Federal Student Aid Primer

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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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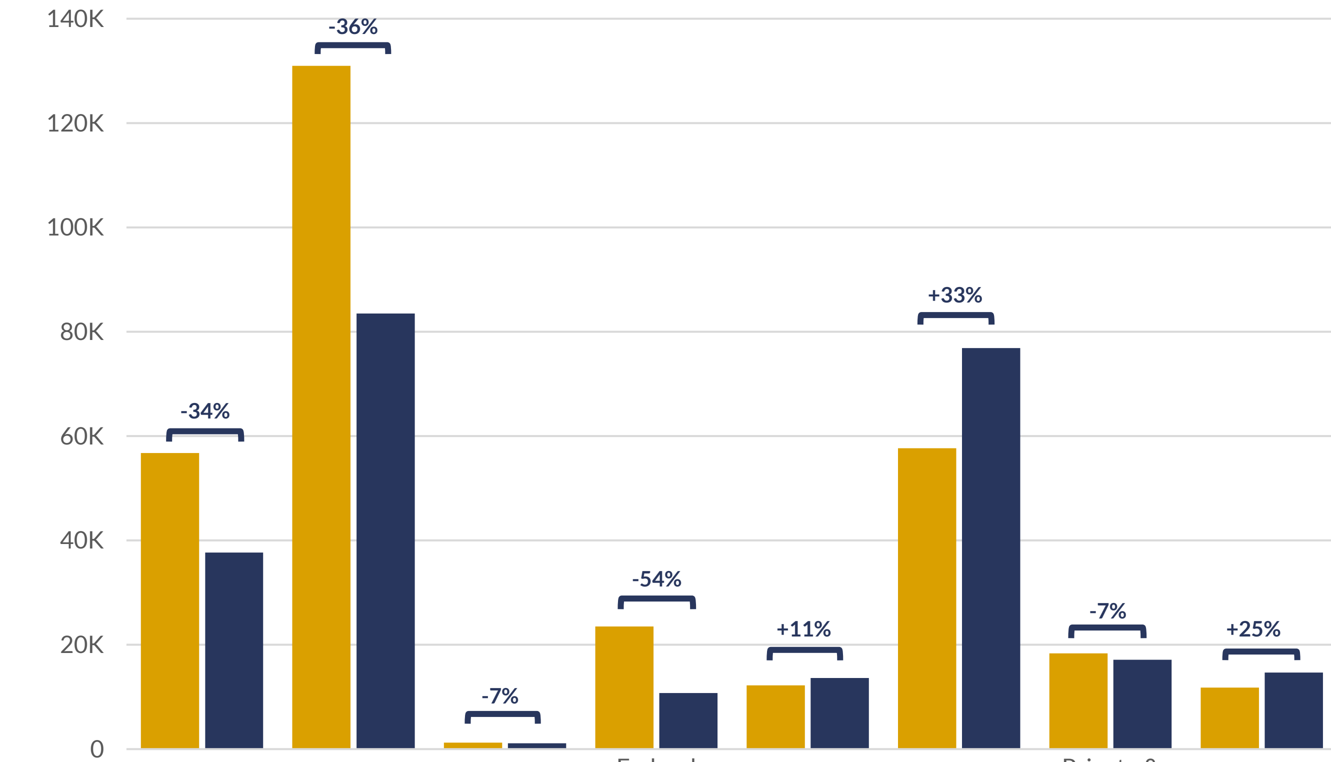
Federal Assistance to Help Students Pay for College

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, state governments, institutional grants, and private sources of funding to pay for their education. Though the federal government still accounts for a majority (52.1%, $133 billion) of the financial aid to students, its' share of all funds used to pay for postsecondary education fell from 67.9% over the last decade.

