



## Research

# Student Loan Lenders: How Do Different Options Stack Up?

JORDAN HARING | MAY 11, 2026

### Executive Summary

- The United States' student loan market has long been dominated by federal government-issued direct loans, which are broadly accessible and do not incorporate traditional credit risk pricing; these program features create repayment risk and subsidy costs, leading to the enactment of reforms that expand the market for for-profit and nonprofit/state-based lenders with different underwriting standards and pricing structures.
- The One Big Beautiful Bill put new limits on the federal student loan program, increasing attention on for-profit and nonprofit/state-based alternatives that may offer borrowers lower rates and lifetime repayment costs.
- This study compares the lending patterns of federal, for-profit, and nonprofit/state-based lenders and finds that unlike federal loans, both for-profit and nonprofit/state-based lenders consider borrowers' credit risk, concentrating lending disproportionately to those with strong credit profiles; moreover, nonprofit/state-based lenders issued a substantially larger share of loans at lower interest rate tiers than for-profit lenders, including 88 percent of loans between 5.00–8.99 percent and only 8 percent at 9.00 percent or higher.

### Introduction

The United States' student loan market has long been dominated by federal government-issued direct loans, which are broadly accessible and do not incorporate traditional credit risk pricing. The federal student loan program prioritizes broad access, with fixed interest rates. Debt-to-income ratios, FICO scores, and the ability to repay are not considered when determining a borrower's eligibility for a loan. These features, however, expose taxpayers to

repayment risk and subsidy costs. Reforms to the federal student loan program in the One Big Beautiful Bill will expand the market for for-profit and nonprofit/state-based lenders with different underwriting standards and pricing structures.

This study compares the lending patterns of federal, for-profit, and nonprofit/state-based lenders. Assessing alternatives to federal student lending is useful for understanding how underwriting standards, pricing mechanisms, and institutional incentives shape credit allocation in higher education finance. These alternatives may also limit ultimate taxpayer risk.

Compared to federal loans, both for-profit and nonprofit/state-based lenders consider borrowers' credit risk, concentrating disproportionately to those with strong credit profiles; in academic year (AY) 2024–2025, 52 percent and 72 percent of these loans, respectively, were issued to borrowers with FICO scores of 740 and above.

While for-profit lenders are driven primarily by profit, the mission-driven status of nonprofit/state-based lenders means they reinvest their earnings into borrower benefits, including offering loans at lower interest rate tiers. In AY 2024–2025, 88 percent of nonprofit/state-based loans were made at interest rates between 5.00–8.99 percent and only 8 percent at 9.00 percent or higher; these patterns indicate that, within the risk-priced segment of the market, nonprofit/state-based lenders tend to offer lower rates than their for-profit counterparts.

This is important as lower rates can reduce lifetime borrowing costs, improve repayment outcomes, and expand affordability for creditworthy students who exhaust federal aid. Such pricing may indicate that nonprofit/state-based lenders operate with lower capital costs, narrower margins, or mission-driven reinvestment structures that allow savings to be passed through to borrowers. In that sense, nonprofit/state-based lending could represent a complementary model within the broader student loan market – one that combines credit underwriting with moderate pricing relative to fully profit-maximizing firms.

## **Overview of Federal, For-Profit, and Nonprofit/State-based Lenders**

The federal student loan apparatus aims to provide access to higher education financing regardless of family income or credit history. Undergraduate borrowers can access Direct Subsidized Loans or Direct Unsubsidized Loans, while graduate borrowers can take out Direct Subsidized Loans or Grad PLUS loans. Parents can take out Parent PLUS Loans. Federal lending is not subject to federal or state consumer protection laws or the publication of an annual percentage rate (APR). As a result, it does not require traditional credit underwriting for most borrowers, and interest rates are fixed annually by statute. The

[outstanding federal student loan balance](#) is \$1.7 trillion, with 42.8 million borrowers owing an average of \$39,547 in student loan debt.

There are differences between the Direct Loan and Parent PLUS programs. The obligation of both subsidized and unsubsidized direct loans falls on the student borrower while the obligation of Parent PLUS loans falls solely on the parent borrower. And while the federal government offers borrower benefits - including Public Service Loan Forgiveness, deferment and forbearance options, and multiple repayment plans that include income-driven repayment (IDR) - they are only available to direct loan borrowers. Parent PLUS borrowers have limited borrower benefits, and the One Big Beautiful Bill made them even more stringent by eliminating IDR for new parent borrowers and existing parent borrowers that do not consolidate their Parent PLUS loans by July 1, 2026.

