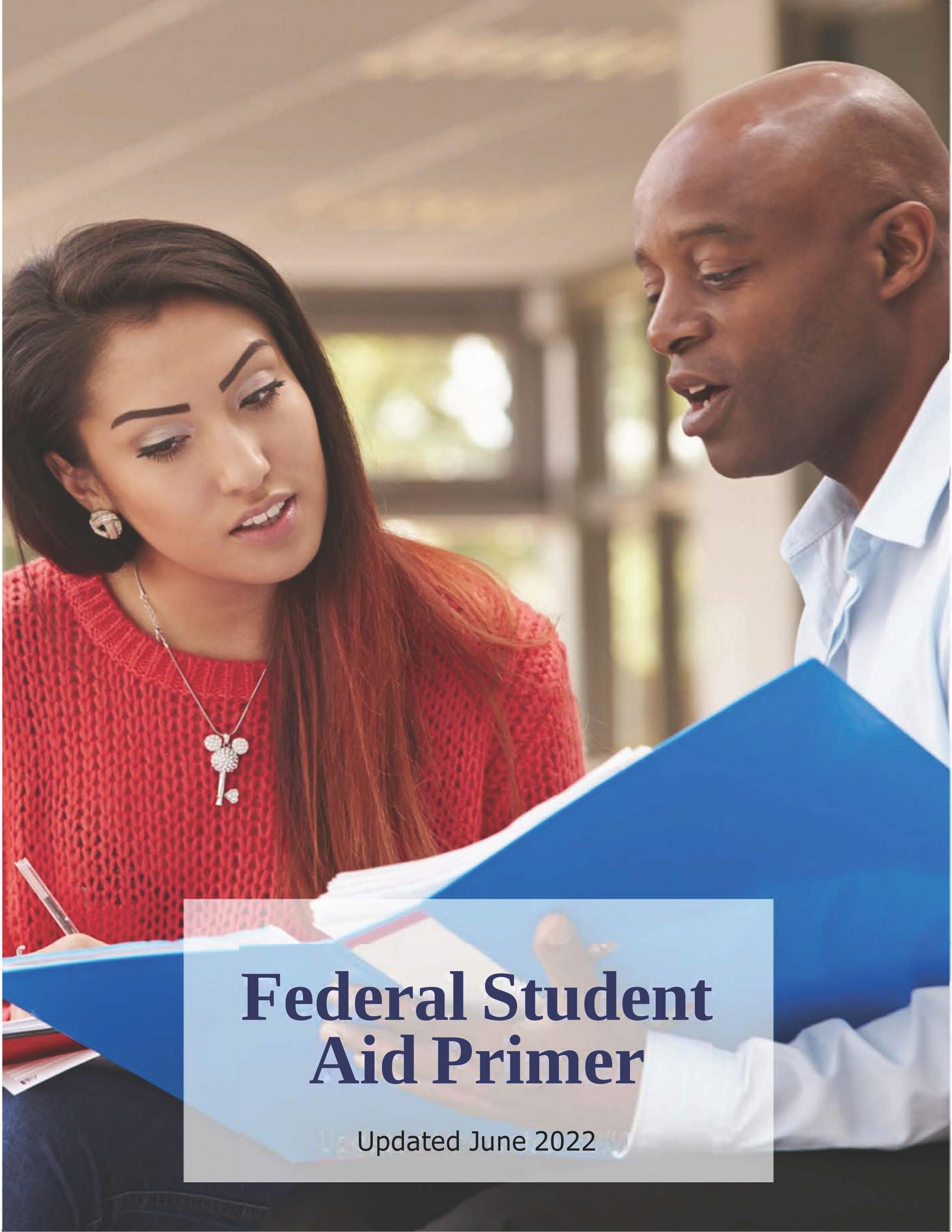

Federal Student Aid Primer

Updated June 2022

The Postsecondary National Policy Institute (PNPI) provides current and prospective policymakers with a substantive and collegial foundation on which to build federal higher education policies that drive positive outcomes for students and their families.

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A primer on the types of federal assistance available to help students pay for college.

As the price of a college education has risen, an increasing number of students and their families have come to rely on assistance from the federal government to pay for their education. In the last decade, after adjusting for inflation, the federal government's share of all funds used to pay for postsecondary education increased from 71% ($189.6 billion) in 2009-2010 to 74% ($203.4 billion) in 2010-2011 as the Great Recession took hold but fell, again, to 55% ($134.4 billion) in 2020-2021.[1]

Funding for federal, state, and institutional student aid has varied over the last decade. Between 2009-2010 and 2020-2021, federal student aid through Pell grants decreased 27% (from $35.7 billion to $26. billion). During the same period, state grants for postsecondary education grew 22% (from $10.6 billion to $12.9 billion), and institutional grants grew 72% (from $41.8 billion to $71.1 billion).[2]

Student Aid for Undergraduate and Graduate Study in 2020 Dollars (in millions)

	2010-2011	2015-2016	2020-2021	10-Year Change
Federal Grants	**$56,154**	**$45,774**	**$38,094**	**-32%**
Federal Loans	**$126,049**	**$104,312**	**$83,677**	**-34%**
Federal Work Study	**$1,156**	**$1,072**	**$1,180**	**2%**
Federal Education Tax Benefit	**$25,490**	**$18,750**	**$11,440***	**-55%**
State Grants	**$10,970**	**$11,726**	**$12,887**	**17%**
Institutional Grants	**$45,488**	**$59,688**	**$71,097**	**56%**
Private & Employer Grants	**$15,770**	**$16,890**	**$16,520**	**5%**
Nonfederal Loans	**$9,100**	**$11,700**	**$12,200**	**34%**

Data from College Board, Trends in Student Aid 2021.