Funding for federal, state, and institutional student aid has varied over the last decade. Between 2012-2013 and 2022-2023, federal student aid through Pell Grants decreased 34% (from $40.8 billion to $27.2 billion). During the same period, state grants for postsecondary education grew 11% (from $12.2 billion to $13.6 billion), and institutional grants grew 33% (from $57.7 billion to $76.9 billion).[1]

Student Aid for Undergraduate and Graduate Study in 2023 Dollars (in millions)



	Federal Grants	Federal Loans	Federal Work Study	Federal Education Tax Benefit	State Grants	Institutional Grants	Private & Employer Grants	Nonfederal Loans
2012-13	$56,763	$130,946	$1,230	$23,480	$12,226	$57,696	$18,380	$11,800
2022-23	$37,697	$83,465	$1,138	$10,740	$13,627	$76,861	$17,150	$14,700

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.

[1] See Table 1 in College Board (2023). These figures have all been adjusted to 2023 dollars using the Consumer Price Index (CPI).

Overview of Federal Assistance for Postsecondary Education

There are four main types of federal assistance for postsecondary education—grants, loans, education tax benefits, and work study. Of the federal aid available in 2022-23 for both undergraduate and graduate study, 28.3% was in the form of grants, 62.7% was in the form of loans, 8.1% was in the form of tax benefits, and less than 1% was in the form of work study.[2]

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

Federal Student Financial Assistance Programs for Postsecondary Education, 2022-23

Program Type	Program
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 Qualified Tuition Reduction - Business Deduction for Work-Related Education - Qualified Tuition Plans (529s) - Coverdell Education Savings Accounts - Early Withdrawals from Individual Retirement Accounts

Sources: U.S. Department of Education; Internal Revenue Service

The remainder of this primer will concentrate on Federal grants, loans, and work study provided under the Higher Education Act.[3]

[2] See Table 1 in College Board (2023).
[3] Information on federal higher education tax benefits can be found on the Internal Revenue Service's website.

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 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. Beginning with the 2024-25 award year, the Office of Federal Student Aid will begin to use these data to determine a student's Student Aid Index (SAI), rather than the prior metric of expected family contribution (EFC).[4]

First enacted as part of the FAFSA simplification Act and the Consolidated Appropriations Act of 2021, the SAI 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 SAI indicates a greater need for financial assistance, and a key difference between the SAI and EFC is that an SAI can be negative (as low as -1500), allowing students to receive financial aid beyond their institution's Cost of Attendance.[5]

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

Cost of Attendance – SAI = Financial Need

Each institution then uses financial need to determine the amount of need-based aid to award depending on their available funds.

[4] See the 2024-2025 Federal Student Aid Handbook for more information on the change from EFC to SAI.
[5] See the guide for calculating aid eligibility between EFC and SAI from the FSA for more information on SAI methodology.

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.

Qualifying for Non-Need-Based Aid

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 = Non-Need-Based Aid Eligibility

Types of Federal Assistance for Postsecondary Education

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 97% of federal grant aid in 2022-2023 (veterans and military benefits are not included in the HEA).[6]

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. 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 2023-24 academic year is $7,395, with the amount of individual awards determined by financial need, total cost of attending a particular school, and full-time or part-time status. The minimum award is $750.[7]

In the 2021-22 academic year, 6.1 million students received Pell Grants with an average award of $4,255. The number of recipients has been declining from a peak of 9.4 million in the 2011-12 academic year. Dependent and independent students each comprise half of total recipients (52% and 48% respectively in 2021-22).[8] In academic year 2021-22, 32% of all undergraduates received a Pell Grant and those grants were used at 5,519 participating schools across the nation.[9]