For-profit lenders - which include banks, credit unions, and specialized finance companies - operate under a market-based model driven primarily by profit maximization. For-profit lenders assess borrowers' creditworthiness, often requiring a cosigner for undergraduate borrowers with little credit history. Interest rates on private loans are either fixed or variable and are based on risk. Loans issued by for-profit lenders lack the extensive borrower benefits available to federal borrowers; therefore, they are best suited for borrowers with strong credit who will have the post-graduation earning potential to repay their loans. While data for the entirety of the for-profit loan market is not publicly available, a reasonable proxy is Sallie Mae, the largest for-profit student loan provider in the United States. In AY 2024-2025, Sallie Mae issued 125,745 loans totaling nearly \$1.8 billion. The average loan amount was \$14,071.

Nonprofit/state-based lenders - which include state-based education finance entities or independent nonprofit organizations (501(c)(3) organizations) - operate under a mission-driven model that prioritizes affordability and borrower success over profit maximization. Nonprofit/state-based lenders assess borrower creditworthiness and tend to provide loans at lower fixed interest rates than private lenders. Their mission-driven status means they reinvest their earnings into borrower benefits that include lower interest rates, as well as flexible repayment options or targeted financial literacy initiatives. The data cited in this study for non-profit/state-based lenders are the aggregated data from 18 nonprofit/state-based lenders. It does not represent data for all nonprofit/state-based lenders. In AY 2024-2025, nonprofit/state-based lenders issued 76,700 loans totaling over \$1.3 billion. The average loan amount was \$17,282. For more on nonprofit/state-based lenders, see [here](#).

## **Comparing Lending Patterns**

The interest rates on the various types of federal student loans are set annually by statute

and the interest rate on 10-year Treasury notes - thus, the interest rates are fixed and do not vary across borrowers. Unlike for-profit and nonprofit/state-based lenders, the federal government does not look at debt-to-income ratios, FICO scores, or the ability to repay when determining a borrower's eligibility for a federal student loan. In AY 2024-2025, the fixed interest rate on undergraduate Direct Subsidized Loans and Direct Unsubsidized loans was 6.53 percent; it was 8.08 percent for graduate Direct Unsubsidized Loans, and 9.08 percent for Graduate Direct PLUS Loans and Parent PLUS loans. The federal government also charges borrowers a one-time, upfront origination fee in exchange for processing and disbursing loans to them. In AY 2024, the origination fee for Direct Subsidized and Direct Unsubsidized loans was 1.057 percent; it was 4.228 percent for Graduate Direct PLUS and Parent PLUS loans.

For-profit lenders set interest rates based on individual borrower risk and market competition. They offer fixed or variable interest rates on loans that are determined by credit score, income, and cosigner status. Unlike the federal government, for-profit lenders combine the interest rate and any origination fee to calculate the APR on a loan. Like for-profit lenders, nonprofit/state-based lenders set interest rates based on individual borrower risk. Yet because these lenders are mission-based and not motivated by profit maximization, they tend to offer lower interest rates to borrowers than for-profit lenders.

