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Direct Loan Program Student Loans: Terms and Conditions

The William D. Ford Federal Direct Loan (Direct Loan) program is the largest source of federal financial aid supporting students' postsecondary educational pursuits. As of March 31, 2024, \$1.4 trillion in Direct Loan program loans, borrowed by or on behalf of 38 million individuals, were outstanding. When borrowing a loan, a borrower assumes a contractual obligation to repay the debt over a period of time that may span a decade or more.

Under the program, the government makes loans to individuals using federal capital. The loans are an asset of the federal government, and the government assumes the risk of losses that may occur as a result of borrower default or loan discharge or forgiveness. The Department of Education's (ED's) Office of Federal Student Aid (FSA) is the primary entity tasked with administering the program. Working with FSA, institutions of higher education originate loans to borrowers, and FSA contractors service and collect on program loans.

This In Focus provides a brief overview of the terms and conditions of loans made under the Direct Loan program. For a comprehensive description of these terms and conditions, see CRS Report R45931, *Federal Student Loans Made Through the William D. Ford Federal Direct Loan Program: Terms and Conditions for Borrowers*.

Direct Loan Types

Under the Direct Loan program, four loan types are available. *Direct Subsidized Loans* are available only to undergraduate students with financial need. *Direct Unsubsidized Loans* are available both to undergraduate and graduate students. *Direct PLUS Loans* are available to graduate students and parents of dependent undergraduate students. *Direct Consolidation Loans* allow individuals who have at least one qualifying federal student loan to borrow a new loan and use the proceeds to pay off their existing federal student loan obligations. The latter three loan types are available to borrowers regardless of financial need.

Eligibility and Amounts That May Be Borrowed

Eligibility to borrow a Direct Loan varies by loan type, borrower characteristics (e.g., dependency status, financial need), program level (e.g., undergraduate or graduate), and class level (e.g., 1st year, 2nd year). The amount an individual may borrow is subject to annual and aggregate borrowing limits (**Table 1**), and federal need analysis and packaging procedures (i.e., the process of awarding student aid based on program rules). In general, loans are available in amounts constrained by program rules, regardless of a borrower's ability to repay. Eligibility to borrow a Direct PLUS Loan depends on an individual's creditworthiness.

Table 1. Annual and Aggregate Loan Limits by Borrower Type and Program Level

Borrower Type and Program Level ^a	Annual Limit	Aggregate Limit
Undergraduate Students		
Total Subsidized^b and Unsubsidized Loans—Dependent Students^c		
1 st year	\$5,500	
2 nd year	\$6,500	\$31,000
3 rd year and above	\$7,500	
Total Subsidized^b and Unsubsidized Loans—Independent Students^c		
1 st year	\$9,500	
2 nd year	\$10,500	\$57,500
3 rd year and above	\$12,500	
Graduate Students		
Unsubsidized Loans, in general	\$20,500	\$138,500 ^d
PLUS Loans, in general	COA-EFA ^e	Not limited
Parents of Dependent Undergraduate Students		
PLUS Loans, in general	COA-EFA ^e	Not limited

Sources: HEA §§428, 428H, 451, and 455; 34 C.F.R. §685.203.

- Table depicts borrowing limits for undergraduate and graduate educational programs in general. Different annual and aggregate loan limits may apply to specified educational programs, such as preparatory coursework for an undergraduate program or graduate health professions programs.
- Annual and aggregate limits apply to Direct Subsidized Loans (not displayed in table) and the total combined amount that may be borrowed through Direct Subsidized and Unsubsidized Loans (displayed). Aggregate borrowing limits for Direct Subsidized Loans equal \$23,000.
- In determining Direct Loan eligibility, parents' income and assets are used for dependent students, and the student's income and assets (and their spouse's, if applicable) are used for independent students.
- Aggregate loan limits for graduate students include amounts borrowed for undergraduate study.
- Direct PLUS Loans do not have a statutory borrowing limit; however, all estimated financial aid (EFA) may not exceed cost of attendance (COA).