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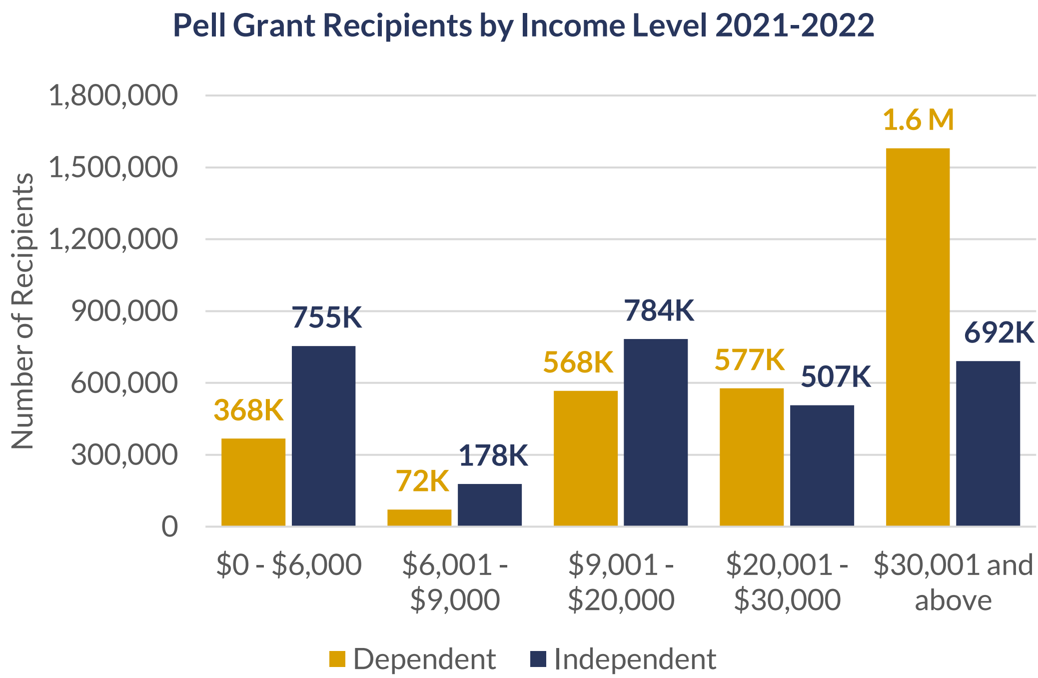
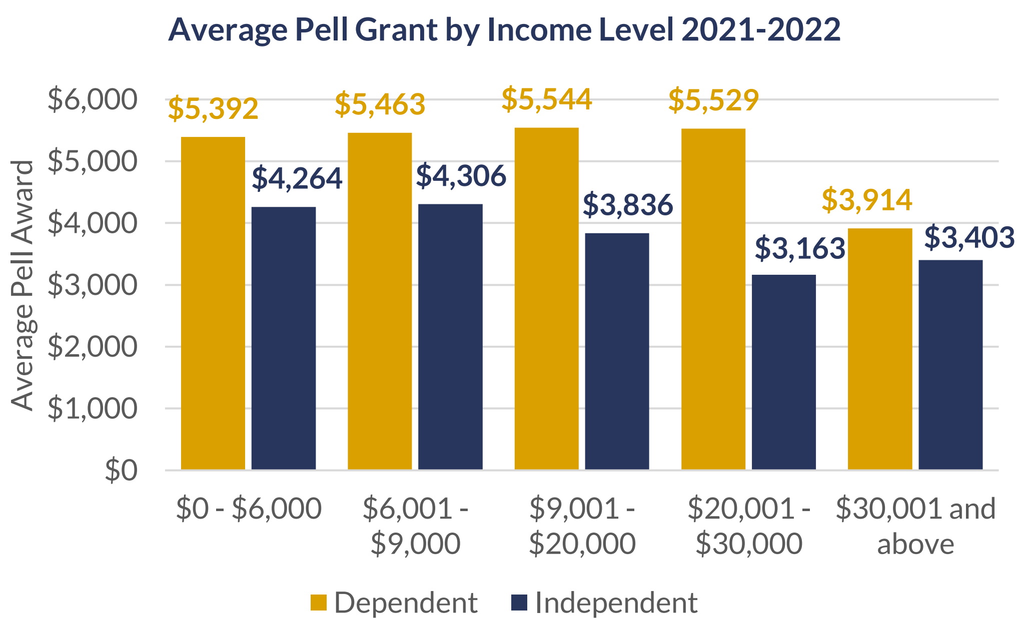
[6] See Table 1 in College Board (2023).
[7] See the Dear Colleague Letter from Federal Student Aid (2023).
[8] See Tables 1, & 2 of the Federal Student Aid's Pell End-Of-Year Reports (2023).
[9] According to the National Center of Education Statistics' Trend Generator (2023).