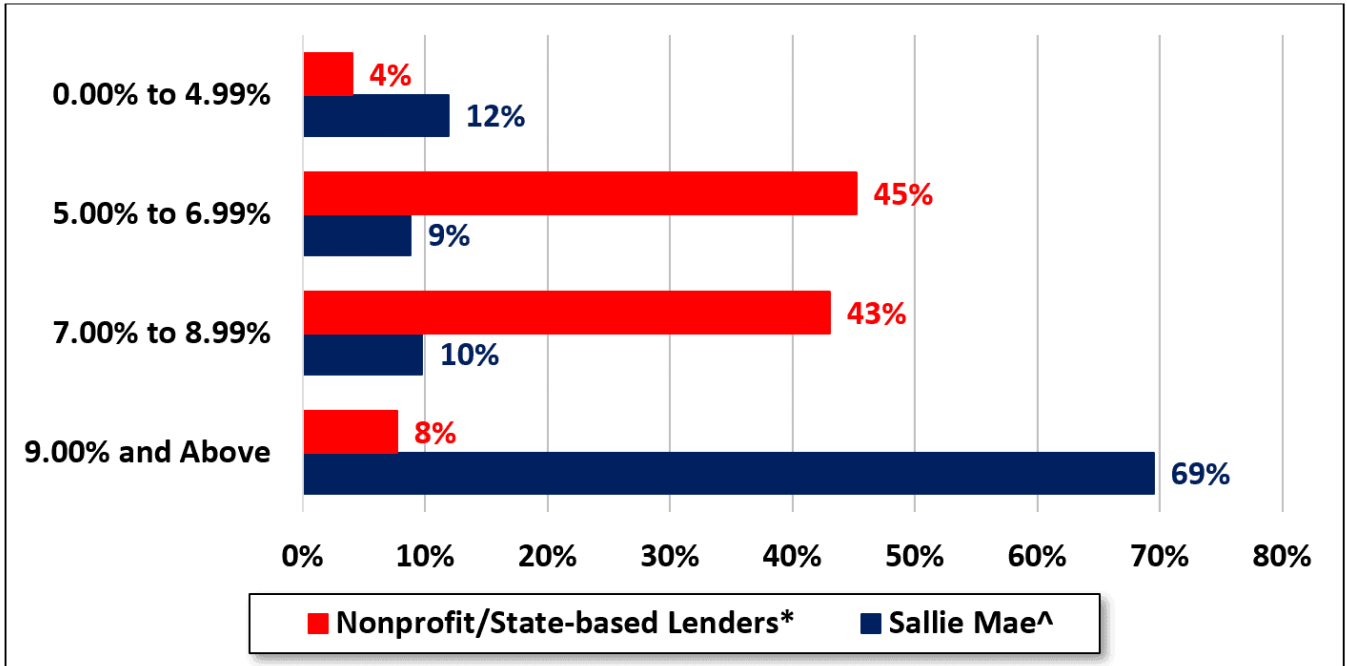
As noted above, in AY 2024-2025 Sallie Mae issued 125,745 loans totaling nearly \$1.8 billion, with an average loan of \$14,071, while nonprofit/state-based lenders issued 76,700 loans totaling over \$1.3 billion, with an average loan of \$17,282.

To accurately compare lending patterns, this study used available data on loans to create four separate ranges of interest rates: 0.00-4.99 percent, 5.00-6.99 percent, 7.00-8.99 percent, and 10.00 percent and above.

In AY 2024-2025, Sallie Mae, a proxy for all for-profit lenders, issued 12 percent of its loans (13,138 loans totaling \$211 million) in the 0.00-4.99 percent range, 9 percent of its loans (10,913 loans totaling \$156 million) in the 5.00-6.99 percent range, 10 percent of its loans (11,690 loans totaling \$173 million) in the 7.00-8.99 percent range, and 69 percent of its loans (90,004 loans totaling \$1.2 billion) at interest rates of 9.00 percent and above.

Meanwhile, nonprofit/state-based lenders in AY 2024-2025 issued 4 percent of their loans (2,658 loans totaling \$54 million) in the 0.00-4.99 percent range, 45 percent of their loans (34,849 loans totaling \$600 million) in the 5.00-6.99 percent range, 43 percent of their loans (32,774 loans totaling \$571 million) in the 7.00-8.99 percent range, and 8 percent of their loans (6,519 loans totaling \$102 million) at interest rates of 9.00 percent and above.

## Student Loans Issued by Sallie Mae and Nonprofit/State-based Lenders in AY 2024-2025 (by interest rates)



Sources: Sallie Mae, Education Finance Council, and author’s calculations. \*The data in this chart for non-profit/state-based lenders is the aggregated data from 18 nonprofit/state-based lenders provided to the American Action Forum by the Education Finance Council. It does not represent data for all nonprofit/state-based lenders. ^The data for the entirety of the for-profit student loan market is not publicly available. The data in this chart is from Sallie Mae, which is the largest for-profit student loan lender in the United States. Sallie Mae is viewed as a reasonable proxy for the entire for-profit loan market.