*2019-2020 tax expenditure data from President's FY 21 Budget Request.

The mix of aid through grants, loans, work study and tax benefits varies between undergraduate and graduate students. Historically, graduate students have received a larger percentage of financial aid through loans rather than grants, while undergraduates received a larger percentage of financial aid through grants rather than loans.

Types of Federal Assistance for Postsecondary Education

There are four main types of federal assistance for students and their families to finance postsecondary education—grants, loans, education tax benefits, and work study. Of the federal aid available in 2020-2021 for both undergraduate and graduate study, 29% was in the form of grants, 63% was in the form of loans, 8% was in the form of tax benefits and less than 1% was in the form of work study.[3]

The following table outlines the various federal programs and benefits for financial assistance for postsecondary education.

Federal Student Financial Assistance Programs for Postsecondary Education, 2020-2021

Grant Programs	Federal Pell Grant Program Federal Supplemental Educational Opportunity Grant (FSEOG) Teacher Education Assistance for College and Higher Education (TEACH) Grant Iraq and Afghanistan Service Grant
Student Loan Programs	Direct Subsidized and Unsubsidized Loans Direct PLUS Loans (Parent and Grad) Direct Consolidation Loans
Work Study	Federal Work Study (FWS) Program
Tax Benefits for Education	American Opportunity Tax Credit (AOTC) Lifetime Learning Tax Credit Exclusion for Qualified Scholarships Gift Tax Exclusion for Higher Education Expenses Student Loan Interest Deduction Tax-Free Treatment of Student Loan Cancellations and Student Loan Repayment Assistance Employer-Provided Education Assistance Programs Employer-Provided Qualified Tuition Reduction Business Deduction for Work-Related Education Expenses Qualified Tuition Plans (529s) Coverdell Education Savings Accounts Early Withdrawals from Individual Retirement Accounts

The remainder of this primer will concentrate on Federal grants, loans, and work study provided under the Higher Education Act. Due to the number and complexity of higher education tax benefits, those are handled in a separate PNPI Primer.

Qualifying for Financial Assistance under the Higher Education Act

Students must meet certain basic eligibility requirements to receive a Pell grant, federal student loan or other federal financial assistance under the Higher Education Act. They must:

- Be a U.S. citizen or eligible non-citizen.
- Have a valid Social Security number.
- Be registered with the Selective Service, if the applicant is male.
- Be enrolled or accepted for enrollment as a regular student in an eligible degree or certificate program; and to receive loans, be enrolled at least half-time.
- Maintain satisfactory academic progress while in school.
- Have a high school diploma or recognized equivalent.
- Not be in default on a federal student loan nor owe money on a federal student grant.

After meeting these basic eligibility requirements, each student and/or family must complete the Free Application for Federal Student Aid (FAFSA). The information submitted through the FAFSA helps determine how much federal aid a student may receive. Students classify themselves as either dependent or independent students when filling out the FAFSA. Dependent students must provide financial information for themselves and their parents, while independent students must provide financial information only for themselves and if applicable, a spouse.

A student is considered independent if he or she is at least one of the following: at least 24 years old, married, a graduate or professional student, a veteran, an active-duty member of the armed forces, in foster care or an orphan or a ward of the court since turning 13, an individual with legal dependents other than a spouse, an emancipated minor, or an individual who is homeless or at risk of becoming homeless.

The FAFSA collects information related to students' and their families' adjusted gross income, earnings, untaxed income, assets and investments, receipt of various federal benefits (e.g., SSI, SNAP, TANF, WIC, free or reduced-price lunch), as well as information on the number of people in a household and the number of family members in college. Using this data, a formula set by the government determines a student's expected family contribution (EFC).

The EFC is an index that is used to measure an applicants' financial strength and is used to determine a student's eligibility for the need-based federal student aid programs: Pell grants, Direct Subsidized loans, Supplemental Educational Opportunity Grants, and Federal Work Study. A lower EFC indicates a greater need for financial assistance. The recently enacted Consolidated Appropriations Act of 2021 will limit the number of questions on the FAFSA and will replace the EFC with the Student Aid Index (SAI). A student's SAI may be negative, allowing them to receive financial aid beyond their institution's Cost of Attendance. While the law required implementation of these changes by July 1, 2023, ED recently announced that a phased implementation plan is necessary and will not be completed until the 2024-25 award year.[4]

The calculation for determining the amount of need-based aid for which a student is eligible is:

Cost of Attendance

Cost of Attendance is determined by individual schools and includes: tuition and fees; an allowance for books, supplies, transportation, student loan fees and miscellaneous personal expenses; an allowance for room and board; an allowance for dependent care; reasonable costs associated with study abroad (when applicable); and an allowance for expenses related to a student's disability (if applicable). For students attending school less than half-time, allowances for miscellaneous personal expenses and room and board are not included in the cost of attendance.

Students and families who do not qualify for need-based financial aid or who need to borrow more funds than are available to them through the need-based programs may qualify for the two loan programs not based on financial need: Direct Unsubsidized Loans and PLUS Loans. The calculation for determining non-need-based aid is:

Cost of Attendance – Need-Based Aid Awarded = Eligibility for Non-Need-Based Aid

Pell Grants

The Pell Grant is considered the foundation of federal need-based aid for undergraduate students. Among the federal grant programs authorized under the Higher Education Act (HEA), the Pell Grant program is by far the largest, constituting 96% of federal grant aid in 2020-2021 (excluding veterans and military benefits, which are not included in the HEA).[5]

