

Student Loan Discount Extends the Auto-Pay Debate

Borrowers get more time for a temporary interest cut, but automatic payments are not equally simple for everyone.



An illustration of a desk with loan-payment items, suggesting a decision about automatic student loan payments.

Federal student loan borrowers now have until Dec. 31, 2026, to sign up for **automatic** payments and receive a temporary 1% **interest**-rate reduction, according to reporting by the Associated Press published by PBS NewsHour. The U.S. Department of Education had originally set a Sept. 30 deadline, then extended it to give borrowers more time. The lower rate will last through June 2028.

That may sound like a small change, but interest is the extra money borrowers pay on top of the amount they originally borrowed. A lower interest rate can matter most for people with large loan balances, because interest builds on a bigger amount. Lesley J. Turner, an associate professor of public policy at the University of Chicago, told the AP that the temporary offer is a meaningful benefit for borrowers with large balances and fixed payments.

The policy is also meant to encourage borrowers to stay current as repayment rules change. The Education Department says the temporary benefit is intended to support borrowers, including people returning to repayment, and help them keep up with the new Repayment Assistance Plan, which requires on-time payments. Nearly 2 million borrow-

ers have enrolled in auto pay since the interest reduction was announced this summer.

Auto pay means a **borrower** gives a loan **servicer** permission to take the monthly **payment** directly from a checking or savings **account**. A loan servicer is the company or organization that handles billing and account management for a loan. Borrowers who were already using auto pay before the announcement in July have had the 1% reduction applied automatically, according to the department.

There was already a smaller **incentive** for auto pay. Borrowers using automatic payments had been receiving a 0.25% interest-rate **discount**. Because of that, the new temporary benefit gives those borrowers an additional 0.75 percentage points, bringing the total reduction to 1%.

The trade-off is that a tool designed to make repayment easier also asks borrowers to give up some control over the timing of each payment. For someone with steady income and enough money in the account each month, automatic payment can prevent a missed due date. Turner noted that people can forget to log in and pay manually when life gets busy, and forgetting can push a loan toward delinquency, which means a payment is late.

For borrowers with less predictable finances, auto pay can feel different. The AP article does not describe penalties from banks or servicers for failed withdrawals, but the basic issue is clear: automatic payment depends on having the right amount of money in the right account at the right time. A borrower choosing whether to enroll is weighing a lower interest rate and fewer forgotten payments against the need to manage a bank account carefully every month.

The stakes are high because many borrowers are already in serious trouble. Around 9 million Americans were in **default** on their federal student loans as of June, according to the Education Department. Default means a borrower has gone a long time without making required payments; for federal student loans, borrowers are considered in default when they are at least 270 days behind. Hundreds of thousands more borrowers are behind and at risk of default this year.

Borrowers whose federal student loans are already in default cannot simply sign up for auto pay right away. According to the AP, they must log in to studentaid.gov and consolidate eligible loans before enrolling. Loan consolidation means combining multiple federal student loans into one loan with a fixed interest rate and one monthly payment. The online application is available through the federal student aid website, and the process typically takes around 60 days. Borrowers can consolidate their loans only once.

Another option for borrowers in default is loan rehabilitation. In that program, borrowers enter a reduced payment plan. After five successful payments, wage garnishment ends. Wage garnishment is when money is withheld from a worker's paycheck to pay a debt. Involuntary collections on federal student loans remain on hold for now; the Trump administration announced earlier this year that it was delaying plans to withhold pay from borrowers who default.

The disagreement in this story is not mainly about whether lower interest is better. Most borrowers would prefer to pay less. The harder question is whether the government should use interest discounts to steer people toward automatic payment. Supporters can argue that the policy rewards a habit that lowers the chance of missed payments and helps borrowers stay on track. Critics, or cautious borrowers, can point out that auto pay works best for people whose finances are already stable enough to make automatic withdrawals low-risk.

For high school students thinking about college costs, the lesson is not just that one deadline moved. It is that the details of repayment plans can shape people's choices long after they leave school. A one-point interest cut may be helpful, but it also shows how complicated borrowing can become: the same policy can be a useful financial break for one borrower and a stressful decision for another.

Written from reporting by PBS NewsHour.