Because Pell Grants are based on financial need and scaled by family income, much of the data provided by ED regarding Pell Grants is broken down by income and dependency status. The two following charts show the number of Pell Grant recipients and the average grant amount by income, with nearly half of dependent Pell Grant recipients reporting family income of less than $30,000 annually. For independent students, 76.3% reported a family income of less than $30,000 annually. The average award for both dependent and independent students declines as family income increases, with a notable drop-off for dependent students with more than $30,000 in annual family income.



Source: Federal Student Aid, Pell End-Of-Year Reports (2023)



Source: U.S. Department of Education, Fiscal Year 2024 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 more than doubled: from $14.7 billion in 2007-2008 to $33.6 billion in 2011-2012.[10]

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. The American Recovery and Reinvestment Act of 2009 increased the maximum Pell Grant.

To pay for these increasing program costs without reducing the maximum Pell Grant, Congress has worked 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 (for a time), 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 for Pell.

Recent economic and enrollment trends 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 Congress has rescinded some of these surpluses in annual appropriations bills. 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 for several years through a separate funding stream provided on the mandatory side of the budget. Because the increase was mandatory, Congress did not have to appropriate funds for those increases. That provision expired after the 2016-2017 school year and now lawmakers must provide additional funds through the annual appropriations process when they want to increase the maximum grant. 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 action. Absent other policy changes, lawmakers will need to decide whether to increase the maximum grant–and annual funding–in each future appropriations bill.

[10] See Table 1 of the U.S. Department of Education's Pell End-Of-Year Reports (2023).

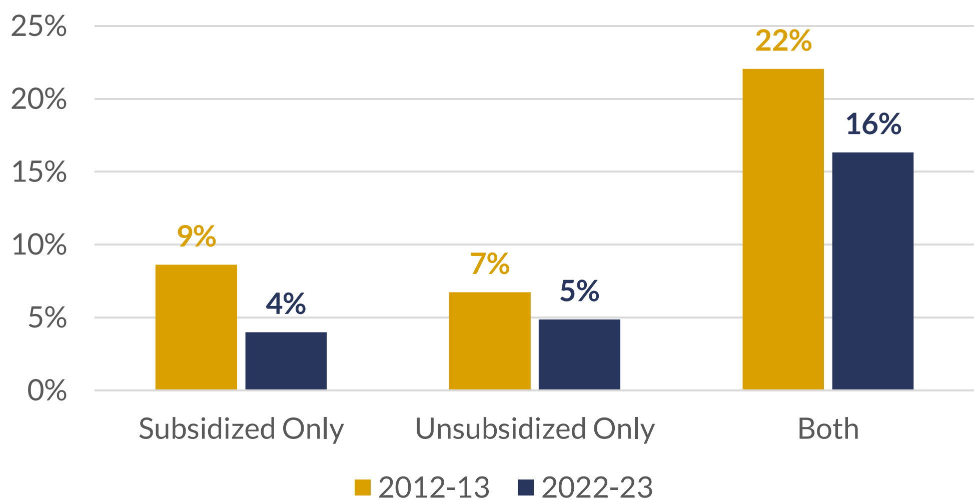
Federal Student Loans

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 $24.1 billion in the 1992-93 academic year to $83.5 billion in 2022-23. 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 which peaked in 2012-2013 at $131 billion and has fallen by 33% over the past decade.[11]

Direct, PLUS, and Consolidation loans are the Federal government's three primary loan programs to assist students and parents pay for 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 default costs. 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 few exceptions, 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 made after that date are made under the Direct Loan program.

Share of Undergraduates Taking Out Direct Loans



Source: College Board, Trends in Student Aid 2023

[11] For loan volume changes, see Table SA-1 in College Board (2023).

