years if they receive unemployment benefits, are unable to find full-time employment, or receive welfare. The bill also shortens the amount of time borrowers can be in forbearance from 12 to 9 months. Changes to available plans and monthly payment amounts also adds an extra layer of complexity to borrowers who already faced several years of uncertainty, changes and interruptions due to legal challenges (eg. court actions regarding the SAVE plan).

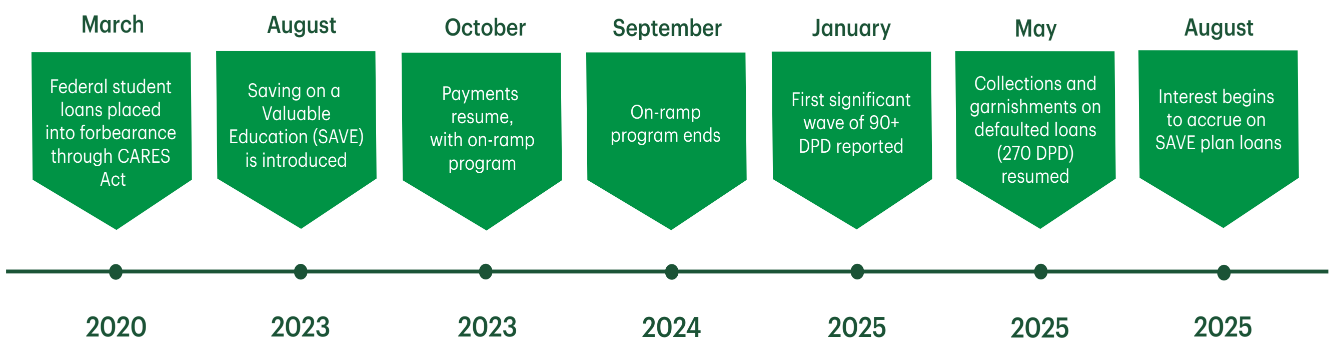
Bottom Line

The renewal of credit reporting on student loans, the end of forbearance for SAVE plan borrowers, and OBBBA student loan repayment reforms together create a triple burden for student loan holders. The immediate effects will include a rise in delinquencies and a deterioration in credit scores for millions of borrowers, posing a potential drag on new credit origination and consumer spending. The expected ramp up in defaults on student loans is likely to spill over into defaults across other credit types, such as credit cards and auto loans, which have only recently begun to stabilize.

Other impacts will unfold more gradually, due to staggered implementation timelines. Nevertheless, financial pressure on both new and existing student loan borrowers is expected to intensify. Looking ahead, while higher monthly payments will accelerate debt repayment, they are also expected to make post-secondary education less affordable, prompting borrowers to more carefully weigh the costs and benefits of pursuing a degree. This could result in lower university enrollment rates, particularly among people from lower income households, and changes to the types of programs being offered. Additionally, higher monthly payments on student loan may delay other major life decisions, such as purchasing a home or vehicle. Finally, reduced federal support for graduate education could drive greater demand for private student loans.

Exhibits

Exhibit 1: Student Loan Timeline



Source: TransUnion

Table 3: OBBB Brings Significant Changes to Student Loans*

Pre-Existing Program	Description of Changes
Grad PLUS Loans Eliminated; Graduate and Professional Loans Capped	Graduate students: loans capped at $20,500 per year up to 100,000 lifetime maximum. Professional students: loans are capped $50,000 per year up to $200,000 (Inclusive of undergraduate loans). Previously Grad PLUS loans covered up to 100% of the total cost of program attendance. Effective July 2026.
Parent PLUS Loans Capped	Caps annual borrowing to $20,000, and an aggregate of $65,000 per student. Previously, parents of undergraduate students could borrow 100% of the costs of education. Parents will no longer be eligible for income-driven repayment options. Additionally, parents loan borrowers wouldn't be able to qualify for Public Service Loan Forgiveness. Effective July 2026.
Student-Loan Repayment Program Transformed	SAVE, PAYE, IBR and ICR student debt repayment programs are phased out by July 2028. After July 2026, new borrowers will have 2 repayment options: new Repayment Assistance Plan (RAP), and Standard Repayment. 1. The Repayment Assistance Plan (RAP) allows borrowers to pay 1% to 10% of their incomes, with a minimum payment of $10. Borrowers are in repayment for 30 years (more than 20-25 years under previous plans). After the 30-year mark, the borrower's remaining loan balance will be canceled. To launch in July 2026. 2. Standard Repayment: Standard repayment is the default repayment plan. Borrowers make payments over 10 years in fixed monthly installments.
Forbearance and Deferment due to Unemployment or Financial Hardship Eliminated	Borrowers facing unemployment or economic hardship can no longer able to apply for loan forbearance or deferment. Previously borrowers could apply for up to three years of deferment. Effective July 2027.
Pell Grants Modified	Tightens financial eligibility for grants (e.g. students with full scholarships will no longer be eligible for Pell Grants, students from higher-income families will have harder time getting a grant). However, the law expands Pell Grants available to students in workforce training programs. Students must be enrolled full-time to qualify for the grants.

Source: Compiled by TD Economics (*the table only lists some and not all changes in OBBB).

Endnotes

1. https://www.nasfaa.org/news-item/35444/Biden_Administration_Announces_Final_Student_Loan_Debt_Relief_Approvals
2. https://www.ed.gov/about/news/press-release/us-department-of-education-continues-improve-federal-student-loan-repayment-options-addresses-illegal-biden-administration-actions
3. https://newsroom.transunion.com/june-2025-student-loan-update/
4. https://libertystreeteconomics.newyorkfed.org/2025/05/student-loan-delinquencies-are-back-and-credit-scores-take-a-tumble/
5. https://newsroom.transunion.com/student-loan-payments-resume/
6. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4106734 "Student Loan Repayment Prioritization"
7. Preston Cooper, "An Analysis of the One Big Beautiful Bill Act's Effects On Student Loans." July 2025. https://www.aei.org/research-products/report/an-analysis-of-the-one-big-beautiful-bill-acts-effect-on-student-loans/#scrollSection13
8. https://www.savingforcollege.com/article/student-loan-repayment-assistance-plan-rap