SKETCHING A NEW CONSERVATIVE EDUCATION AGENDA

Course Correction: Rebuilding the Federal Student Loan System After Biden's Mismanagement

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Key Points

- The Biden administration repeatedly refused to transition student borrowers back into repayment after the COVID-19 payment pause and unsuccessfully tried to cancel student debt en masse several times.
- Joe Biden's actions meant millions of student loan borrowers became disengaged from the loan system, leaving it vulnerable to a wave of delinquencies when payments effectively resumed in October 2024.
- The Trump administration faces the challenge of transitioning 35 million borrowers back into active repayment. As of March 2025, barely one-third of borrowers not enrolled in school were making on-time loan payments.

Thirty-five million federal student loan borrowers went back into repayment in October 2024 after the government had suspended their student loan payments, in effect, for four and a half years. Already, delinquencies have shot up, and a wave of loan defaults looms. Borrowers will feel the pain—but so will the federal budget as student loan receipts fall.

Trump administration officials face a difficult task as they negotiate the return to repayment. The prior administration did them no favors, doing little to prepare for the resumption of student loan payments and in many cases actively undermining the student loan system by promising illegal forgiveness. To understand the current repayment situation, we first need to examine how we got here.

How Joe Biden Broke the Student Loan System

The student loan payment pause began in March 2020, as the COVID-19 pandemic gripped the nation. The pause, which Congress authorized as part of the Coronavirus Aid, Relief, and Economic Security Act stimulus package, suspended student loan payments and collections while setting interest rates at zero.[1]

The payment pause was supposed to last six months. But the first Trump and Biden administrations extended it a combined total of eight times, without congressional approval.[2] Despite repeatedly describing pause extensions as final and promising that payments would soon resume, the government typically extended the pause at the last minute.[3]

As months became years, borrowers became jaded by these extensions. Many borrowers moved or changed their contact information, meaning the government and student loan servicers lost touch with them. To complicate matters, the Biden administration actively discouraged servicers from contacting borrowers during the pause (likely because officials expected a large portion of student debt would be canceled).[4]

While repeatedly extending the payment pause, the Biden administration dismantled the infrastructure the government uses to service and collect federal student loans.

Several student loan servicers ended their contracts with the Education Department during this time. Servicers had been made scapegoats for many of the deeper policy problems in the student loan program and received less compensation from the government for their efforts.[5] For at least one servicer, this decision came after facing pressure to end its contract from the administration.[6] When servicers withdrew, their borrower accounts had to be transferred to different servicers, which often had less experience.[7]

In 2021, Joe Biden's Education Department also ended contracts with the companies that collected defaulted student loans, the first step in an incomplete overhaul of the debt collection system. This left the government with limited options to recover these debts.[8]

Then came loan forgiveness. In August 2022, the administration announced it would unilaterally forgive up to $20,000 in student loans per borrower, at a cost of $400 billion.[9] After a 10-month legal battle, the Supreme Court struck down the loan cancellation initiative.

Undeterred, the administration tried to exploit alternative legal grounds to forgive student loans. The loan cancellation campaign operated on multiple fronts. The Saving on a Valuable Education (SAVE) student loan repayment plan would have slashed monthly payments to zero for most borrowers and forgiven unpaid balances after a set period of time, at a cost of $230 billion.[10] The administration also attempted to forgive debt outright for millions of borrowers under a different scheme, which would have cost taxpayers up to $750 billion.[11]

In May 2023, the Republican House of Representatives struck a government funding deal with the White House that forced the administration to resume student loan payments by October of that year.[12] The administration immediately tried to subvert the deal. After the pause theoretically ended, the Education Department initiated a 12-month "on-ramp" period wherein student loan payments were technically due, but the consequences of nonpayment—including negative credit reporting and collections—were suspended.[13]

The administration could have used the on-ramp to slowly transition borrowers back into repayment. But officials squandered the yearlong runway they had granted themselves, making only half-hearted attempts to raise borrowers' awareness. In retrospect, it's clear that the Biden administration never really wanted to return student borrowers to active repayment.

