TSLHG
STUDENT LOAN EXPERTS

August 2025 Updates

It was a critical month for student loan borrowers. While still navigating the troubles that have arisen from the rising frequency of delinquencies and the Department of Education's backlog, they must now also address the changes that will result from the passage of the budget bill and the announcement of interest accrual for previously protected borrowers.

Late Payments & Default Still Rampant

Between March 2020 and September 2023, federal student loan borrowers benefited from a payment pause under the CARES Act, offering financial relief during the height of the COVID-19 pandemic. To help ease the transition back into repayment, the U.S. Department of Education implemented the "On-Ramp to Repayment" initiative. During this period, missed payments would not be reported to credit bureaus, nor would they lead to delinquency or default.

Still, many borrowers struggled to restart payments. Data from TransUnion indicate that nearly 31% of student loan borrowers are now behind on payments, and many have seen their credit scores plunge. After 90 days of missed payments, loans are marked as delinquent on credit reports. If payments are missed for nine months, loans enter default, triggering serious consequences, such as:

- Wage Garnishment (up to 15%)
- Loss of Tax Refund
- Ineligible for further deferment or forbearance
- Inability to choose your repayment plan

The Department of Education began "involuntary collection" of defaulted student loans on May 5th, starting with the tax offset program. Workers will soon see wage garnishment resume after a 30-day notice.

Be sure to check the status of your loans to avoid these penalties and collections. If you are already in default, know that there are still steps you can take to get out and learn your options!

Department of Education’s IDR & PSLF Buyback Backlog

The Department of Education is currently managing a substantial backlog of two essential applications: income-driven repayment plans and Public Service Loan Forgiveness (PSLF) Buyback applications.

Earlier this year, due to ongoing legal challenges to the Saving on A Valuable Education (SAVE) plan, the Department of Education removed applications for all available income-driven repayment (IDR) plans from its website and instructed loan servicers to suspend the processing of IDR applications temporarily. These applications were reinstated on March 26th, in response to a lawsuit filed by the American Federation of Teachers, allowing borrowers currently on SAVE and stuck in non-qualifying forbearance to switch to another payment plan and continue receiving credit toward forgiveness.

In the latest status report from the Department of Education, 186,731 IDR applications were processed in June, representing a significant increase since they began processing them in May. However, there is still a backlog of nearly **1.5 million applications.**

The PSLF Buyback program is a unique opportunity for some borrowers to receive forgiveness early. If you worked for an eligible employer during a period of non-qualifying deferment or forbearance, the Department of Education will calculate what your payments would have been during that period and allow you to repurchase those credits in a lump sum. This will include time during the SAVE forbearance period for those currently placed in it.

The latest reports show that the Department processed 2,224 PSLF Buyback applications in June, yet it still has a backlog of **65,448 applications.**

With backlogs this large, it is vital to ensure that your applications are completed accurately and submitted on time; one small mistake could mean months of waiting.

Interest To Resume For Borrowers On SAVE

Due to ongoing litigation, borrowers on SAVE have been on an administrative forbearance. This forbearance meant they were not required to make payments, and interest would not accrue on their loans. However, the Department of Education has announced that interest will resume accruing on loans in the SAVE forbearance on **August 1st.**

Borrowers are now in a tricky situation, as for some, it may be more beneficial to leave SAVE for another plan to start building credit towards forgiveness. In contrast, others may find it more advantageous to let the interest accrue and utilize the PSLF Buyback program for forgiveness. A complimentary consultation to review your unique situation is a great place to start.

What The Budget Bill Means For Borrowers

On July 4th, the President's domestic policy bill, also known as the "One Big Beautiful Bill," was signed into law. The bill encompasses a wide range of topics, including significant changes to student loans.

• For loans issued **after July 1st, 2026,** borrowers will have only two repayment options: the fixed monthly Standard Repayment Plan or a new income-based Repayment Assistance Plan (RAP), which typically requires higher payments than current IDR plans and offers forgiveness after 30 years--unless the borrower qualifies for Public Service Loan Forgiveness, which still forgives after 10 years of qualifying payments.

• Loans issued **before July 1st, 2026,** will retain access to the IBR plan, but SAVE, ICR, and PAYE will be eliminated. By **July 1st, 2028,** all existing borrowers on ICR, PAYE, or SAVE will need to switch to either RAP, IBR, or one of the fixed-term plans (like Standard, Graduated, or Extended). Borrowers who don't choose a new plan will be automatically moved into either RAP or IBR, depending on eligibility.

• Parent PLUS loans issued **after July 1, 2026** will not qualify for **any** income-driven repayment options, meaning that Parent PLUS loans issued after that date **will not qualify** for existing forgiveness programs.

• Federal student aid disbursements, which are currently tied to the cost of the specific school or program a student attends, will now be capped at the median cost of similar programs nationwide.

• Under the bill, federal loan limits are stricter: graduate students will be limited to $20,500 per year with a lifetime cap of $100,000, including any undergraduate loans. Professional students will be capped at $50,000 per year and $200,000 total, including any undergraduate or graduate loans. Meanwhile, Parent PLUS loans will be capped at $20,000 per year, with a $65,000 lifetime limit per child.

• Graduate students will no longer be eligible for Federal Direct PLUS Loans, effective July 2026.

• For loans issued **on or after July 1, 2027,** forbearance will be limited to 9 months within any 24-month period. Additionally, unemployment and economic hardship deferments will no longer be available for these new loans.

• Beginning **July 1st, 2026,** students must be enrolled in at least 30 semester hours per year (equivalent to 15 credit hours per semester) to be eligible for Federal Pell Grants; an increase from the current 24.

Join Our Upcoming Webinar And Q&A

Join us **August 27th at 4:00pm ET** for our live webinar covering these latest changes and how you can prepare for the future. Be sure to bring your questions for the Q&A session afterwards! Spots are limited, so register while still available!

Register Here

Navigating such a numerous amount of changes at such a quick pace can be difficult, but you do not have to do it alone. TSLHG has helped our clients receive over **$340 million** in forgiveness and can help you craft a tailored plan of action specific to your situation. Schedule a complimentary consultation with one of TSLHG's state-licensed counselors at **www.tslhg.com** or by using the button below.

In addition to TSLHG's complimentary consultations, Orange County Classroom Teachers Association can receive an additional 10% discount on TSLHG's processing services. Simply use the code **"OCCTA10"** when booking your consultation.

Schedule your appointment

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