The origin of today's Pell Grant program was the Basic Educational Opportunity Grant (BEOG), which was created by Congress in 1972. In 1980 the BEOG program was renamed the Pell Grant program in honor of Senator Claiborne Pell of Rhode Island. Then, as now, the Pell Grant program provides need-based financial aid to undergraduate students. Unlike a loan, a federal Pell grant does not have to be repaid. The maximum Pell grant award for the 2022-2023 academic year is $6,895, with the amount of individual awards determined by financial need, total cost of attending a particular school, and full-time or part-time status. Alternatively, the minimum award is $692.[6]

In the 2020-2021 academic year, 6.2 million students received Pell grants with an average award of $4,325.[7] The number of recipients has been declining from a peak of 9.4 million in the 2011-2012 academic year.[8] Dependent and independent students each comprise about half of total recipients (51% and 49% respectively in 2020-2021).[9] In academic 2019-2020 – the latest year for which data are available – thirty-four percent of all undergraduates received a Pell grant that they used at 5,698 participating schools across the nation.[10]

Pell Grant Recipients by Income Level 2020-2021

	Number of Recipients	Average Pell Award
Dependent Undergraduates		
$0 - $6,000	361,875	$5,268
$6,001 - $9,000	70,804	$5,321
$9,001 - $20,000	553,457	$5,415
$20,001 - $30,000	561,821	$5,398
$30,001 and above	1,550,543	$3,832
Dependent Totals	**3,098,500**	**$4,601**
Independent Undergraduates		
$0 - $1,000	463,736	$4,486
$1,001 - $3,000	128,254	$4,613
$3,001 - $6,000	183,702	$4,621
$6,001 - $9,000	189,303	$4,630
$9,001 - $15,000	439,780	$4,451
$15,001 - $20,000	356,170	$3,809
$20,001 - $30,000	524,048	$3,391
$30,000+	720,507	$3,688

Independent Totals	**3,005,500**	**$4,041**
Dependent and Independent Total	***6,104,000***	***$4,325***

Data from U.S. Department of Education, Fiscal Year 2023 Budget Request

Beginning in 2008, the number of recipients and overall cost of Pell grants rose significantly. Recipient numbers grew 70%, from 5.5 million recipients in 2007-2008 to 9.4 million recipients in 2011-2012. As a result, the overall cost of the program doubled: from $14.7 billion in fiscal year 2007 to $28.8 billion in fiscal year 2011.[11]

This increase in the cost of the Pell Grant program was partly due to the downturn in the economy, which sent more individuals back to school and caused more individuals in school to have financial need. In addition, lawmakers made changes to the program in 2007, 2008 and 2009 that expanded eligibility and benefits, and the American Recovery and Reinvestment Act of 2009 increased the maximum Pell grant, which Congress has been hesitant to roll back.

To pay for these increasing program costs without reducing the maximum Pell grant, Congress scrambled to find savings in other federal aid programs and within Pell. These savings have meant the elimination of Subsidized Stafford Loans for graduate students, the end of year-round Pell grants which could be used for summer course sessions, a decrease in the income limit to qualify automatically for a maximum Pell grant, and a reduction in the number of semesters for which a student is eligible to receive a Pell grant.

Recent economic and enrollment trends, however, have lessened the budgetary pressure on the program. Enrollment has declined from its peak in 2011 and is expected to grow only modestly going forward, and economic gains have led to reduced eligibility for Pell grants. Moreover, past Congressional Budget Office projections overestimated the program’s future cost, which meant the program was able to operate without increases in annual appropriations. However, in recent years (including fiscal year 2019), Congress rescinded some of these surpluses in an annual appropriations bill. That means the Pell grant program may require an increase in future appropriations bills to maintain its current level of benefits for students.

Separately, the maximum grant increased annually with inflation in recent years through a separate funding stream provided on the mandatory side of the budget. Therefore, Congress did not have to appropriate funds for those increases. That provision expired after the 2016-2017 school year, meaning that lawmakers will need to provide additional funds through the annual appropriations process, as they did with the fiscal year 2018 and 2019 bills, if they want to increase the maximum grant. Finally, Congress also restored a version of the year-round Pell grant provision that lawmakers terminated in 2011, increasing the cost of the program. Under the year-round Pell grant provision, students are eligible to receive up to 150% of their scheduled award to cover courses for an additional term during an academic year, such as a summer term. Additionally, under the Consolidated Appropriations Act of 2021, Congress lifted the ban on the use of federal student aid, namely Pell Grants, for certain incarcerated individuals. This program, known as Second Chance Pell, will allow some incarcerated individuals to access Pell Grants for use in prison education programs.

Taken together, the rescission of some of the surplus, the expiration of the automatic increases in the maximum grant funded through the mandatory side of the budget, and the reinstatement of year-round grants set the program up for renewed budget importance. Absent other policy changes, lawmakers will need to decide whether to increase the maximum grant–and annual funding–in each future appropriations bill.