In AY 2024-2025, Sallie Mae issued an average loan of \$16,038 in the 0.00-4.99 percent range, 14,323 in the 5.00-6.99 percent range, \$14,793 in the 7.00-8.99 percent range, and \$13,659 at an interest rate of 9.00 percent and above. Nonprofit/state-based lenders, meanwhile, issued an average loan of \$20,182 in the 0.00-4.99 percent range, \$17,216 in the 5.00-6.99 percent range, \$17,435 in the 7.00-8.99 percent range, and \$15,682 at an interest rate of 9.00 percent and above. Nonprofit/state-based lenders issued higher average loans than Sallie Mae at all interest rate ranges. Notably, the average loan amount issued by nonprofit/state-based lenders was higher at lower interest rates - for example, an average loan of \$20,182 in the 0.00-4.99 percent range versus an average loan of \$15,682 at interest rates of 9.00 percent and above.

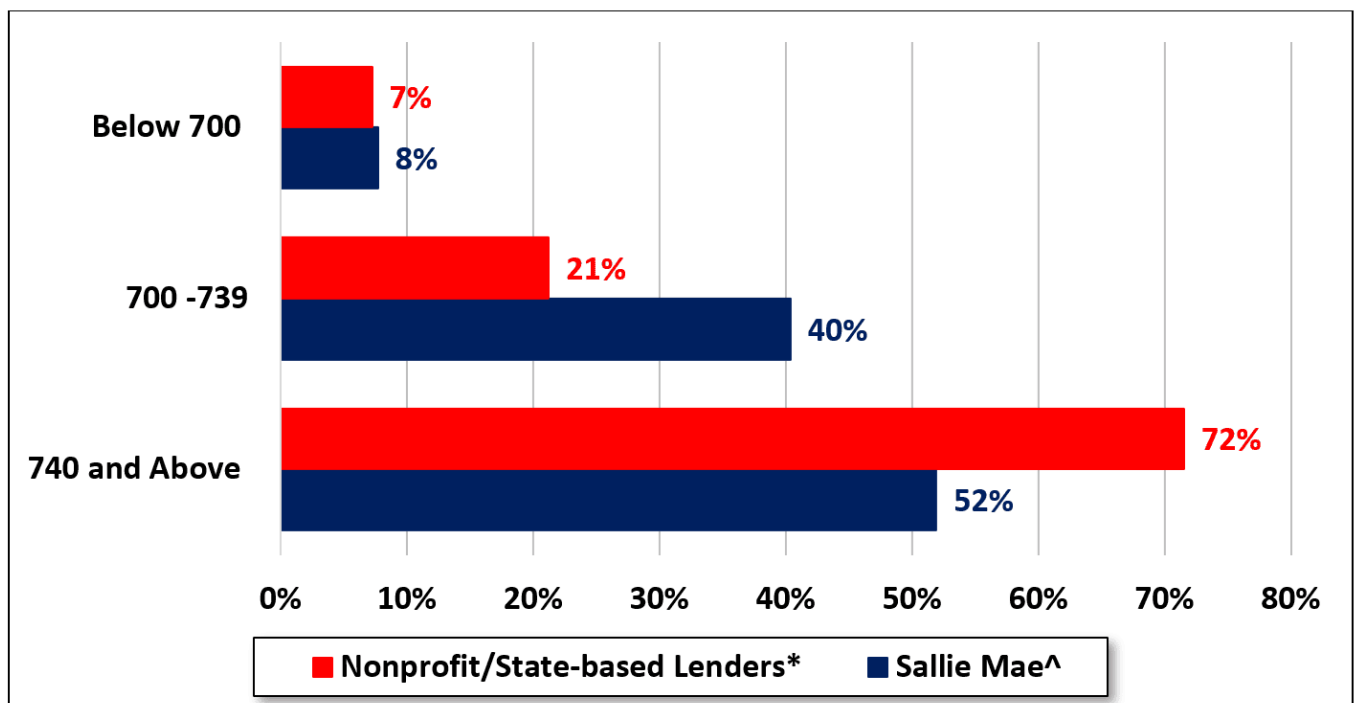
Both for-profit and nonprofit/state-based lenders take creditworthiness into account when

issuing student loans. For an accurate comparison of lending patterns, this study used the available data to create three ranges of FICO scores: below 700, 700–739, and 740 and above. The first two ranges are considered “good” and the third range “very good” by FICO standards.

In AY 2024–2025, Sallie Mae issued 8 percent of its loans (9,691 loans totaling \$126 million) to borrowers with FICO scores below 700, 40 percent of its loans (50,765 loans totaling \$693 million) to borrowers with FICO scores between 700–739, and 52 percent of its loans (65,289 loans totaling \$950 million) to borrowers with FICO scores of 740 and above.