Interest

Interest is charged on Direct Loan program loans. All loans currently being made through the program have fixed interest rates that remain constant from loan disbursement until it is paid in full. In general, for new loans made during each 12-month period from July 1 through June 30, the applicable interest rate (**Table 2**) is: (1) the bond equivalent rate of the 10-year U.S. Treasury notes auctioned at the final auction preceding June 1, plus (2) an add-on rate, which varies by loan type and program level for which the loan was borrowed. Interest rate caps apply. For Direct Consolidation Loans, interest rates equal the weighted average of the interest rates in effect on the loans being consolidated, rounded the result to the nearest highest one-eighth of 1%. Interest subsidies are largely limited to Direct Subsidized Loans; however, subsidies may be provided on all loan types in certain cases.

Table 2. Interest Rates on Direct Loans Made July 1, 2024-June 30, 2025

Borrower Type	Subsidized Loan	Unsubsidized Loan	PLUS Loan
Undergraduate students	6.53%	6.53%	n.a.
Graduate students	n.a.	8.08%	9.08%
Parent of dependent undergraduate students	n.a.	n.a.	9.08%

Source: U.S. Department of Education, Office of Federal Student Aid, Electronic Announcement DL-24-03, "Interest Rates for Direct Loans First Disbursed on or After July 1, 2024 and Before July 1, 2025," May 14, 2024, <https://fsapartners.ed.gov/knowledge-center/library/electronic-announcements/2024-05-14/interest-rates-direct-loans-first-disbursed-between-july-1-2024-and-june-30-2025>.

Note: n.a. = not applicable.

Loan Origination Fees

Loan origination fees are charged to borrowers of Direct Subsidized Loans, Direct Unsubsidized Loans, and Direct PLUS Loans; no fees are charged to borrowers of Direct Consolidation Loans. These fees help offset federal loan subsidy costs by passing along some of the costs to borrowers. Origination fees are calculated as a proportion of the loan principal borrowed and are deducted from the loan before it is disbursed to a borrower. The HEA specifies a loan origination fee of 1% for Direct Subsidized and Unsubsidized Loans and of 4% for Direct PLUS Loans. Budget sequestration orders that apply to direct (mandatory) spending may require the origination fee to be increased in a given fiscal year.

Loan Repayment Plans

Numerous repayment plans, each with different payment structures and maximum durations, are available to borrowers. The fixed repayment plans are plans with monthly payments that are based on a prescribed repayment

period, the amount of a borrower's loan debt, and the loan's interest rate. Under these plans, monthly payments must cover the interest that accrues and borrowers must pay off the entire balance of their loan within a maximum timeframe of 10-30 years.

The income-driven repayment (IDR) plans are plans with monthly payments that are capped at a specific percentage (e.g., 10% or 15%) of a borrower's discretionary income. Under these plans, monthly payments may be less than the interest that accrues and may be as low as \$0. Any remaining loan balances after a specified period (e.g., 20 or 25 years) are forgiven.

The alternative repayment plans are available to borrowers in situations in which borrowers demonstrate that the terms of the other repayment plans "are not adequate to accommodate [their] exceptional circumstances."

Deferment and Forbearance

Deferment is a temporary period during which a borrower's obligation to make regular monthly payments on their loan is suspended, and during which an interest subsidy may be provided. Deferments are available for a variety of reasons, such as when a student is pursuing postsecondary education or experiencing economic hardship.

Forbearance is a temporary period during which a borrower may cease making monthly payments, make payments in reduced amounts, or make payments over an extended period. In most cases, an interest subsidy is unavailable during forbearance periods. Forbearance is available for a variety of reasons, such as when a borrower is experiencing temporary hardship or during periods when ED is processing certain loan benefits.

Loan Discharge and Loan Forgiveness

ED may discharge or forgive a borrower's obligation to repay all or a portion of their loans in certain circumstances. Student loan debt may be discharged on the basis of borrower adversity (e.g., total and permanent disability, bankruptcy, school closure) or may be forgiven following an extended period of repayment according to an IDR plan or completion of a period of public service.

Loan Default

A Direct Loan is considered to be in default if the borrower fails to make payments when due or otherwise fails to adhere to the loan's terms for 270 days. On default, the loan balance becomes due in full and the borrower loses eligibility for many borrower benefits (e.g., deferment, forbearance, forgiveness) and access to other forms of federal student aid. The government uses numerous means to collect on defaulted student loan debt such as administrative wage garnishment and offset of federal income tax returns and Social Security benefits. A borrower may bring a defaulted loan back into good standing through several options.

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