Federal Student Loans

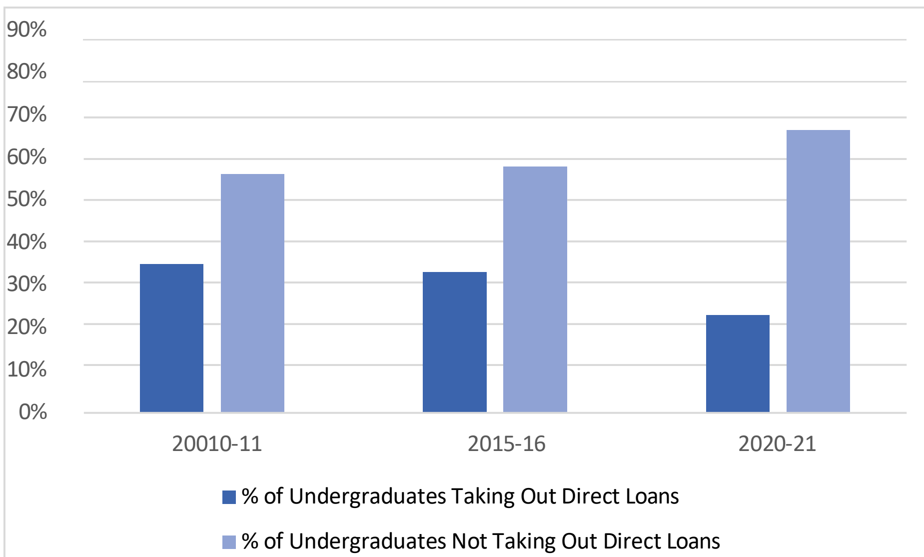
Given the ever-rising cost of postsecondary education, students and their families have increasingly come to rely upon federal student loans to pay for college. New federal student loan volume (not including consolidation loans) is much higher today than in the 1990s, rising from less than $42 billion in fiscal year 1996 to $90.5 billion in 2021.[12] As part of the Higher Education Amendments of 1992, Congress introduced unsubsidized student loans—loans not dependent on financial need—which helped drive the increase in loan volume. In 2006, Congress implemented the Grad PLUS loan program allowing graduate students to supplement Unsubsidized Stafford loans and borrow up to the full cost of attendance. The change further contributed to increases in total borrowing, particularly among graduate students. However, total yearly federal higher education borrowing peaked in 2010-2011 at $126 billion and has since fallen by about 25% over the past decade.[13]

Direct, PLUS, and Consolidation loans are the Federal government's three primary loan programs to assist students and parents pay for a postsecondary education. A fourth and smaller loan program, Perkins, is discussed in the following section on campus-based aid programs. Until 2010, there were two federal loan programs for the origination and administration of Stafford, PLUS, and Consolidation loans – the Federal Family Education Loan (FFEL) program and the Direct Loan program. Under the FFEL program, private lenders provided the loan capital to originate student loans.

In return, lenders were provided with an interest subsidy as well as reimbursements for most costs of defaults. Under the Direct Loan program, the federal government provides the capital and institutions and private companies contracted by the U.S. Department of Education handle origination and loan servicing. With very few exceptions, the terms and conditions of loans made under the FFEL and Direct Loan programs are the same.

As part of the Health Care and Education Reconciliation Act of 2010, the FFEL program ceased making new loans effective July 1, 2010. All new student, PLUS, and Consolidation loans today are made under the Direct Loan program.

Direct Loans



Data from College Board, Trends in Student Aid 2021

Direct Loans

Direct Loans are the primary federal student loans and are available both to undergraduate and graduate students. Also known as Stafford Loans, they come in two types – subsidized and unsubsidized.

Direct Subsidized: Direct Subsidized loans are based on a student's financial need. While a student is in school and during grace and deferment periods, the federal government pays the interest on the loan. Until July 2012, Direct Subsidized loans were available to both undergraduate and graduate students; however, as of July 1, 2012, Direct Subsidized loans are only available to undergraduate students.

Direct Unsubsidized: Direct Unsubsidized loans are available to undergraduate and graduate students without regard to financial need. Unlike Direct Subsidized loans, the federal government does not pay the interest on these loans while a student is in school. Although students need not make payments on their Unsubsidized Stafford loans while in school, the interest accrues and is capitalized when they enter repayment.

PLUS Loans

PLUS loans are available to parents of dependent undergraduate students (Parent PLUS) and to graduate students (Grad PLUS). Like Direct Unsubsidized loans, interest accrues on PLUS loans while the student is in school and is capitalized upon entering repayment. Typically, PLUS loan borrowers cannot have an adverse credit history to be eligible for the program.

While Parent PLUS loans have been part of the federal loan program since the 1980s, Grad PLUS loans are relatively new. The federal government began offering these loans to graduate students on July 1, 2006 out of concern that many graduate students, having hit the borrowing limits under the Stafford loan program, were taking out high-cost private student loans to finance their graduate education. Since they were first offered in the 2006-2007 academic year, the annual total dollar amount borrowed, adjusted for inflation, of Grad PLUS loans has grown steadily from $8 billion in 2010-2011 to $11.6. billion in 2020-2021.[14]

Consolidation Loans

Consolidation loans allow borrowers to combine all their existing student loans into one loan, thus avoiding the need for multiple monthly student loan payments. Most federal student loans are eligible for consolidation. Private educational loans are not eligible for consolidation.

Loan Limits

Not wanting students to leave school with too great a debt burden, the federal government has set both annual and aggregate loan limits for Direct loans. Annual loan limits apply to the maximum principal amount that may be borrowed plus any fees that the borrower is required to pay. The aggregate loan limits are the total amount of outstanding Direct Loan debt (i.e., unpaid principal) that undergraduate, graduate, and professional students may accrue.

Historically, Congress has been reticent to raise Stafford loan limits. The Higher Education Amendments of 1992 increased the annual Stafford loan limits, beginning in the 1993-1994 academic year, for sophomores, juniors, seniors, and graduate students, along with increases in the aggregate limits. No additional increases occurred until the 2007-2008 academic year when the Higher Education Reconciliation Act of 2005 increased the annual Stafford limits for freshmen, sophomores, and graduate students, but not the aggregate limits.

The last increase to Stafford loan limits occurred as part of the Ensuring Continued Access to Student Loans Act of 2008 (ECASLA) through which both annual and aggregate Stafford unsubsidized loan limits were increased for undergraduate students, beginning in the 2008-2009 academic year. Although aggregate Stafford limits for graduate students did not increase under ECASLA, in July 2006, Grad PLUS loans became available, thereby opening up additional loan availability for graduate students.

