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Direct Loan Program Student Loans: Loan Types and Limits

The U.S. Department of Education (ED) estimates it will make about \$135 billion in new loans through the William D. Ford Federal Direct Loan (Direct Loan) program—the primary federal student loan program—to approximately 14 million borrowers in FY2025. Outstanding Direct Loan program debt currently totals \$1.4 trillion. The program comprises four loan types, each with differing borrower eligibility criteria and characteristics. Individuals may borrow these loans up to annual and aggregate limits, which vary by loan type and borrower characteristics. For a detailed description of these topics, 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 and Borrower Eligibility

The Higher Education Act (HEA) authorizes four types of loans under the Direct Loan program: Subsidized Loans, Unsubsidized Loans, PLUS Loans, and Consolidation Loans. Aside from basic eligibility criteria that apply to all Direct Loans (e.g., citizenship status), additional eligibility criteria such as program level and borrower need apply to individual loan types (Table 1).

Table 1. Direct Loan Program Loan Types and Select Borrower Eligibility Criteria

Loan Type	Borrower Type	Need-Based	Adverse Credit History Check
Subsidized	Undergraduate students	✓	X
Unsubsidized	Undergraduate and graduate students	X	X
PLUS	Graduate students or parents of dependent undergraduate students	X	✓
Consolidation	Has at least one outstanding qualifying federal student loan	X	X

Source: HEA §§427, 428, 428B, 428C, 428H, and 455.

Only Subsidized Loans are *need-based*; that is, to be eligible for Subsidized Loans a borrower must show that their available financial resources (e.g., funds expected to be paid by the student and their family—referred to as the Student Aid Index—and other financial aid such as Pell Grants and scholarships) do not cover their school's cost of attendance (e.g., tuition, books).

With the exception of PLUS Loans, individuals may borrow Direct Loans regardless of whether they are creditworthy. To borrow PLUS Loans, an applicant must not have an *adverse credit history*. If they do, they may not borrow a PLUS Loan unless they either obtain an endorser or demonstrate that extenuating circumstances related to their credit history exist.

Consolidation Loans enable individuals with 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. This is a form of debt refinancing.

Loan Limits

Amounts that may be borrowed in Direct Loans are subject to annual and aggregate borrowing limits, federal need analysis, and packaging procedures (i.e., the process of awarding student aid based on federal rules). Table 2 shows current annual and aggregate Direct Loan borrowing limits. It also shows average cumulative amounts borrowed to degree completion for select degree types in award year 2019-2020 (the most recent data available).

Table 2. Annual and Aggregate Direct Loan Limits and Average Cumulative Amounts Borrowed by Select Degree Types in AY2019-2020

Borrower Type and Program Level ^a	Annual Limit	Aggregate Limit	Average Amount Borrowed ^b (degree type)
Undergraduate Students			
Total Subsidized^c and Unsubsidized Loans—Dependent Students^d			
1 st year	\$5,500		
2 nd year	\$6,500	\$31,000	\$21,100 (bachelor's)
3 rd year and up	\$7,500		
Total Subsidized^c and Unsubsidized Loans—Independent Students^d			
1 st year	\$9,500		
2 nd year	\$10,500	\$57,500	\$30,700 (bachelor's)
3 rd year and up	\$12,500		
Graduate and Professional Students			
Unsubsidized Loans, in general	\$20,500	\$138,500 ^e	\$58,600 (master's)
PLUS Loans, in general	COA-EFA ^f	Not limited	\$162,600 (professional)

Borrower Type and Program Level ^a	Annual Limit	Aggregate Limit	Average Amount Borrowed ^b (degree type)
Parents of Dependent Undergraduate Students			
PLUS Loans, in general	COA-EFA ^f	Not limited	\$34,600 (bachelor's)

Source: HEA §§428, 428B, 428H, 451, and 455; 34 C.F.R. §685.203; ED, National Postsecondary Education Student Aid Studies (NPSAS) 2019-2020.