As Colleen Campbell, a former official at the office of Federal Student Aid (FSA), wrote recently,

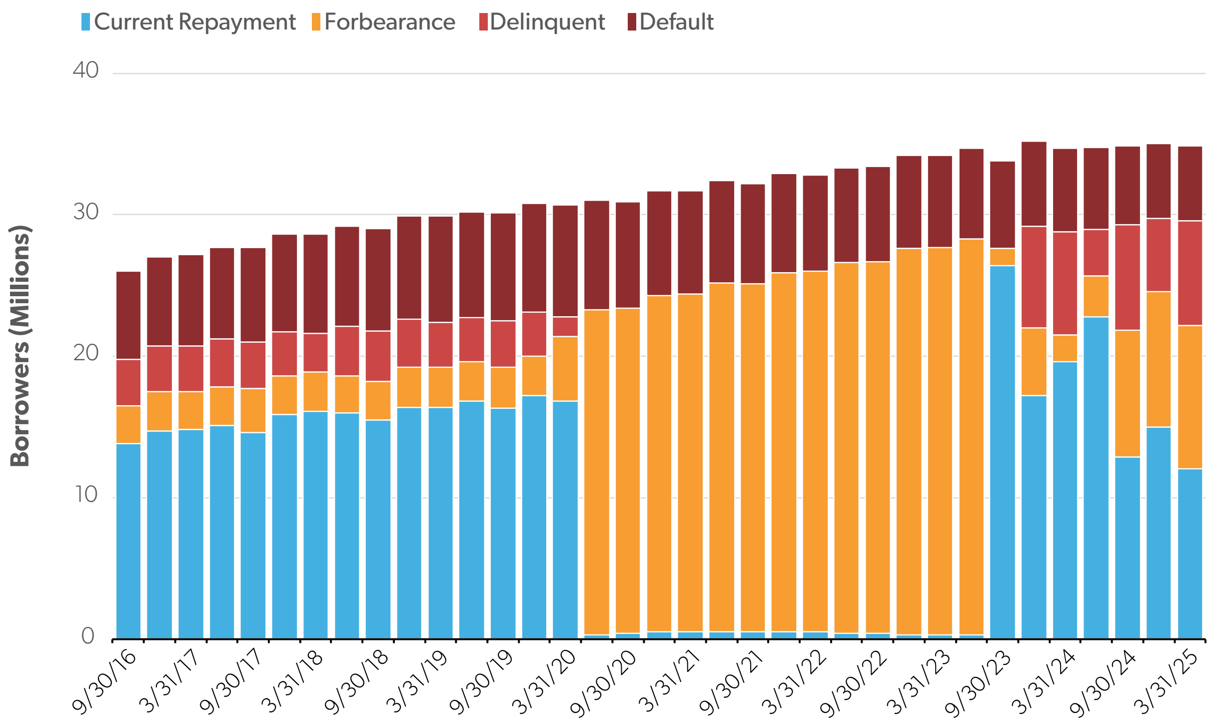
> The Biden administration could have done a whole lot more to make delinquent borrowers aware of their status and options, requiring servicers to notify borrowers whose delinquencies have been reset or sending those emails from FSA. They also could have done more outreach to defaulted borrowers to inform them that consequences of being in default would come back at some point, and that those consequences are required by law and can be devastating.[14]

But the return to repayment took a back seat to loan forgiveness. Throughout the second half of 2023 and 2024, the Biden administration was again hard at work on its plans to cancel student debt through alternative legal routes. Biden famously declared in January 2024, "The Supreme Court blocked me, but it didn't stop me."[15] Other priorities—from returning to repayment to simplifying the Free Application for Federal Student Aid—fell to the wayside.

A lawsuit the state of Missouri filed in September 2024 alleged that the Education Department had secretly directed student loan servicers to prepare to cancel debts. The administration's intention, according to the lawsuit, was to push debt cancellation out the door before any potential plaintiff could sue to stop it.[16] Federal courts blocked the Education Department from canceling debt under its new plan, which the administration eventually withdrew entirely after Donald Trump won the November election.[17]

The administration's other major loan cancellation initiative, the SAVE plan, also faced legal challenges. Federal courts enjoined the Education Department from implementing SAVE multiple times, prompting

Figure 1. Many Student Loan Borrowers Aren't Paying



Source: US Department of Education, Federal Student Aid, "Federal Student Loan Portfolio," https://studentaid.gov/data-center/student/portfolio.
Note: Borrowers with federally managed loans are included. Borrowers still in school or a grace period are excluded, as are borrowers in deferment (as most deferments are granted to borrowers who have returned to school).

the department to place eight million SAVE borrowers into an interest-free forbearance while the legal battle plays out.[18] As of this writing, the courts have not issued a final ruling on the SAVE plan (though most analysts expect it to be struck down entirely). SAVE borrowers remain in forbearance.

The 12-month "on-ramp" period ended in October 2024. Biden officials quietly allowed it to lapse. The Education Department even stopped processing applications for income-driven repayment plans shortly before the pause ended, leaving a backlog of 1.9 million forms for the next administration to process.[19] The mess Biden's Education Department had left behind would become the next administration's problem.

The Current Situation and Trump's Efforts to Fix It

Student borrowers are understandably confused. The repeated false starts of student loan repayments resulted in inconsistent messaging. Though payments "resumed" in October 2023, the lack of consequences for nonpayment may have misled borrowers into thinking the pause had been extended again. Promises of forgiveness that didn't come to pass left many bitter. It's unsurprising that many borrowers don't know whether they have to repay their loans—or refuse to do so.

