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SFA Research Corner

FFELP ABS Holds Firm Even as Student Loan Stress Mounts

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The latest data on federal student loan performance highlights a notable divergence: while borrower delinquencies have surged to record levels, Federal Family Education Loan Program (FFELP) ABS pricing has remained relatively stable. This contrast between underlying credit stress and securitization performance reflects both the structural protections of the asset class and the complexity of interpreting market signals. It also prompts a closer look at whether student loan trends may offer early insights into broader consumer credit conditions.

To understand the potential implications, it's important to remember the composition of the federal student loan market. According to the National Student Loan Data System, the $1.66 trillion in outstanding federal student loans, roughly 90% are held under the government's Direct Loan Program. The remaining 10% are government-guaranteed FFELP loans, of which approximately 38% are held by private entities—either through securitizations or directly on lender balance sheets—and are not serviced by the Department of Education. Less than 0.2% are Perkins loans, a now-defunct program. While recent policy and repayment shifts primarily impact Direct Loan borrowers, the financial strain they reveal has broader implications—including potential ripple effects across the FFELP market and other corners of consumer credit.

Mounting Student Loan Delinquencies: A Growing Risk Signal

TransUnion's June 2025 update reports that federal student loan repayment has reached a critical juncture: as of April, 31% of borrowers with payments due—approximately 5.8 million people—were 90 or more days delinquent, marking a record high and a steep rise from 20.5% in February and just 11.7% in February 2020. Notably, April's rate represents only a modest increase over March, which may suggest an early sign of stabilization—albeit at historically elevated levels. TransUnion projects that about 1.8 million of these borrowers could default in July, with an additional 1 million in August and 2 million more by September. While the 5.8 million delinquent borrowers account for less than 3% of the roughly 200 million credit-active consumers in the U.S., the impact is far from insignificant. For these individuals, delinquency could lead to an average credit score drop of 60 points, making future access to credit potentially more difficult and more expensive. The analysis also found that over 20% of borrowers now 90+ days past due were previously rated prime or better. After delinquency, fewer than 1 in 50 remained in those tiers. Most dropped at least one risk tier, with many super prime borrowers falling two or more.

These trends follow the expiration of pandemic-era protections and the resumption of federal student loan collection efforts in May 2025. Further complicating the landscape, the recently enacted federal budget—President Trump's One Big Beautiful Act—replaces the existing suite of five income-driven repayment (IDR) options with just two plans: a Standard Repayment Plan and a Repayment Assistance Plan (RAP). Proponents argue the new structure simplifies a confusing system, but critics warn it eliminates essential flexibility for financially vulnerable borrowers. Without access to capped payments or early forgiveness features under plans like SAVE or PAYE, many borrowers may face unaffordable monthly obligations, increasing the risk of delinquency or default.

These developments point to more than isolated repayment issues. Because student loans are not dischargeable in bankruptcy and often fall behind secured and essential debt in repayment priority, rising delinquencies in this sector frequently reflect deeper financial strain. Recent findings by the New York Fed and CFPB show that borrowers falling behind on student loans are also more likely to exhibit distress in other areas of household finance, including rising credit card balances and declining access to new credit.

FFELP ABS Resilience: Structure Over Fundamentals

Despite the worsening performance in the underlying collateral, FFELP ABS pricing has improved, as evidenced by tighter credit risk spread levels. With broader market sentiment rebounding after April's tariff-driven volatility, spreads across most consumer ABS sectors have tightened—and FFELP has moved in tandem. According to JPMorgan ABS Research, FFELP credit risk spreads are now tighter than at the start of the year and compared to levels a year ago.

Federally-Guaranteed FFELP ABS Credit Risk Spreads (bp) at Tights

	AAA 1yr	AAA 3yr	AAA 5 yr	AAA 7 yr	AAA 10yr	AA 6yr	AA 12yr
As of July 3, 2025	70	85	90	95	95	135	155
2025 Wides (April)	85	100	105	110	110	150	170
Change since one year ago	***-12***	***-9***	***-15***	***-17***	***-28***	***-25***	***-25***
Change since Jan '25	***-17***	***-15***	***-20***	***-20***	***-30***	***-20***	***-20***

Source: JPMorgan ABS Research: ABS Volume and Spreads as of July 4, 2025.

