

What Housing Counselors Need to Know About Student Loans in 2026

September 2026

This year has been filled with significant changes in the federal student loan system and, as a housing counselor, you may see more people struggling with their student loan debt. How a borrower handles student loan debt can have a significant impact on their ability to buy a home. Below is information you need to know about student loans changes happening in 2026.

The Basics

- **The vast majority of student loan borrowers have federal student loans.** There are many different types of federal student loans, and the type can impact repayment and relief options. [Here are the steps borrowers can take to figure out their loan situation, including what types of federal student loans they have.](#)
- **[Federal student loans have more repayment and relief options and protections than private student loans.](#)** Refinancing federal student loans into private student loans is irreversible and means the new private loan will miss out on the programs available to federal student loans.

Defaulted federal loans can make a borrower ineligible for federally backed mortgages, but loans can be removed from default.

- If a borrower does not make sufficient payments for nine months, [their federal student loans will go into default](#). **When a federal student loan is in default, the borrower is ineligible for other forms of federal credit, like federally backed mortgages and SBA loans (including SBA loans used for disaster recovery).** In addition, the government can use administrative wage garnishment, tax refund offset, and offset of other federal benefit payments to collect a defaulted loan without requiring a court order. This can have devastating consequences for borrowers.
- **Fortunately, [most borrowers have options to put defaulted loans back into good standing](#).** The most common way to get federal student loans back into good standing is to either [consolidate the defaulted loan](#) or to [rehabilitate a defaulted loan](#) by making nine on-time, reasonable, and affordable monthly payments. Loans in default are also eligible for most [cancellation or discharge programs](#), discussed below.
 - Loan rehabilitation will remove the record of default from a borrower's credit report, but the record of missed payments will likely remain if the tradeline has not aged off of the borrower's credit report.

- Loan consolidation pays off the existing defaulted loan by borrowing a new federal student loan, but the tradeline for the defaulted loan with the missed payment history, now paid off, will remain, unless it has aged off of the credit report.
- Some of the statutory discharge programs delete adverse credit history if the Department grants the borrower's application for relief.
- **While getting a borrower back into good standing on their federal loans is the first step to restoring a borrower's eligibility for federally backed credit, housing counselors should be aware that different mortgage lenders may consider any remaining past negative payment history** if the negative payment history is appearing within the last three years on a borrower's credit report, and the borrower's credit score is also impacted by any past missed payments showing on the credit report. Housing counselors should consider ways to help a borrower build a positive payment history, like enrolling in an income-driven repayment plan.

Federal student loans have more repayment options than most other kinds of debt, but borrowers' options are changing.

- **Direct Loans and FFEL loans (the two most common types of federal student loans) borrowed for the borrower's own education are eligible for income-driven repayment (IDR) plans.** These plans calculate the borrower's monthly payment according to their income and automatically cancel a loan's outstanding balance after 20-30 years of qualifying repayment. Some borrowers with very low incomes are eligible for \$0 payments under these plans. But, many borrowers' options changed on July 1, 2026.
- **The One Big Beautiful Bill Act, passed in July 2025, changed both existing and new student loan borrowers' rights after July 1, 2026.** Borrowers should be aware that if they take on even one new federal student loan after July 1, 2026 – or consolidate their existing loans – it will change the repayment plan eligibility on all of their federal Direct Loans, even the loans they borrowed before July 2026.
 - **The legacy plans, available to Direct Loan borrowers that only took on loans before July 1, 2026,** allow low-income borrowers to have payments as low as \$0, and cancels any remaining balance after 20-25 years of repayment. Both Direct Loans and FFEL loans are eligible for legacy IDR plans. However, Direct Loans will only be eligible for the legacy plans if the borrower did not take on any new loans or consolidate after July 1, 2026. Interest not covered by a borrower's monthly payment will continue to accrue while the borrower is enrolled in these plans.
 - **A new IDR plan, the RAP plan, available after July 1, 2026,** requires all borrowers to make monthly payments of at least \$10, regardless of how low their income is. Under that plan, borrowers' loans will be forgiven after 30 years of

repayment. That plan calculates borrowers' monthly payments as a graduated percentage of their income and does not exclude any income from the calculation, unlike the legacy plans. However, borrowers enrolled in that plan will have any accrued interest that was not covered by the borrower's monthly payment forgiven, and will have up to \$50 of principal forgiven each month.

- **Parent PLUS borrowers**, or people who took on federal student loans to pay for their child's college education, must have included their Parent PLUS loan in a Direct Consolidation loan issued before July 1, 2026 to use an IDR plan to pay off those loans. Borrowers that missed this deadline will not be able to repay their Parent PLUS loans in an IDR plan, and their existing repayment options may be much more expensive. Learn more about [Parent PLUS borrowers' options](#).
- **To compare borrowers' repayment options**, use the [StudentAid.gov's repayment calculator](#) or [see EDCAP NY's repayment calculator tool](#). Learn more about [how these repayment plan changes will impact borrowers](#).
- **In addition to the Big Bill changes, [this summer approximately 7 million borrowers enrolled in the SAVE plan must choose another plan](#), or risk facing higher payments.** By Spring 2027, borrowers will have received a notice from their student loan servicer informing them they have 90 days to switch plans. Most of these borrowers will face higher payments in other plans, which will impact their debt-to-income ratios when they are applying for mortgages and may impact the affordability of their mortgage payments.
- **Enrolling in an IDR plan can impact a borrowers' debt-to-income ratio when they are applying for a federally-backed mortgage.**
 - Different federally backed mortgage programs consider student loans differently when calculating a person's debt to income ratio. Some programs require that a lender consider a borrower's actual monthly IDR payment, whereas others consider a percentage of the borrower's total outstanding balance (typically 0.5%). If a borrower has a \$0 monthly payment on an IDR plan, some programs require the lender to use a percentage of the borrower's total loan balance, but if the payment is above zero, the actual monthly payment amount should be used (see [Appendix](#)). But these policies can change, so housing counselors should check the rules of each of the federally backed mortgage programs. **There are a variety of cancellation and relief programs available to federal student loan borrowers.**
- **The federal government will cancel a borrower's federal student loans if specific criteria are met and the borrower submits an application for relief.** Here are the most common relief programs:
 - [Total and Permanent Disability Discharge](#): for borrowers unable to work because of a disability.