The consequences of the Biden administration's mismanagement are now coming due. Out of 35 million borrowers with federally managed loans who were not enrolled in school, just 12 million (35 percent) were in repayment as of March 2025. Over one-fifth (7.4 million) were delinquent on their debts, the majority of those being at least three months behind (Figure 1).

Another 10 million borrowers are in forbearance. These are largely people who enrolled in the SAVE plan and now await the legal battle's outcome. While those borrowers are safe from consequences for the time being, eventually the forbearance will end. That brings the danger of a new wave of delinquencies.

The first real consequences of nonpayment struck in January 2025, when millions of borrowers became 90 days delinquent on their loans, the threshold for reporting to credit bureaus. Borrowers were shocked to find that their credit scores had fallen by 100 points or more; many reported they were unaware student loan payments had resumed.[20]

Before the pandemic, most delinquent and defaulted borrowers had credit scores below 600 and were disproportionately likely to be in collections on another debt.[21] There is now evidence that delinquencies are hitting borrowers with better credit records, who should be able to make their monthly payments if properly reengaged with the system.[22] These borrowers' delinquencies could threaten their ability to secure mortgages or auto loans, harming the broader economy.

While millions of borrowers are delinquent today, more serious consequences await. Borrowers enter default after not making a payment for 270 days; since payments effectively resumed in October 2024, today's delinquent borrowers will enter default sometime over the summer. If delinquent borrowers do not start making payments, there could be 12 million borrowers in default by year's end—one-third of all those not currently enrolled in school.

All this is necessary context for the Trump administration's announcement in April 2025 that it would more aggressively address the return to repayment. The administration plans "a robust communications campaign to engage all borrowers on the importance of repayment." Officials coupled this with an extension of the Education Department's call center hours and a promise to clear the backlog of income-driven repayment applications the Biden administration left behind.[23] Later on, the administration asked colleges to help inform their recent alumni about their loan obligations.[24]

Education Secretary Linda McMahon was admirably clear in a *Wall Street Journal* op-ed: "If you are a student borrower with a federal loan balance and haven't been making payments, you must restart payments now."[25]

The headline policy change, however, was the department's move to restart involuntary collections on defaulted loans, after a five-year hiatus. The Treasury Offset Program, which seizes the tax refunds and Social Security payments of defaulted borrowers, resumed on May 5. Garnishment of defaulted borrowers' wages will resume over the summer.[26]

Restarting collections was always going to be necessary. The student loan program cannot function without a disincentive for defaulting on loans and a means for the government to get its money back. Unlike mortgages or auto loans, student loans are unsecured debt—meaning there is no asset to repossess if borrowers don't pay.

Collections should have resumed under the Biden administration, at the end of the on-ramp period, in concert with a comprehensive transition plan to help borrowers avoid default. Because the previous administration neglected this responsibility, the Trump administration is stepping up to restart collections now, rather than waiting until after another potential wave of defaults strikes over the summer.

Now, collections will only immediately affect the five million borrowers who were in default before the pause began and remain in default today. Borrowers who are merely delinquent, but not in default, will not see collections happen for months. But restarting collections will serve as a powerful incentive for those borrowers to cure their delinquencies now, rather than wait until they have defaulted.

While restarting collections is a step in the right direction, there is more work to be done. A proposed budget reconciliation bill in the House of Representatives would allocate an additional $500 million to student aid administration to strengthen servicers' capacity to help borrowers get back into repayment.[27] The Education Department and its contractors should continue to hammer the message that payments are due again and reach out to borrowers directly whenever possible. Officials should also take pains to ensure programs like income-driven repayment operate smoothly; any hiccups will make borrowers warier of reengaging with the system.

There are consequences to getting it wrong. Borrowers will feel the pain of involuntary collections and plummeting credit scores. A wave of defaults would also bring a fiscal burden—the government typically recovers just 65 to 75 percent of defaulted student loan balances, which could drop even further[28]—at a time when budget deficits are already scraping $2 trillion.[29] Conservatives' numerous court victories against Biden's student loan forgiveness schemes will count for nothing if borrowers don't repay their loans.

Conclusion

The road back to a normal student loan system will not be easy. But the Trump administration's efforts to manage the return to repayment so far show some promise. Also welcome is a package of reforms under consideration in Congress to block future loan forgiveness and reform the repayment system going forward.[30] It will take sustained effort from the executive and legislative branches to restore the student loan program to health.

About the Author

Preston Cooper is a senior fellow at the American Enterprise Institute, where his work focuses on higher education return on investment, student loans, and higher education reform.

Notes

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