Current Stafford Loan Limits for Undergraduate and Graduate Students

Year	Dependent Undergraduate	Independent Undergraduate	Graduate and Professional Degree Student
Year 1 Annual Limit	$5,500 – No more than $3,500 of this amount may be in subsidized loans.	$9,500 – No more than $3,500 of this amount may be in subsidized loans.	
Year 2 Annual Limit	$6,500 – No more than $4,500 of this amount may be in subsidized loans.	$10,500 – No more than $4,500 of this amount may be in subsidized loans.	$20,500 – No more than $8,500 of this amount may be in subsidized loans.
Year 3 and Beyond Annual Limits	$7,500 – No more than $5,500 of this amount may be in subsidized loans.	$12,500 – No more than $5,500 of this amount may be in subsidized loans.	
Total Aggregate Loan Limits	$31,000 – No more than $23,000 of this amount may be in subsidized loans.	$57,500 – No more than $23,000 of this amount may be in subsidized loans.	$138,500 – No more than $65,500 of this amount may be in subsidized loans. This graduate limit includes undergraduate Stafford Loans.

Source: U.S. Department of Education

Two special circumstances apply to the loan limits above. Dependent undergraduate students whose parents are unable to qualify for a Parent PLUS loan may borrow at the levels set for independent undergraduate students. Graduate and professional students in certain high-cost health profession programs, e.g., medical school students, may have higher annual and aggregate unsubsidized loan limits. The total aggregate loan limit for these students is currently $224,000, including up to $65,500 in subsidized loans.

PLUS Loan Limits

Although both annual and aggregate loan limits existed in the PLUS loan program in the 1980s ($4,000 annual; $20,000 aggregate), those limits were eliminated by the Higher Education Amendments of 1992. The annual amount a parent or graduate student may borrow under the PLUS loan program is the cost of attendance (as established by the school) minus any other financial assistance the student has received. There are no total aggregate loan limits under the PLUS loan program.

Interest Rates

The interest rates on federal student loans have changed multiple times over the history of the program. In each case Congress sets the rate, either in law or using a formula based on market interest rates on U.S. Treasury securities ("T-bills"). Originally, the interest rates on federal student loans were fixed. Then in the 1990s, loans other than Consolidation loans carried variable rates (resetting once per year) with interest rate caps. Consolidation loans continued to carry fixed interest rates, and borrowers could convert variable loans to a fixed rate by taking out a Consolidation loan. In the early 2000s, Congress opted to make interest rates on all federal student loans fixed once again, beginning with new loans issued after July 1, 2006. These rates were set by Congress.

Then in 2013, lawmakers enacted a new formula for setting fixed interest rates on federal student loans. Each year, the fixed rate on newly issued loans is set according to a formula based on the 10-year Treasury note. This policy change also established different rates on Unsubsidized Stafford loans for undergraduate and graduate student borrowers. Historically, those rates were always the same.

Interest Rates on Loans Made on After July 1, 2022

Loan Type	Interest rate for loans made on or after July 1, 2013	Effective interest rate on loans made between July 1, 2021 and June 30, 2022
Undergraduate Stafford Subsidized & Unsubsidized Loans	10-year T-bill + 2.05% (capped at 8.25%)	6.54%
Graduate Stafford Unsubsidized Loans	10-year T-bill + 3.6% (capped at 9.5%)	5.28%
Parent and Graduate PLUS Loans	10-year T-bill + 4.6% (capped at 10.5%)	7.54%
Consolidation Loans	Weighted average of interest rates on the federal loans being consolidated rounded up to the nearest 1/8th of one percent	

Interest Rates for Loans Made on or After July 1, 2006, but Before July 1, 2013

Loan Type	Interest rate for loans made on or after July 1, 2006
Stafford Subsidized Loans	Undergraduates: 7/1/2006 – 6/30/2008: Fixed 6.8% 7/1/2008 – 6/30/2009: Fixed 6.0% 7/1/2009 – 6/30/2010: Fixed 5.6% 7/1/2010 – 6/30/2011: Fixed 4.5% 7/1/2011 – 6/30/2013: Fixed 3.4% Graduate Students: 7/1/2006 –6/30/2012: Fixed 6.8% (effective July 1, 2012, new Stafford Subsidized Loans were no longer available to graduate students.
Graduate Stafford Unsubsidized Loans	Fixed 6.8%
PLUS Loans (Parent and Grad)	Direct PLUS: Fixed 7.9% FFEL PLUS: Fixed 8.5% (effective July 1, 2010, the FFEL program was ended and all new PLUS loans became Direct PLUS)
Consolidation Loans	Weighted average of interest rates on the federal loans being consolidated rounded up to the nearest 1/8th of one percent, capped at 8.25%

