THE INSTITUTE FOR COLLEGE
ACCESS & SUCCESS

# Ensure Borrowers Have Affordable Student Loan Repayment Options

The OBBBA made significant changes to the federal student loan repayment system. For borrowers who take out loans on or after July 1, 2026, it eliminates access to all existing income-based plans and replaces them with a new "Repayment Assistance Plan" (RAP). It also eliminates access to any income-based options for new federal Parent PLUS borrowers.

In addition, the OBBBA collapses the current standard, graduated, and extended repayment plans into a single "standard" plan with varying repayment lengths based on a borrower's loan balance. It also eliminates deferment and forbearance options for borrowers facing unemployment and economic hardship.

## Payments Set to Increase

In December 2025, the Education Department announced a settlement agreement to officially terminate the SAVE plan and require all enrolled borrowers to move into a new plan. This move, which will increase monthly payments for the 7+ million borrowers currently enrolled in SAVE, comes as 45% of borrowers say they have had to make tradeoffs between covering their basic needs and staying current on their monthly loan payments.

### Compared to the SAVE Plan

- RAP raises payments for most borrowers.
- Charges the lowest-income borrowers disproportionately more than those with higher incomes.
- Extends the maximum repayment term from the current 10-25 years to 30 years.
- Under RAP's monthly payment formula, borrowers will also see unpredictable payment spikes whenever their income crosses certain arbitrary thresholds, meaning borrowers could be penalized for small cost-of-living raises.

## On the Edge of a "Default Cliff"

These shifts have driven ongoing concerns about a looming "default cliff," where an unprecedented number of borrowers struggle so much to repay their loans that they default on their payments in droves. Federal data released in October 2025 shows there are currently more than 5.5 million borrowers in default, and another 3.7 million are about to enter default. We urge lawmakers to make additional reforms to the changes made via the OBBBA to ensure the repayment system is actually affordable for all borrowers. Without access to truly affordable payments, millions more borrowers will fall behind.

## Congressional Action

- **Revise the formula for determining monthly payment amounts** so that monthly payments are actually affordable for struggling borrowers and to restore the $0 payment option for the lowest-income borrowers.
- **Reduce the maximum repayment term** to no longer than 20 years for all borrowers.
- **Restore borrowers' ability to pause their payments** due to acute financial hardship or unemployment.
- **Restore access to an income-based repayment option for all Parent PLUS borrowers.** Starting July 1, 2026, any Parent PLUS borrower who takes out any loans after that date will lose all access to income-based plans.
- **Require the Education Department to provide borrowers with timely, clear, and actionable information** about how their repayment options are changing and how to access their preferred repayment plan.
- **Hold loan servicers accountable for properly managing borrower accounts and providing expedient customer support.** At minimum, this means properly calculating borrowers' monthly payment amounts, ensuring correct reporting to credit agencies, and correctly tracking borrowers' progress toward loan discharge.
- **Restore bankruptcy protections for student loan borrowers.** Federal bankruptcy law treats federal student loans even more stringently than other forms of consumer debt, excluding both from discharge except in rare cases of proven "undue hardship." To remove barriers to relief for borrowers who are truly unable to repay, Congress should restore borrowers' ability to discharge student debt through bankruptcy.
- **Permanently end the taxation of discharged student debt.** Current law unfairly and arbitrarily gives a much-needed tax break to some borrowers and denies tax breaks to others based on the circumstances by which the loans were forgiven or discharged. Discharged student debt is not a windfall of income, and the benefit of loan relief is severely undermined if discharged loan balances are treated as taxable income, immediately replacing one unaffordable debt with another. While Congress passed a temporary provision during the pandemic to exempt all discharged student debt through the end of 2025, that provision has expired.