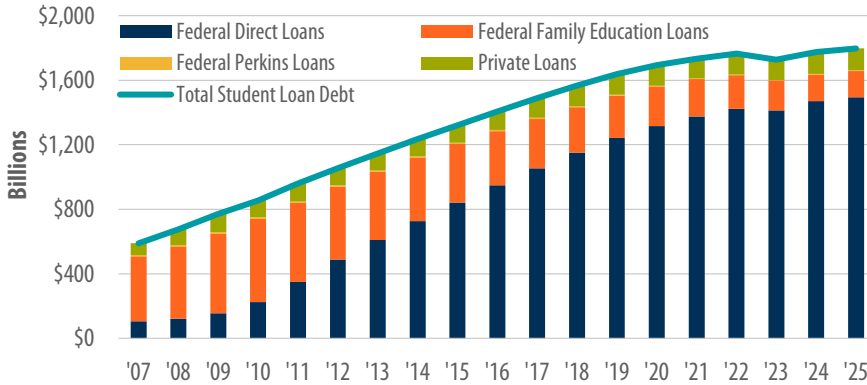


## The Student Debt Reckoning Begins

The Department of Education officially resumed collections on defaulted student loans last Monday, marking the end of a pause that began in March 2020. In this week's edition of "Three on Thursday," we examine the state of student loan debt in America—a financial and political flashpoint. Student debt now makes up 9% of total household liabilities, the highest share on record going back to 2003. As of Q1 2025, total outstanding student loan debt has climbed to a staggering \$1.8 trillion, owed by more than 40 million borrowers. This mounting burden reflects the skyrocketing cost of higher education—and it's weighing heavily on millions. According to figures released last month by the Department of Education, only 38% of federal borrowers are currently in repayment and up to date, signaling a wave of financial stress ahead. To help frame the scale and urgency of the issue, we've included three charts below.

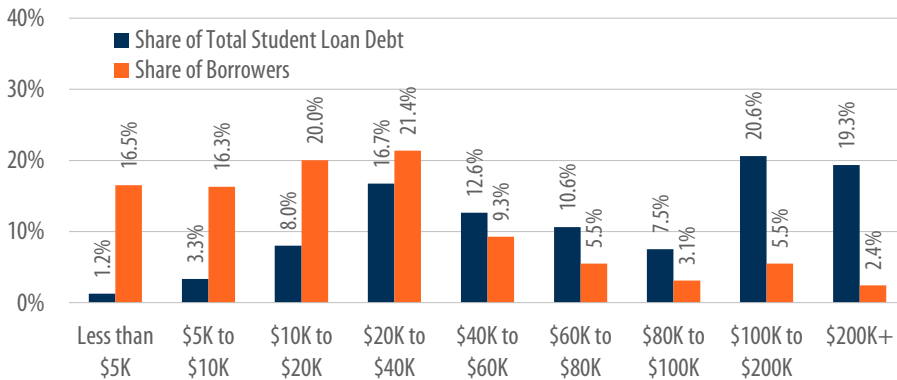
### Student Loan Debt Outstanding



Sources: National Student Loan Data System, Federal Reserve Board, First Trust Advisors. Annual data 2007 – 2024. 2025 data as of Q1.

As of the end of the first calendar quarter in 2025, the total student loan debt in the United States had soared to \$1.8 trillion, an increase of 205% since 2007. This debt falls into two categories: private and federal, with federal loans accounting for 92.4% of the total. Among federal loans, 90.0% are direct loans issued directly by the government. Additionally, there are Federal Family Educational Loans (FFEL), which, although backed by the federal government, are generally held by banks or other private financial institutions. Lastly, Perkins Loans cater to students with exceptional financial needs and are subsidized by the federal government.

### Federal Student Loan Portfolio by Borrower Debt Size



Sources: Enterprise Data Warehouse, First Trust Advisors. Data as of Q4 2024.

With federal student loans comprising more than 90% of the total student loan debt, analyzing this segment offers a clear insight into the debt landscape for millions of Americans. Through the end of last year, there were 45.4 million unique individuals holding federal student loan debt. Of these, 32.8% have balances of \$10,000 or less, indicating a substantial number manage relatively small amounts of debt. 41.4% have student loan balances ranging from \$10,000 to \$40,000. A smaller yet significant portion, 17.8%, hold debt between \$40,000 and \$100,000. Meanwhile, 7.9% of borrowers find themselves with more than \$100,000 in federal student loan debt.

### New Seriously Delinquent Student Loan Balances



Sources: FRBNY Consumer Credit Panel, First Trust Advisors. Quarterly data Q1 2010– Q1 2025.

Seriously delinquent defined as >90 days.

From 2010 to early 2020, serious delinquencies on student loans—defined as loans 90+ days past due—consistently hovered between 8% and 11% of outstanding balances. That changed dramatically with the CARES Act in March 2020, which paused payments and set interest rates to zero. By 2021, delinquencies had dropped to just 1%. Although payments were set to resume in October 2023, a temporary “on-ramp” allowed borrowers to delay repayment without penalties—effectively extending the pause. That grace period ended on May 5th, and interest has continued to accrue. According to the U.S. Department of Education, over 5 million borrowers haven’t made a payment in more than 360 days and remain in default—many for over seven years. Another 4 million are in late-stage delinquency (91–180 days past due). If trends hold, nearly 10 million borrowers could soon be in default, pushing almost 25% of the federal student loan portfolio into default status.

This report was prepared by First Trust Advisors L.P., and reflects the current opinion of the authors. It is based upon sources and data believed to be accurate and reliable. Opinions and forward looking statements expressed are subject to change without notice. This information does not constitute a solicitation or an offer to buy or sell any security.