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 $3 billion in 2006-07 to $13.3 billion in 2022-23.[12]

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.

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[12] See Figure SA-6 in College Board (2023).

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 1993-94 academic year, for sophomores, juniors, seniors, and graduate students, along with increases in the aggregate limits. No additional increases occurred until the 2007-08 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 2008-09 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 $65,000 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 for 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 has set the rate in law or established 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.

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.

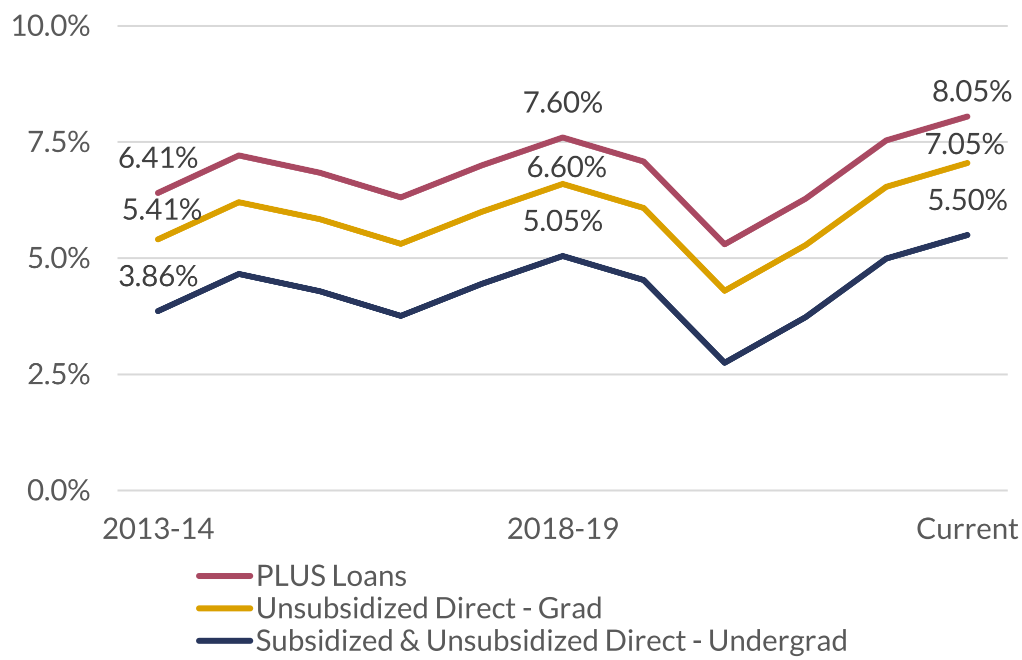
Current formulas for calculating effective interest rates (since July 1, 2013)

Loan Type	Current formula	Effective Rate (as of July 1, 2023)
Undergraduate Stafford Subsidized & Unsubsidized Loans	10-year T-bill + 2.05% (capped at 8.25%)	5.50%
Graduate Stafford Unsubsidized Loans	10-year T-bill + 3.6% (capped at 9.5%)	7.05%
Parent and Graduate PLUS Loans	10-year T-bill + 4.6% (capped at 10.5%)	8.05%
Consolidation Loans	Weighted average of interest rates on the federal loans being consolidated rounded up to the nearest 1/8th of one percent	

Source: U.S. Federal Register.

When viewing fixed interest rates since 2013, we see each type of rate follow the same trend, with PLUS loans consistently one percentage point above unsubsidized Direct Loans for graduate students, and Direct Loans—subsidized and unsubsidized—for undergraduate students being 1.55 percentage points below. In general, rates remained steady through 2018-19 with slight fluctuations, with a substantial drop in 2020-21 due to COVID-19. Since that low point, rates are currently as high as they have been since 2013.

Fixed interest rates since July 1, 2013[13]



Student Borrowing

Both the number of undergraduates borrowing, and the average amount students borrow has fallen over the past decade. Slightly more than five million undergraduates received Direct Stafford loans (unsubsidized and subsidized) in 2022-2023 – down from nine million undergraduates in 2012-2013. The total inflation adjusted amount of undergraduate direct loans borrowed has declined during the same time period from $73.1 billion to $32.8 billion.[14] 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.