- [Public Service Loan Forgiveness](#): for borrowers who make 120 qualifying monthly payments on their federal student loans while they are working in nonprofit or government employment.
 - [Closed School Discharge](#): for borrowers who were unable to complete their program because their school closed.
 - [Borrower Defense](#): for borrowers whose school misled them, lied, or engaged in other misconduct to get them to enroll or take on federal student aid.
- **Borrowers can also have their loans discharged without an application if they are in an income-driven repayment plan** and have made between 20 and 30 years of qualifying repayment, depending on the plan.
 - If borrowers are not eligible for a relief program and still cannot afford their payments in an income-driven repayment plan, **they can temporarily stop payments during periods of financial distress—and avoid default—by asking their [student loan servicer for a forbearance or deferment](#)**. Significantly, [borrowers that live within an area that is a federally declared national disaster](#) can request a short-term federal student loan forbearance.

For additional information, contact Kyra Taylor at ktaylor@nclc.org or visit NCLC's [Student Loan Borrower Assistance](#) website.

Appendix

Agency	Summary of Treatment of Student Loan Repayment Status On Borrowers' Debt-To-Income Ratio
<u>Fannie Mae</u> (August 2026)	■ If a monthly student loan payment is provided on the credit report, the lender may use that amount for qualifying purposes. – If the credit report does not reflect the correct monthly payment, the lender may use the monthly payment that is on the student loan documentation (the most recent student loan statement) to qualify the borrower. ■ If the credit report does not provide a monthly payment for the student loan, or if the credit report shows \$0 as the monthly payment, the lender must determine the qualifying monthly payment using one of the options below. – If the borrower is on an income-driven payment plan, the lender may obtain student loan documentation to verify the actual monthly payment is \$0. The lender may then qualify the borrower with a \$0 payment. ■ For deferred loans or loans in forbearance, the lender may calculate: – a payment equal to 1% of the outstanding student loan balance (even if this amount is lower than the actual fully amortizing payment); or – a fully amortizing payment using the documented loan repayment terms.
<u>Freddie Mac</u> (effective August 2026)	■ If the current student loan monthly payment amount reported on the credit report is greater than zero: must use amount reported on credit report unless borrower provides documentation of different payment amount greater than zero. ■ If the current student loan monthly payment amount reported on the credit report is zero: must use 0.5% of the outstanding loan balance reported on the credit report, unless borrower provides documentation that supports a different payment amount greater than zero. If the borrower is enrolled in an IDR plan and documentation indicates they must recertify their income before or on the first mortgage payment (or that their payment will increase), cannot use method above and must instead use:

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<i>Freddie Mac continued</i>	■ The greater of the current payment amount or 0.5% of the outstanding loan balance; or ■ The documented future payment amount if greater than the current payment amount; or ■ The future payment amount that is less than or equal to the current payment amount, provided that the Mortgage file contains documentation that the Borrower has recertified their income and the future payment amount has been approved. The future payment amount must be greater than zero. Note: <i>Freddie Mac also has rules for student loans in forgiveness, cancelation, discharge and employment based repayment programs as well.</i>
FHA (updated 2025)	■ For outstanding student loans, regardless of payment status, the mortgagee must use: – When the payment is above zero: the payment amount reported on the credit report or the actual documented payment; – When the payment is zero: 0.5 percent of the outstanding loan balance Note: <i>if the payment used for the monthly obligation is less than the payment reported on the borrower's credit report, the mortgagee must obtain written documentation of the borrower's monthly student loan payment, the payment status, and evidence of the outstanding balance and terms from the lender or student loan servicer.</i> ■ Can exclude a borrower's payment if there is documentation that the loan has been forgiven, canceled, discharged, or paid in full.
USDA (updated 2025)	■ Regardless of the payment status, lenders must use: – When a payment is above zero: The student loan payment amount reported on the credit report or the actual documented payment; – When the payment is zero: One half (.50) percent of the outstanding loan balance
VA (updated August 2026)	■ If a student loan is in repayment, or scheduled to begin within 12 months from the date of VA loan closing, the lender must consider the anticipated monthly obligation in the loan analysis and utilize the payment established by calculating each loan at a rate of five percent

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VA <i>continued</i>	■ of the outstanding balance divided by 12 months (the threshold payment calculation). – Example: A borrower has a \$25,000 student loan balance and you multiple it by 5%, which equals \$1,250. This amount (\$1,250) is divided by 12 months to equal a monthly payment of \$104.17. ■ If the payment(s) reported on the credit report for each student loan(s) is greater than the threshold payment calculation above, the lender must use the payment recorded on the credit report. ■ If the payment(s) reported on the credit report is less than the threshold payment calculation above, in order to count the lower payment, the loan file must contain a statement from the student loan servicer that reflects the actual loan terms and payment information for each student loan(s). – The statement(s) must be dated within 60 days of VA loan closing, and may be an electronic copy from the student loan servicer's website or a printed statement provided by the student loan servicer. It is the lender's discretion as to whether the credit report should be supplemented with this information. ■ Monthly payment does not need to be considered if the borrower has documentation that the debt is deferred for at least 12 months after closing.