Interest Rates on Loans Made on or After July 1, 1995, but Before July 1, 2006

Loan Type	Interest rate for loans made on or after July 1, 1995	Interest rate on loans made on or after October 1, 1998
Stafford Subsidized & Unsubsidized Loans	Variable During in-school, grace, and deferment periods: 91-day T-bill + 2.5% (capped at 8.25%) During repayment: 91-day T- bill + 3.1% (capped at 8.25%)	Variable During in-school, grace, and deferment periods: 91-day T-bill + 1.7% (capped at 8.25%) During repayment: 91-day T- bill + 2.3% (capped at 8.25%)
PLUS Loans	Variable 52-week T-bill rate + 3.1% (capped at 9%). Beginning 07/01/01, this rate changed to the 1-year constant maturity + 3.1% (capped at 9%).	Variable 91-day T-bill + 3.1% (capped at 9%)
Consolidation Loans	FFEL Consolidation: Weighted average of interest rates on the federal loans being consolidated rounded up to the nearest whole percent. (For FFEL consolidation loans made between 11/13/97 and 09/30/98 the rate was 91- day T-bill +3.1%) Direct Consolidation Stafford Subsidized and Unsubsidized: 91-day T-bill +2.5% during in-school, grace, and deferment (capped at 8.25%); 91-day T-bill + 3.1% during repayment (capped at 8.25%) Direct PLUS Consolidation: 52-week T-bill rate + 3.1% (capped at 9%). Beginning 07/01/01, this rate changed to the 1-year constant maturity + 3.1% (capped at 9%).	FFEL Consolidation: Weighted average of interest rates on the federal loans being consolidated rounded up to the nearest 1/8 of one percent (capped at 8.25%). Direct Consolidation Stafford Subsidized and Unsubsidized: 91-day T-bill +2.3% (capped at 8.25%) for applications for consolidation received between 10/01/98 and 01/31/99. Afterwards, weighted average of interest rates on the federal loans being consolidated rounded up to the nearest 1/8 of one percent (capped at 8.25%). Direct PLUS Consolidation: 91-day T-bill +2.3% (capped at 8.25%) for applications for consolidation received between 10/01/98 and 01/31/99. Afterwards, weighted average of interest rates on the federal loans being consolidated rounded up to the nearest 1/8 of one percent (capped at 8.25%).

Student Borrowing

Both the number of undergraduates borrowing, and the average amount students borrow has fallen over the past decade. About 5.4 million undergraduates received Direct Stafford loans (unsubsidized and subsidized) in 2020-2021 – down from 9.4 million undergraduates in 2010-2011. The total inflation adjusted amount of undergraduate direct loans borrowed has declined during the same time period from $70.9 billion to $32.7 billion. Both types of Stafford loans for undergraduates are subject to annual and aggregate limits, which keeps borrowing lower than it might otherwise be. Policymakers have raised those limits only twice since 1992.

Federal Undergraduate Student Loan Borrowing- Direct Loans

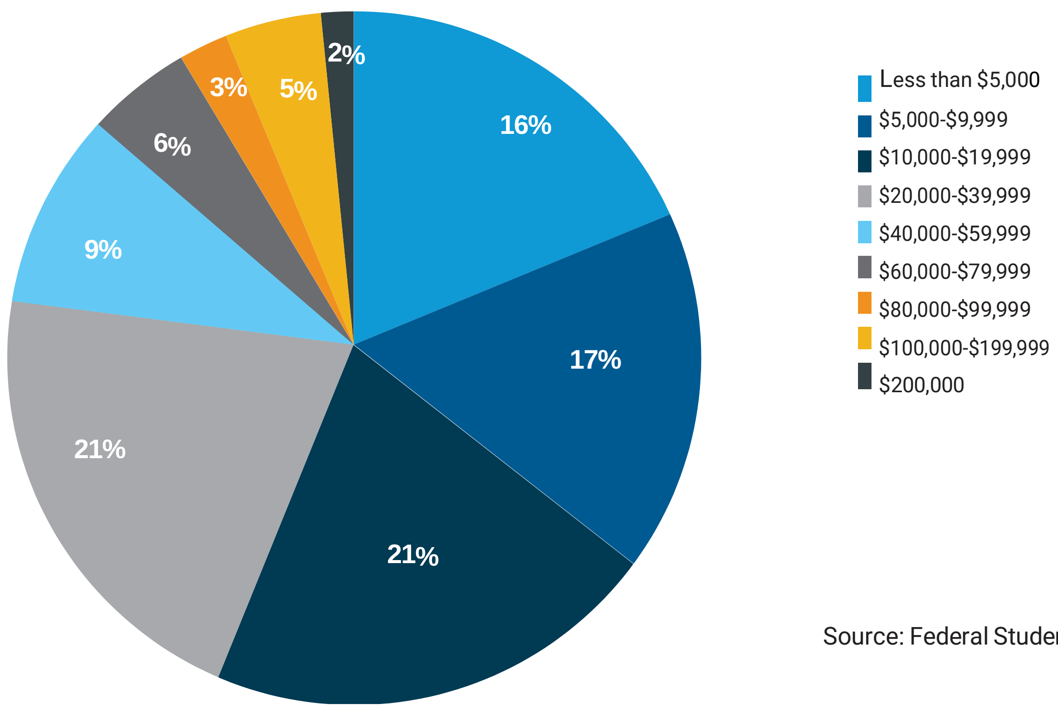
Subsidized Stafford Loans	2010-2011	2015-2016	2020-2021
Number of Borrowers (in thousands)	7,622	6,006	4,310
Total Amount Borrowed (billions in 2020 dollars)	$34.4	$25.1	$16.3
Avg. Amount per Borrower (in 2020 dollars)	$4,507	$4,132	$3,777

Unsubsidized Stafford Loans	2010-2011	2015-2016	2020-2021
Number of Borrowers (in thousands)	7,195	5,849	4,469
Total Amount Borrowed (billions in 2020 dollars)	$36.5	$26.3	$18.4
Avg. Amount per Borrower (in 2020 dollars)	$5,063	$4,497	$4,125

Data from College Board, Trends in Student Aid 2021. Note: Fifty-four percent of all students who borrow a Subsidized Stafford Loan also borrow an Unsubsidized Stafford Loan. Therefore, the same students may be counted in each category above.

Because the numbers above reflect just one year of borrowing at the undergraduate level, it is also helpful to look at the distribution of student loan balances to see how these add up throughout a student's higher education. According to the Office of Federal Student Aid, as of September 30, 2021, 33% of federal student loan borrowers in repayment had balances that are less than $10,000 and 7% had balances greater than $100,000. These figures reflect all borrowers at any point in repayment, and those who pursued all ranges of education from a certificate program to medical and law school. Some may be recent graduates, and some may be about to fully repay their loans.