[13] All dates listed are from July 1 – June 30.
[14] See Figures SA-9A and SA-9B in College Board (2023).

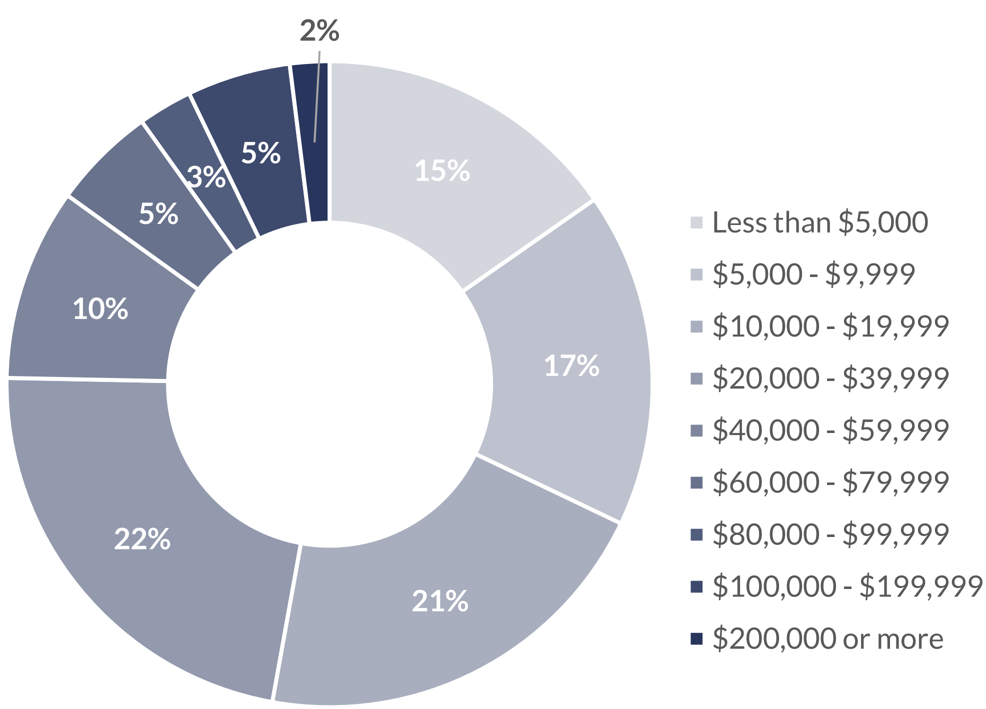
Federal Undergraduate Student Loan Borrowing - Direct Loans

	2012-13	2022-23
Subsidized & Unsubsidized Stafford Loans		
Number of Borrowers (in thousands)	9,024	5,037
Total Amount Borrowed (billions in 2022 dollars)	$73.1	$32.8
Avg. Amount per Borrower (in 2022 dollars)	$8,100	$6,520

Source: College Board, Trends in Student Aid 2023.

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 December 27, 2023, 32% 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 2023 Q4 Balances



Source: Federal Student Aid Data Center, 2023 Q4

The distribution of loan balances when borrowers leave school offers another perspective on student debt loads. The most recent U.S. Department of Education National Postsecondary Student Aid Study (NPSAS) 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 2019-20 academic year, the median federal student loan balance was $20,998.[15] Nearly 50% of all students who completed their programs in 2019-20 still owed some portion of their federal student loans.[16]

Student Loan Repayment

There are multiple plans available to students and parents for the repayment of federal student loans. 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
Since 2009, under income-based repayment (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.

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).

[15] NPSAS:20, table ID: mpdfgz.
[16] NPSAS:20, table ID: dkyhqv.

