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The Potential Increase in Federal Student Loan Defaults in Fall 2025 (“Default Cliff”)

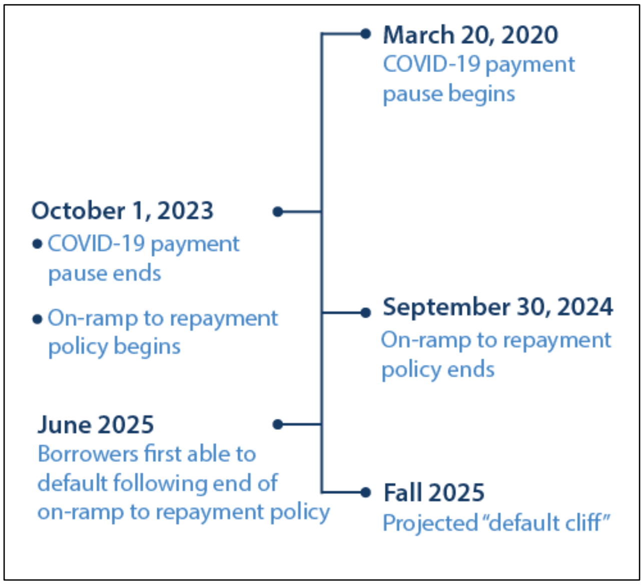
Recently, multiple news outlets and advocacy organizations have asserted that borrowers of federal student loans will soon face a so-called “default cliff.” The default cliff anticipates a significant increase in the number of borrowers defaulting on their loans in fall 2025. This predicted cliff is generally the result of a large number of borrowers not having made due payments on their loans since fall 2024, following the end of the COVID-19 payment pause (a type of forbearance) and subsequent year-long “on-ramp” to repayment policy implemented by the U.S. Department of Education (ED).

Conditions for Default and Potential Causes

A federal student loan borrower is generally considered in default on their loans after not making required payments when due for 270 days. From March 2020 to October 2023, most federal student loan borrowers were not required to make monthly payments on their loans because of the COVID-19 payment pause and a subsequent, approximately month-long period for ED and its loan servicers to restart borrower billing cycles. ED then instituted a year-long on-ramp to repayment policy. Under this policy, borrowers were required to make monthly payments due on their loans, but ED placed borrowers who were more than 90 days delinquent on their loans in a “retroactive administrative forbearance.” The effect of this latter policy was to delay certain consequences, such as negative credit reporting and default, for borrowers who failed to make required monthly payments. When the on-ramp ended on September 30, 2024, borrowers were required to make monthly payments on their loans and were considered delinquent by ED if they did not.

The most recently available data show that as of June 30, 2025, the ED-held federal student loans of approximately 5.3 million recipients totaling about $117 billion are in default. These defaults mostly reflect borrowers who defaulted prior to the COVID-19 payment pause. Also, as of June 30, 2025, the ED-held loans of approximately 4.3 million recipients totaling about $103 billion are between 181 and 270 days delinquent, a level of delinquency that corresponds with these borrowers making no due payments since the on-ramp to repayment policy ended. If these 4.3 million individuals with delinquent loans do not take action to cure their delinquency, they risk entering default in fall 2025, and the federal student loan portfolio may see an almost doubling of the number of defaulted loan recipients and of defaulted loan amounts. **Figure 1** presents a timeline of federal student loan events that preceded the projected default cliff.

Figure 1. Timeline of Federal Student Loan Events Preceding the Projected Default Cliff


March 20, 2020
COVID-19 payment pause begins
October 1, 2023
● COVID-19 payment pause ends
● On-ramp to repayment policy begins
September 30, 2024
On-ramp to repayment policy ends
June 2025
Borrowers first able to default following end of on-ramp to repayment policy
Fall 2025
Projected "default cliff"

Source: U.S. Department of Education, Office of Federal Student Aid, “COVID19 Emergency Relief and Federal Student Aid,” https://studentaid.gov/announcements-events/covid-19 (accessed September 25, 2025), and CRS analysis.

A primary reason asserted by stakeholders for the default cliff is that following the COVID-19 payment pause and on-ramp policies, many borrowers may have become disconnected from the student loan system and fallen out of the habit of making monthly loan payments. ED has noted that borrowers typically are at higher risk of delinquency or default following prolonged periods of loan forbearance. Other potential causes observers have noted (that may work in combination with borrowers’ disengagement from the student loan system) include high college costs, poor loan servicing (e.g., loan servicers providing borrowers with inaccurate information about their loans), and borrowers’ not budgeting adequately for student loan payments in anticipation of proposed debt relief by the Biden Administration.