- Table depicts borrowing limits for undergraduate and graduate educational programs in general. Different annual and aggregate loan limits apply to specified educational programs, such as preparatory coursework for an undergraduate program or graduate health professions programs.
- Includes amounts borrowed under any HEA Title IV program, including Direct Loans, among degree completers. Estimates for graduate and professional degrees include undergraduate borrowing.
- Annual and aggregate limits apply to Subsidized Loans (not displayed) and to the combined amount borrowed in Subsidized and Unsubsidized Loans (displayed). The aggregate borrowing limit for Subsidized Loans is \$23,000.
- In determining financial need for Subsidized 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 limit includes amounts borrowed in Subsidized and Unsubsidized Loans for undergraduate education.
- PLUS Loans do not have fixed annual borrowing limits; however, all estimated financial aid (EFA) may not exceed cost of attendance (COA) in an academic year.

Additional Loan Characteristics

Several other factors differentiate Direct Loan types:

Interest Subsidies. Subsidized Loans have an interest subsidy (i.e., interest is not fully charged) during certain periods, such as while a borrower is enrolled at least half-time in an eligible educational program. In general, neither Unsubsidized nor PLUS Loans have an interest subsidy. Consolidation Loans typically have an interest subsidy for the portion of the loan attributable to any Subsidized Loans that it repaid.

Interest Rates. Under current interest rate setting procedures, Direct Loans to undergraduate students have lower interest rates than Unsubsidized Loans to graduate students. PLUS Loans have the highest interest rates among all non-Consolidation loans. Consolidation Loan interest rates equal the weighted average of the interest rates in effect on the Consolidated Loan, rounded to the next highest one-eighth percentage point.

Borrower Benefits. Fewer loan benefits are available for PLUS Loans made to parents of dependent undergraduate students. For example, several loan repayment plans available to repay other loan types are not available to repay these loans.

Selected Issues

The number of student loan borrowers and the amounts in federal student loans that they borrow have generally increased over time. Congress might consider whether the current mix of available loan types and borrowing limits meet intended goals.

Available Loan Mix

Prior to July 1, 2012, graduate students could borrow Subsidized Loans. The Budget Control Act of 2011 eliminated Subsidized Loans to graduate students as a federal cost savings measure. Some stakeholders have suggested restoring graduate student eligibility for these loans, as they tend to offer a lower-cost financing option for borrowers compared to other federal student loan types available to graduate students. However, the interest subsidy available with these loans may result in increased Direct Loan program costs to the federal government.

Some policymakers have proposed eliminating the availability of PLUS Loans to graduate students (Grad PLUS Loans), citing these loans as a driver of rising costs of graduate education programs. They argue that because borrowers of these loans may borrow up to the cost of attendance, schools may be incentivized to raise their tuition to capture additional student aid. Eliminating Grad PLUS Loans as a source of financing could potentially impose financial constraints on would-be borrowers. Some may turn to other sources of student aid like private education loans, which often do not offer the same benefits (e.g., forgiveness options) as federal student loans, and have higher interest rates. Others may forgo pursuing graduate education altogether.

Loan Limits

Congress has not raised aggregate loans limits for undergraduate students since 2008. Since then, college prices have increased, thus diluting student loan purchasing power. Congress might consider increasing loan limits to undergraduate students. Doing so could provide students with access to additional federal financial assistance, which may improve postsecondary education outcomes (e.g., increase degree attainment). Congress might also consider decreasing current undergraduate loan limits. Doing so may mitigate the risk of individuals borrowing unaffordable student loan amounts and limit incentives for schools to increase prices. Stricter borrowing limits may, however, impose financial constraints on would-be borrowers.

From June 2014 to June 2024, outstanding balances of Grad PLUS Loans increased by over 180%, while the combined outstanding balances of Subsidized and Unsubsidized Loans increased by less than 50%. Many factors may have contributed to outsize increases in outstanding Grad PLUS Loan balances, but some stakeholders posit that the lack of precise annual and aggregate borrowing limits on these loans has played a lead role. Thus, they have suggested Congress enact “reasonable” borrowing limits. Doing so may have similar results as lowering borrowing limits for undergraduates.

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