Saving on a Valuable Education

Previously known as Revised Pay As You Earn (REPAYE), Saving on a Valuable Education (SAVE) became available in August 2023. All borrowers who were enrolled in REPAYE were automatically enrolled in SAVE. All borrowers with direct loans are eligible. Monthly payments are capped at 10% of a borrower's monthly discretionary income. Unlike PAYE and IBR, SAVE does not require borrowers to demonstrate their payments would be lower under SAVE than on the standard plan to qualify. Outstanding balances on loans strictly for undergraduate education are forgiven after 20 years; balances that contain loans used for graduate or professional school qualify for loan forgiveness after 25 years of payments. SAVE also forgives 100% of all unpaid accrued interest each month, a benefit that does not exist under any other income-based repayment plan. Borrowers enrolled in SAVE may pay more than the standard repayment plan over time if they have a large enough initial principal balance to warrant 20 or 25 years of payment. In addition, monthly payments may be higher than payments on a standard 10-year repayment plan, depending on the borrower's income. The SAVE plan differs from the previous REPAYE plan by increasing the income exemption from 150% to 225% of the federal poverty line and excluding spousal income if a borrower is married but filing taxes separately when determining a monthly payment.

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.

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, SAVE, 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.[17]

Following the end of the repayment pause put into place during the COVID-19 pandemic, there were several policymakers and higher education experts concerned about restarting the payment system, with particular worry about student loan servicers' capacity to resume.[18] These fears appear to be warranted, based on new survey data from the Federal Reserve Bank of Philadelphia's Consumer Finance Institute. The researchers at the Federal Reserve surveyed 2000 student loan borrowers in November 2023 to ask them about their repayment actions and patterns after the pause ended on October 1, 2023. During October, 64.1% of borrowers reported paying their full amount owed, 21.2% reported paying a partial amount, while 14.7% of borrowers reported not paying any amount they owed for the month.[19] When those borrowers who did not pay their full amount were asked why, 56.3% reported that they could not afford the resumption of payments, 18.1% reported that they were unable to contact their servicer, and 15% reported that their payment was not complete due to servicer error.[20]

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. Historically, 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.

[17] More details about federal student loan repayment can be found in our Repayment primer.
[18] See this news story from July, 2023 about policymaker concerns with servicers.
[19] See figure 3 in the Federal Reserve's report.
[20] See figure 6 in the Federal Reserve's report.

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 2023, SEOG was funded at $910 million.

The maximum SEOG 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).[21] 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 2020-21 award year, 1.87 million undergraduates (nearly 9 percent of all undergraduates) received SEOG awards. The average award students received was $776. Among dependent undergraduates, 66% of SEOG recipients in 2020-21 came from families with an income of less than $30,000. Among independent undergraduates, 67% of SEOG recipients had incomes of less than $20,000.[22]

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 2023 were $1.23 billion.

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 work in private nonprofits and government placements may be lowered to 10%. Student wages under FWS must equal or exceed the current federal minimum wage.

In the 2020-21 school year, 3,100 schools participated in the FWS program and provided financial assistance to 371,643 undergraduate and graduate students. The vast majority– 89% –of FWS recipients were undergraduate students. Among undergraduates, 88% were dependent students. The average FWS award in 2020-21 for dependent undergraduates was $1,742; for independent undergraduates the average award was $2,225; and for graduate students the average award was $2,701.[23]

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[21] Beginning with the 2024-25 award year, EFCs will be replaced with the SAI.
[22] See page 23 in the U.S. Department of Education's 2024 Fiscal Year Budget Request (2023).
[23] See page 28 in the U.S. Department of Education's 2024 Fiscal Year Budget Request (2023).

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 in honor of Carl D. Perkins, a U.S. Representative from Kentucky. 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, $3.6 billion in Perkins loans were still outstanding as of December 27, 2023.[24]

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 Perkins loans to graduate students after 2016, but prior to that they could borrow up to $8,000 per year and $60,000 in total, including amounts borrowed as an undergraduate.

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.

[24] See the Federal Student Aid Portfolio Summary of the Federal Student Aid Data Center (2023).

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