Implications for Borrowers

Upon default, a borrower’s obligation to repay the defaulted loan is *accelerated*—the entire unpaid balance of principal and interest immediately becomes due—and the borrower loses eligibility for additional Higher Education Act (HEA) Title IV federal student aid (e.g., Pell Grants) as well as certain loan benefits such as loan deferment, forbearance, and forgiveness. Defaulted borrowers may also be subject to other consequences.

- ED reports the default to consumer reporting agencies. Consumer reporting agencies may report information on the status of a borrower’s defaulted student loan for seven years from the date of the default.

- After 360 days of delinquency (90 days after default), ED transfers a defaulted ED-held loan to its Default Resolution Group (DRG), which services all ED-held defaulted federal student loans.

- Up to 15% of a borrower’s disposable pay may be garnished (often referred to as *administrative wage garnishment*). *Disposable pay* is the part of a borrower’s compensation that remains after deducting amounts required by law to be withheld.

- If a borrower is a current or former federal employee, up to 15% of their disposable pay (including retirement pay) may be offset.

- A borrower’s federal income tax refunds, Social Security benefits, and certain other federal benefits may be offset through the Treasury Offset Program (TOP). (In June 2025, ED indefinitely paused offset of borrowers’ Social Security benefits.)

- A borrower’s defaulted loan may be reported to the Credit Alert Verification Reporting System, a federal database of individuals who have defaulted on their federal debt that is used to prescreen applicant eligibility for various federal direct and guaranteed loans.

- A borrower may be subject to litigation to compel repayment. If this option is pursued, the U.S. Department of Justice may sue the borrower on behalf of ED.

- A borrower may be assessed collection charges, including loan collection fees, TOP processing fees, court costs, and attorney’s fees.

Implications for the Federal Government

The federal government acts as the lender or guarantor of federal student loans, varying by loan program. Given these roles, a default on a federal student loan results in a cost to the federal government, depending on the extent to which it can recover defaulted payments.

The Debt Collections Improvement Act requires federal agencies to “try to collect a claim of the U.S. government for money or property,” and the HEA authorizes methods for borrowers to bring their loans into good standing (e.g., rehabilitation and consolidation). Previously, ED contracted with 11 private collection agencies (PCAs) to perform many of these functions. In December 2021, at a time when most debt collection activities were suspended in response to the COVID-19 pandemic, ED terminated its contracts with all 11 PCAs and transferred all defaulted borrower accounts to the DRG. Currently, a single contractor operates the DRG, and many debt collection activities recently restarted after an almost five-year pause. A large influx of defaulted student loans in a short period of time may pose challenges to ED and its single contractor in collecting defaulted student loans and assisting borrowers in bringing their loans into good standing.

Implications for Institutions of Higher Education (IHEs)

High rates of default among a single IHE’s student loan borrowers may impact its eligibility to participate in the HEA Title IV programs. Specifically, Title IV participating IHEs may be required to meet *cohort default rate* (CDR) requirements. Generally, the CDR is the percentage of an IHE’s qualifying student loan borrowers who enter repayment in a given year and default within three years. An IHE may lose its eligibility to participate in the Direct Loan program if its CDR is 40% or greater in a single year and may lose its eligibility to participate in the Direct Loan and Pell Grant programs if its CDR is 30% or greater for three consecutive years. Title IV participation for IHEs not meeting these thresholds but with sufficiently high CDRs may be impacted as well (e.g., an IHE may be required to submit to ED a default prevention plan).

In recent years, CDRs have been markedly lower than in the past due to the effects of the COVID-19 payment pause. Most borrowers were not required to make payments on their loans during this time; thus, they did not default. Because borrowers are recently able to once again default on their loans, it is possible that institutional CDRs will increase as compared to recent years, though CDRs that include loans that have defaulted since the end of the COVID-19 payment pause and on-ramp to repayment will not be issued by ED until approximately September 2026.

In July 2025, ED published data presenting the *nonpayment rate* of individual IHEs. Some commentators have asserted that these nonpayment rates are “a reasonable proxy” for CDRs. These nonpayment rates represent the percentage of an IHE’s Direct Loan borrowers whose loans entered repayment since January 2020 and who were more than 90 days delinquent as of mid-May 2025. The nonpayment rate is an alternate measure of borrowers’ success in remaining in good standing on their loans produced by ED “to provide greater transparency regarding institutional success in counseling borrowers and helping them get into good standing on their loans.” IHEs are not subject to loss of eligibility to participate in the Title IV aid programs due to high nonpayment rates.

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