

Student Debt: What It Means, How It Works, and Forgiveness

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What Is Student Debt?

Student debt is the money owed on a [loan](#) taken out to pay for educational expenses. Individuals can borrow student debt through the government or private sources, such as banks and other [lenders](#). Some lenders require payments while the student attends school,

while others allow borrowers to begin repayment after they graduate.

Key Takeaways

- Student debt is money borrowed by individuals to cover the cost of education.
- Loans can come from private or federally funded sources.
- Debt can be incurred to cover tuition, textbooks, miscellaneous fees, and room and board.
- The first federal student loan payments since the COVID-19 pandemic were due on October 1, 2023.

School Expenses

Student debt is commonly used to cover the cost of education and other expenses. Students may use loans to pay for a wide variety of costs, including:

- Tuition amounts not covered through a student's assets, grants, parent loans, or scholarships
- Housing
- Books and supplies
- Administrative fees
- Advanced degrees

Repaying Debt

While it is possible for students to save money to put toward the cost of higher education, the price at many institutions narrows the plausibility of covering such costs without some form of financial assistance.

While there is an expectation that students will pursue careers that offer them the means to repay student debt over time, there are no guarantees that they will immediately find this kind of employment after they graduate. Student debt differs from other types of debt in that it typically cannot be discharged in bankruptcy except in cases of undue hardship.¹

According to The 2022 Investopedia Financial Literacy Survey, 74% of millennials are seriously stressed about their financial circumstances. Borrowing and managing debt was the second-largest concern of surveyed millennials.

The COVID-19 moratorium on student loan payments and interest has come to an end. The accrual of interest resumed on September 1, 2023, while the first student loan payments since the pandemic were due on October 1, 2023.²

Student Loan Forgiveness

Graduates with federal student loan debt who qualify for special repayment plans, such as income-based repayment, may also qualify for debt forgiveness if they meet the following criteria:

- Those employed by a government or not-for-profit organization may be able to receive loan forgiveness under the Public Service Loan Forgiveness (PSLF) Program.
- Individuals who teach full-time for five complete and consecutive academic years in a low-income elementary school, secondary school, or educational service agency may be eligible for forgiveness of up to \$17,500 on your Direct Loan or FFEL Program loans.
- If a university or school closes while enrolled, students may be eligible for the discharge of their federal student loan.³

Any relief mentioned in this article applies to federal student loans. Those with private student loans must check with the loan provider for repayment assistance.

Debt Relief Programs

In August 2022, the Biden administration attempted to cancel up to \$20,000 in student loan debt for borrowers with Pell Grants and \$10,000 for other borrowers at a cost of \$430 billion. On June 30, 2023, the Supreme Court struck down this plan in a 6-3 decision. The justices in the majority found the forgiveness program overstepped the bounds of federal law and usurped the power of Congress to control government spending.⁴

In response to the decision, the White House unveiled the Saving on a Valuable Education (SAVE) Plan, a new income-driven repayment (IDR) option for borrowers. The SAVE plan reduces monthly payments to 5% of discretionary income for undergraduate borrowers. It also changes the discretionary income formula so that an estimated one million low-income borrowers will have their payments set at \$0 per month. Furthermore, unpaid interest is no longer added to student loan balances, ensuring the amount you owe will not grow as long as payments are kept up to date. Another measure under SAVE provides loan forgiveness after 10 years for those with balances of \$12,000 or less.⁵

An income-driven repayment (IDR) plan sets monthly student loan payments at an amount that is intended to be affordable based on income and family size.

Is All Student Debt Eligible for Forgiveness?

Only debt borrowed directly from the federal government is eligible for forgiveness. The Public Service Loan Forgiveness (PSLF) program offers forgiveness for those who work for federal, state, local, or tribal governments or not-for-profit organizations. After making 120 qualifying payments in an income-driven repayment program while working full-time in a qualifying position, the remainder of the debt will be forgiven.⁶

Who Manages Federal Student Loans?

When you take out a federal student loan, the Department of Education will assign your loan to a service provider once the first disbursement is made. These [loan servicers](#) are the point of contact for questions about your loan and arranging payment options. These providers include Edfinancial, MOHELA, Aidvantage, Nelnet, ECSI, and Default Resolution Group. Older loans made under the Federal Family Education Loan (FFEL) Program are not owned by the Department of Education department and may be serviced by a company such as [Navient](#).

Can Student Debt be Dissolved Through Bankruptcy?

In all but the rarest situations, no. Student debt stays with the student until the loans are repaid or forgiven, even in the case of bankruptcy.

What Happens to My Student Debt if I Don't Graduate?

All student loans must be repaid, regardless of graduation status. For most federal student loans, repayment starts six months after the student leaves college or drops below half-time enrollment.⁷

The Bottom Line

Student debt is common in an era of high-priced higher education. There are many funding sources for student debt, including state loans, private loans, and federal loans, but only federal loans qualify for income-based repayment plans or forgiveness. Incoming students will be at a greater advantage by lowering their debt through work-study, working outside of school, or choosing an affordable school, as paying down debt can take decades and affect long-term financial goals.

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