Distribution of Federal Student Loan Borrowers by FY 2021 Q3 Balances



Source: Federal Student Aid Data Center

The distribution of loan balances when borrowers leave school offers another perspective on student debt loads. The most recent U.S. Department of Education survey of postsecondary students provides the best reference for such a measure. It shows that for undergraduates who completed their programs (certificates, associates and bachelor's degrees) with debt in the 2015-2016 academic year, the median federal student loan balance was $20,020. About 55% of students, and 62% of those who completed their programs, left school with federal student loans. Seventy-five percent of borrowers left school with less than $26,500 in federal loan debt. Twenty-five percent of borrowers left with $6,000 or less.

Student Loan Repayment

There are multiple plans available to students and parents for the repayment of federal student loans. These plans cover an array of financial situations during which a borrower may need relief from the amount owed under the standard repayment plan. Under standard repayment, borrowers pay a fixed amount every month until the loan is paid in full. There is a minimum monthly payment of $50 and the borrower has up to 10 years to repay the loan.

Alternatives to standard repayment include the following:

Graduated repayment: Under graduated repayment, loan payments are lower at first and then increase, usually every two years, as a borrower's income typically rises after graduation from college. Like standard repayment, the loan term under graduated repayment is 10 years.

Extended repayment: Under extended repayment, loan payments are either fixed or graduated and may be repaid over a period of 25 years. While extended repayment allows for lower monthly payments, the borrower will pay more in interest since the loan is repaid over a 25-year period.

Income-based repayment: Under IBR, a borrower's monthly loan payments are capped at 15 percent of the borrower's monthly discretionary income. Discretionary income is the difference between adjusted gross income and 150 percent of the federal poverty line. If a borrower repays under the IBR plan for 25 years and meets other requirements, the borrower may have the remaining balance of the loan forgiven. For students who began borrowing in 2014 or later, payments are capped at 10 percent of discretionary income and the loan forgiveness term is 20 years. Loan forgiveness on this and other income-driven repayment plans is considered taxable income.

Pay As You Earn: In 2012, the Obama administration issued regulations creating the Pay As You Earn (PAYE) repayment program, which is similar to IBR. Effective December 2012, PAYE lowered the IBR payment cap from 15 percent to 10 percent and made the remaining loan balance eligible for cancellation after only 20 years instead of 25 years. PAYE is not available to borrowers with older loans (those who borrowed before October 2007).

REPAYE: This plan became available to borrowers in 2015. It is similar to the PAYE plan but includes a few key differences. All borrowers with direct loans are eligible; it is not limited to new borrowers as of October 2007 like the PAYE plan, and it does not require borrowers to demonstrate their payments would be lower under REPAYE than on the standard plan to qualify. Borrowers with loans from graduate school qualify for loan forgiveness after 25 years of payments instead of 20 as under PAYE. Half of any unpaid interest (and all unpaid interest for the first three years of repayment on subsidized loans) is forgiven each month, a benefit that does not exist under any other income-based repayment plan. Payments can rise above a borrower's payment under the standard 10-year repayment plan if his income increases, unlike the other income-based repayment plans, which cap the payments at the amount borrowers would repay monthly under the standard plan. Finally, in most cases, married borrowers are not allowed to exclude income from a spouse by filing separate income taxes like they are under the other income-based repayment plans.

Income-contingent repayment: Income-contingent repayment (ICR) calculates a borrower's monthly payments each year based on the borrower's adjusted gross income, family size, and the total amount of loans. The maximum repayment period is 25 years, and if the borrower has not repaid fully after this time, the unpaid portion is discharged. ICR is not available for FFEL loans. It is not available for parent PLUS loans unless the loans are converted to Consolidation loans, in which case they are fully eligible for ICR.

Income-sensitive repayment: Under income-sensitive repayment, a borrower's monthly payment is based on annual income and payments change as income changes. However, unlike IBR and ICR, the loan term under income-sensitive payment is 10 years. The income-sensitive repayment plan is available only for FFEL loans and does not apply to Parent PLUS loans.

Borrowers may select or be assigned a repayment plan when they first begin repaying their federal student loans. Borrowers can change repayment plans at any time. Scheduled payments are usually made monthly and the amount owed depends upon the type of loan received, the amount borrowed, the interest rate, and the selected repayment plan.

In addition to the multiple repayment options above, borrowers having difficulty with repayment may also be temporarily granted a deferment or forbearance. A deferment is a postponement of payment on a loan that is allowed under certain conditions during which interest does not accrue on subsidized Stafford and Perkins loans. Under forbearance, monthly loan payments are temporarily suspended or reduced, but interest continues to accrue.

If a borrower fails to make scheduled payments on student loans for at least nine months, the borrower is in default. There are actions that the student's school, the financial institution that granted the loan, the loan guarantor and/or the federal government can and will take to recover the money the borrower owes. These actions include reporting the default to consumer reporting agencies, wage garnishment, offsetting social security benefits for the amount owed, deeming the borrower ineligible for further federal student aid and filing a civil lawsuit.

Finally, to encourage individuals to enter certain, often lower-paying professions, the federal government offers a number of loan forgiveness programs. Included among those programs are Teacher Loan Forgiveness and Public Service Loan Forgiveness. Under Teacher Loan Forgiveness, teachers who teach for five consecutive years in certain low-income schools may be eligible for up to $17,500 in loan forgiveness. Under the Public Service Loan Forgiveness program, Direct Loan borrowers who work full-time in certain public service jobs may, after having made 120 payments under certain repayment plans (IBR, ICR, PAYE, REPAYE, or the Standard Repayment Plan), have their outstanding loan balance forgiven in full, and the amount forgiven is considered nontaxable income. Borrowers who don't qualify because they repaid some payments under a non-qualifying plan or because they have FFEL loans instead of Direct Loans may instead qualify under the Temporary Expansion of PSLF (TEPSLF), a discretionary fund created by Congress in response to many denials in the early months of PSLF implementation.