Nonprofit/state-based lenders in AY 2024–2025 issued 7 percent of their loans (5,477 loans totaling \$80 million) to borrowers with FICO below 700, 21 percent of their loans (16,087 loans totaling \$268 million) to borrowers with FICO scores between 700–739, and 72 percent of their loans (54,215 loans totaling \$969 million) to borrowers with FICO scores of 740 and above. The key takeaway is that both for-profit and nonprofit/state-based lenders issue a greater percentage of their loans to borrowers with “very good” credit ratings than to those with “good” credit ratings.

### Student Loans Issued by Sallie Mae and Nonprofit/State-based Lenders in AY 2024-2025 (by FICO Score)



Sources: Sallie Mae, Education Finance Council, and author’s calculations. \*The data in this chart for non-profit/state-based lenders is the aggregated data from 18 nonprofit/state-

based lenders provided to the American Action Forum by the Education Finance Council. It does not represent data for all nonprofit/state-based lenders. ^The data for the entirety of the for-profit student loan market is not publicly available. The data in this chart is from Sallie Mae, which is the largest for-profit student loan lender in the United States. Sallie Mae is viewed as a reasonable proxy for the entire for-profit loan market.

Of the 9,691 loans made by for-profit lenders to borrowers with credit scores below 700 in AY 2024–2025, 19 percent (1,847 loans) were made at interest rates between 0.00–4.99 percent, 9 percent (864 loans) at interest rates between 5.00–6.99 percent, 1 percent (92 loans) at interest rates between 7.00–8.99 percent, and 71 percent (6,888 loans) at interest rates of 9.00 percent and above. Of the 5,477 loans made by nonprofit/state-based lenders to borrowers with credit scores below 700, 0 percent (no loans) were made at interest rates between 0.00–4.99 percent, 30 percent (1,666 loans) at interest rates between 5.00–6.99 percent, 41 percent at interest rates between 7.00–8.99 percent, and 29 percent at interest rates of 9.00 percent and above.

For-profit lenders made 50,765 loans to borrowers with credit scores between 700–739 in AY 2024–2025. Of them, 5 percent (2,501 loans) were made at interest rates between 0.00–4.99 percent, 3 percent (1,332 loans) at interest rates between 5.00–6.99 percent, 1 percent (482 loans) at interest rates between 7.00–8.99 percent, and 92 percent (46,450 loans) at interest rates of 9.00 percent and above. Nonprofit/state-based lenders made 16,097 loans, of which 0.4 percent (61 loans) were made at interest rates between 0.00–4.99 percent, 38 percent (6,067 loans) at interest rates between 5.00–6.99 percent, 44 percent (7,020 loans) at interest rates between 7.00–8.99 percent, and 18 percent (2,939 loans) at interest rates of 9.00 percent and above.

In AY 2024–2025, for-profit lenders made 65,289 loans to borrowers with credit scores of 740 and above. Of these, 13 percent (8,790 loans) were made at interest rates between 0.00–4.99 percent, 13 percent (8,717 loans) at interest rates between 5.00–6.99 percent, 17 percent (11,116 loans) at interest rates between 7.00–8.99 percent, and 56 percent (36,666 loans) at interest rates of 9.00 percent and above. Nonprofit/state-based lenders made 54,215 loans, of which 5 percent (2,597 loans) were made at interest rates between 0.00–4.99 percent, 49 percent (26,300 loans) at interest rates between 5.00–6.99 percent, 43 percent (23,391 loans) at interest rates between 7.00–8.99 percent, and 4 percent (1,927 loans) at interest rates of 9.00 percent and above.

## **Conclusion**

In the wake of recent federal student loan reforms, it is important for both policymakers and the public to understand options for higher education financing. In comparing the lending

patterns of federal, for-profit, and nonprofit/state-based lenders, this study finds that while both for-profit and nonprofit/state-based lenders consider borrowers' credit risk, nonprofit/state-based lenders tend to offer lower interest rates than their for-profit counterparts to borrowers with lower credit scores. The policy implications of this are notable, as lower rates can reduce lifetime borrowing costs, improve repayment outcomes, and expand affordability for creditworthy students who exhaust federal aid.