This resilience is largely attributable to the structural protections and technical dynamics that define the sector. Chief among these is the 97% federal guarantee on principal and accrued interest, which significantly reduces credit risk for investors even as borrower performance weakens. As a result, pricing in the FFELP ABS market often reflects technical factors more than real-time credit fundamentals. The sector is marked by limited new issuance and a buy-and-hold investor base, contributing to the pricing stability.

Additionally, since no new loans have been made since the program ended in 2010, many outstanding FFELP deals are well-seasoned, with much of their principal already amortized. For these older tranches, the risk posed by new delinquencies is less significant than for newer collateral pools. As a result, the drag from deteriorating borrower performance, which has been captured in recent surveillance, remains muted in the near term. Morningstar DBRS reports that across 462 FFELP ABS transactions—84% of which are in active repayment—delinquencies have increased by an average of 8% over the past year, with all delinquency metrics now nearing historic highs.

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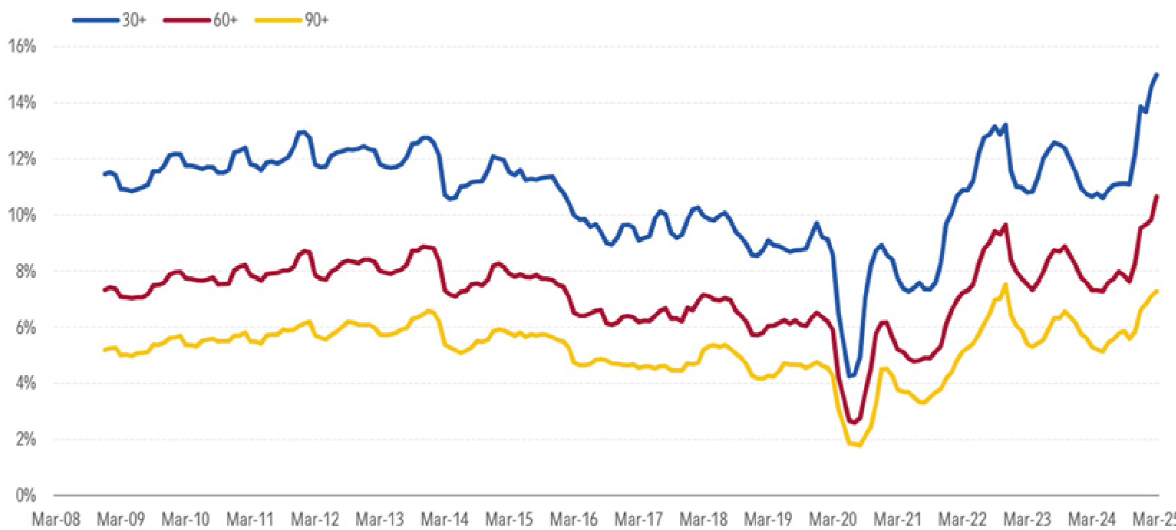
Delinquencies for FFELP ABS (as a % of repayment balance)



Source: Morningstar DBRS

Whether rising student loan delinquencies signal broader consumer distress or simply reflect post-pandemic policy shifts is a debated question. Some see them as a leading indicator—pointing to deeper household financial strain, especially as other credit stressors have emerged such as elevated auto payments, rising card balances, rent inflation, and the expiration of non-student loan related pandemic-era safety nets such as enhanced SNAP benefits and expanded child tax credit—continue to pressure consumers. Others contend the spike is largely transitional —a normalization of performance driven by the end of forbearance and changes to repayment plans, with limited spillover to other consumer credit sectors. What is clear, however, is that in the current environment, where policy shifts, repayment burdens, and financial resilience are in flux, student loan performance deserves close and continued attention. For now, FFELP ABS remains stable as structural protections continue to anchor this market.