More details about federal student loan repayment can be found in our Repayment primer.

Campus-Based Aid Programs

Outside of Pell and federal student loans, there is a trio of need-based aid programs administered by the U.S. Department of Education and commonly referred to as campus-based aid: Supplemental Educational Opportunity Grants (SEOG), Federal Work Study (FWS) and Perkins loans. Unlike Pell and federal student loans, funds for campus-based aid are distributed directly to participating schools, who then distribute them to students, and these schools must provide matching funds for loans through these programs. Historically, the campus-based aid programs have been very popular among participating schools due to the greater flexibility and control schools have to package this aid for individual students on their campuses.

While schools favor the flexibility of the campus-based aid programs, many believe that the formulas used to determine a school's allocation are flawed and inequitable. A substantial share of the funds under the campus-based programs is allocated in proportion to what schools received in prior years, not current enrollment of needy students. Funds are first distributed to schools based on what they received as their base guarantee in fiscal year 1999. Newer schools and schools that have experienced growth in their enrollments, especially among students qualifying for need-based financial aid, are significantly disadvantaged by the current hold harmless requirement in the campus-based programs.

Supplemental Educational Opportunity Grants

The Supplemental Educational Opportunity Grants (SEOG) program is among the oldest of the federal financial aid programs for undergraduate students and is one of the origins of the Pell program. Originally named the Educational Opportunity Grant, the program was renamed with the Higher Education Act Amendments of 1972.

At present, roughly 3,600 schools participate in the SEOG program. To participate in the program, schools are required to provide a 25 percent match to the federal funds they receive. SEOG funds are distributed among participating schools via a statutory formula, and appropriations for the SEOG program have remained relatively flat over the last few years. For fiscal year 2022, SEOG was funded at $880 million.

The maximum SEOG grant a student may receive is $4,000. As required by the Higher Education Act, schools are to award SEOG funds first to undergraduate Pell grant recipients who demonstrate exceptional need, (i.e., students with the lowest expected family contribution). If any funds remain after meeting the needs of these students, school may then distribute funds to undergraduate students who are not Pell recipients. In the 2019-2020 award year, 1.6 million undergraduates (around 9 percent of all undergraduates) received SEOG awards. The average award students received was $753. Among dependent undergraduates, 67 percent of SEOG recipients in 2019-2020 came from families with an income of less than $30,000. Among independent undergraduates, 70 percent of SEOG recipients had incomes of less than $20,000.[15]

Federal Work Study

The Federal Work Study (FWS) program is also one of the oldest higher education assistance programs, originating in the Economic Opportunity Act of 1964, then incorporated into the original Higher Education Act of 1965. The FWS program helps students finance their education by providing part-time employment for both undergraduate and graduate students who demonstrate financial need. Under the program, students may work at their school of attendance, a government agency (federal, state, or local), a private nonprofit organization, or a private for-profit organization.

The U.S. Department of Education allocates FWS funding directly to institutions that then select students for employment. FWS funds are distributed among participating schools via a statutory formula. Congressional appropriations for the FWS program in fiscal year 2022 were $1.2 billion.[16]

As with all campus-based aid programs, the FWS program requires a financial match from the institution. Generally, schools and employers must provide 25% of a student's earnings under FWS. For private, for-profit employers the match is 50%. Under certain circumstances, the match for private nonprofits and government agencies may be lowered to 10%. Student wages under FWS must equal or exceed the current federal minimum wage.

In the 2019-2021 school year, 3,100 schools participated in the FWS program and provided financial assistance to 578,860 undergraduate and graduate students. The vast majority– 93% –of FWS recipients were undergraduate students. Among undergraduates, 86% were dependent students. The average FWS award in 2019-2020 for dependent undergraduates was $1,811; for independent undergraduates the average award was $2,355; and for graduate students the average award was $2,694.[17]

Federal Perkins Loan Program

The oldest of the campus-based aid programs is the Federal Perkins Loans Program. These loans, originally called National Defense Student Loans, were the first federal student loans and were created as part of the National Defense Education Act of 1958. The loans were renamed Perkins loans in the Higher Education Act Amendments of 1986. Effective September 30, 2017, the authorization for the Perkins Loans program expired, and institutions cannot make any new loans under the program after June 30, 2018. However, $4.7 billion in Perkins loans were still in repayment as of March 31, 2021.[18]

Perkins loans were available to undergraduate and graduate students with exceptional financial need. There were approximately 1,500 schools participating in the Perkins loan program. Like the other campus-based aid programs, schools' financial aid offices administer the Perkins loan program and have great discretion in deciding the size of a student's Perkins loan. Schools make Perkins loans out of a federal revolving loan fund held at individual participating schools that consists of federal capital contributions, school matching funds, student loan repayments and reimbursements for Perkins loans public service loan forgiveness.

A student eligible for a Perkins loan could borrow up to $5,500 for each year of undergraduate study, and the total a student could borrow as an undergraduate was $27,500. Schools were not permitted to issue the loans to graduate students after 2016, but prior to that could borrow up to $8,000 per year and $60,000 in total, including amounts borrowed as an undergraduate.

Conclusion

In conclusion, federal student aid programs have assisted students and their families in paying for college since the 1950s. As the needs of borrowers, the landscape of institutions of higher education and the policy priorities of Congress have changed over the years, changes have been made. A keen understanding of the history and details of these programs can aid policymakers as they consider future changes to the programs.

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