THINK IT THROUGH

1. Should the government use interest-rate discounts to encourage borrowers to choose automatic payments, or should repayment help be offered in a way that does not depend on auto pay?

2. If a borrower is deciding whether to sign up for auto pay, what factors besides the size of the interest discount should matter most?

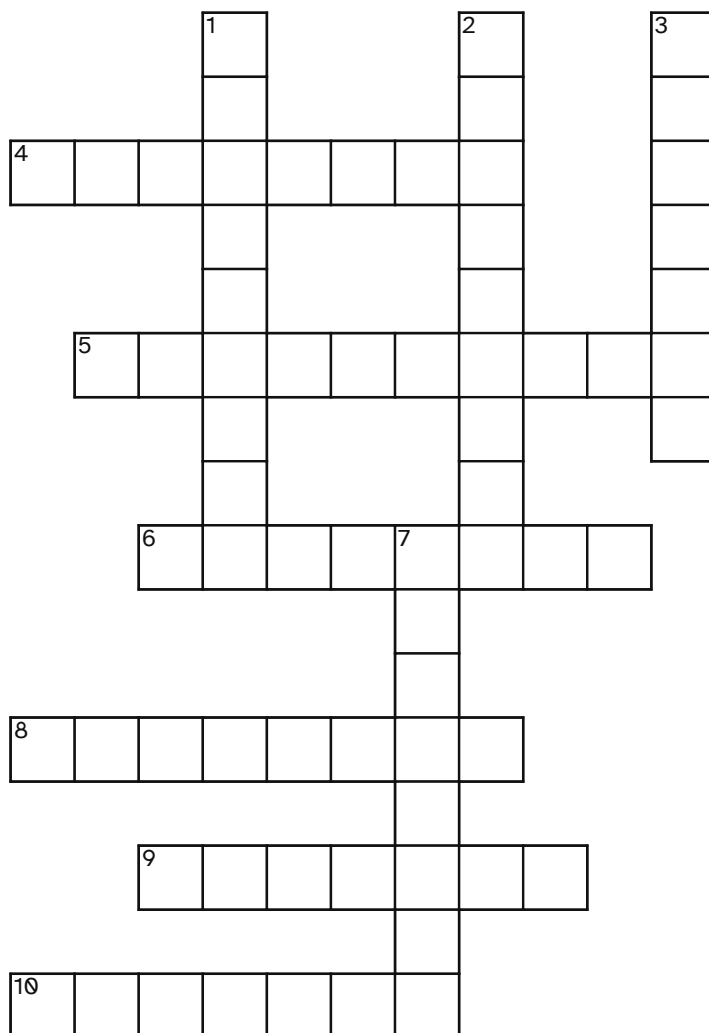
3. Does this policy do more to help borrowers who are already managing repayment well, or borrowers who are in the most trouble? Defend your view.

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N W E L R P C I C A T W S Y R R T C
T R N C M L A C C O U N T A R U S A
T N I D T G N Y W I S O E D E T R B
D V L L I D R T M A D N U I S O D A
T H R D D S R E P E I O E H Q B I A
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T P D V O K U R C R S E R D H S T R
A T Y T D O U S D T R H R A N O I F
E I I Z I N R Y D S I U N B D S C E

ACCOUNT	AUTOMATIC	BORROWER	DEFAULT	DISCOUNT
INCENTIVE	INTEREST	PAYMENT	SERVICER	WITHDRAWAL

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ACROSS

- 4 Reduction from a usual price
- 5 Money taken from a bank or savings record
- 6 Company that handles loan bills and records
- 8 Person who gets money and must repay it
- 9 Money due by a required date
- 10 Financial record kept by a bank or similar institution

DOWN

- 1 Offer meant to encourage a specific action
- 2 Working on its own after permission is given
- 3 Debt status after payments have been missed for a long time
- 7 Extra cost of using borrowed money

Where this came from

This article was written for 3andB from the reporting below. It is not a reprint — the wording is ours and the facts are theirs.

PBS NewsHour

“Student loan borrowers have more time to reduce interest rates. Here's what to know”

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<https://www.pbs.org/newshour/education/student-loan-borrowers-have-more-time-to-reduce-interest-rates-heres-what-to-know>

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The article and its discussion questions, a word search, and a crossword.

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