

Trump tightens the screws on student loan holders as he breaks up the Department of Education and deepens the “default cliff”

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The Trump administration is carrying out a coordinated assault on millions of student loan borrowers, dismantling income-based repayment programs, ending federal borrower protections, and forcing millions onto costlier repayment paths. The measures are an outright boondoggle for the banks and Wall Street and a component of a broader class strategy.

The screws are being tightened on cash-strapped young people and workers facing the threat of default, garnishment and financial ruin. Estimates in late 2025 found that roughly one-quarter of all federal borrowers are facing default. If the current trend continues, it is projected that 13 million borrowers will be in default by the end of 2026.

But at the same time, the Trump administration is demanding a massive \$1.5 trillion war budget and a \$200 billion supplemental appropriation for a war of extermination against Iran. That combined figure is roughly equal to the entire federal student loan portfolio. Capitalism’s interests, however, require new and expanding predatory wars, not education, which is why neither the Democrats nor the Republicans have supported or ever will support mass loan cancellation.

On March 19, the Trump administration began transferring defaulted federal student loan accounts—some \$180 billion in debt—from the Department of Education to the Treasury Department. Officials presented this as a “first step” toward moving the entire \$1.7 trillion student loan portfolio out of the Education Department and into the hands of the federal tax and collection apparatus. Borrower advocates have warned that the move will increase errors, accelerate collections and further privatize enforcement functions.

One year ago, on March 20, 2025, Trump issued an executive order to abolish the Department of Education (ED). In the spring and summer, nearly half of the ED workforce was eliminated. In November, the administration executed a series of interagency agreements that bypassed direct congressional authorization and carved up key ED responsibilities piece by piece.

A key element in this reorganization is transforming student aid from a nominally “educational” function into a pure instrument of revenue collection. Trump officials are denouncing past attempts at loan forgiveness or cancellation. They insist that the fact that fewer than half of borrowers are currently making payments is evidence not of social crisis but of insufficient “discipline.”

Under Trump’s One Big Beautiful Bill Act (OBBBA)—passed with only nominal opposition by the Democrats—the administration is moving to “simplify” and then sunset Income-Driven Repayment (IDR) programs. Options like Pay As You Earn (PAYE) are being eliminated. Others are being capped or phased out by 2028, and the entire structure is being replaced with a single, harsher Repayment Assistance Plan (RAP).

For new federal loans issued after July 1, 2026, borrowers will effectively be locked into either a rigid standard plan or RAP. RAP demands up to 30 years of payments before any balance is forgiven, extending indebtedness well into late middle age for large layers of the population. Existing IDR plans are being phased out even for current borrowers, with officials openly signaling that whatever replacement is offered will yield higher monthly payments than the Saving on a

Valuable Education (SAVE) plan and do nothing to address ballooning principal balances.

Behind these measures stands a definite class strategy: to intensify financial coercion on young people and workers, to channel ever greater sums from household budgets into Wall Street and to send a message that joining the workforce early or enlisting in the military is preferable to a life of debt.

Trump's OBBBA also caps and cuts graduate and Parent PLUS borrowing, expands market-oriented "workforce" programs, and showers tax credits on private K-12 scholarship schemes—measures designed to accelerate the privatization and class stratification of education from kindergarten through university.

At the operational level, borrower safeguards are being systematically dismantled. The Government Accountability Office found that the Department of Education's Federal Student Aid (FSA) office ceased routine reviews of the five major federal loan servicers' billing accuracy and call-quality oversight in February 2025. There is no assurance that servicers are billing borrowers correctly or providing accurate information.

Young workers aged 25-29 have experienced the greatest slowdown in pay gains in decades, according to a late 2025 report by JPMorgan Chase. Additionally, the unemployment rate for college graduates ages 22 to 27 soared to 5.6 percent at the end of last year, according to an analysis from the Federal Reserve Bank of New York, up sharply over the past three years and outstripping the overall rate of 4.2 percent at the time.

The cumulative result is the student loan "default cliff" that is already turning into a tidal wave. Borrower advocates estimate that roughly 3.6 million borrowers have defaulted since January 2025 following the expiration of pandemic-era protections. By early 2026, about 8.8 million borrowers were in or precariously close to default.

This cliff is not just a rise in defaults, but a large cohort of borrowers reaching roughly 270 days past due at the same time that pandemic pauses, forbearances and deferred reporting are ending. Many made little headway on principal during the pause—median balances remain above 80 percent of prior levels—and they are being thrust back into repayment amid rising living costs and a weakening labor market.

Advocates note that in 2025 a borrower defaulted roughly every nine seconds, a cadence that now risks

becoming the norm rather than an exception. The immediate social and economic consequences are profound. Default triggers wage garnishment, loss of federal tax refunds and offsets of other benefits, exclusion from future federal aid, and years of damaged credit that can hamper employment.

This social crisis coincides with the war on Iran, the continuing genocide in Gaza and the attempted recolonization of oppressed countries in every region of the globe. The same ruling class that is stripping away the right to affordable education is prosecuting a predatory redivision of the world. For the American government, a central priority is staffing the military after years of failing to meet recruitment quotas. A generation trapped between debt peonage and poverty wage employment is easier to funnel into the armed forces.

The administration's fiscal year 2026 proposals deepen this offensive. They further limit the ability of low-income students to pursue post-secondary education by narrowing Pell Grant eligibility—raising the credit load required for full awards and cutting maximum grants—and by targeting small but vital programs like Federal Work-Study. At the same time, states and the federal government have reduced public higher education support in favor of tax breaks for corporations and the wealthy. Tuition has skyrocketed, while universities function like corporations.

What must be done? The achievements of public education and access to higher education are no longer compatible with the needs of capitalism. While defensive demands—cancellation of all student debt, restoration and expansion of Pell Grants, full funding for public higher education and the reestablishment of borrower protections and public oversight—are important, the only substantive remedy is the expropriation of the ruling oligarchy. The fight to defend public education is the fight against war and capitalism.

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