What Comes Next for Student Loan Policy?

A Summary of Discussions with Researchers, Advocates, and Practitioners

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Over the past six years, the federal student loan program has seen several major reforms and interruptions that have disrupted payments and created confusion for borrowers.[1] These changes include regulatory and statutory changes that have dramatically altered student loan access, repayment, and forgiveness options for borrowers, and they include the following:

- A pause on most federal loan payments at the beginning of the COVID-19 pandemic that lasted more than three years.[2]
- The introduction of the Saving on a Valuable Education (SAVE) income-driven repayment (IDR) plan. This plan lowered monthly payments for many borrowers and provided forgiveness for some but was enjoined because of legal challenges and was ultimately ended by the Trump administration through a court settlement.[3]
- The gainful employment (GE) rule tied access to federal grants and loans to earnings and debt outcomes for nondegree programs and degree programs at for-profit institutions. Further, the implementation of GE and the accompanying financial value transparency rule required new program-level data collection on nonfederal debt and net price.[4]
- In the One Big Beautiful Bill Act (OBBBA), Congress created the Repayment Assistance Plan (RAP), which will eventually replace existing IDR options and uses a different framework than previous plans.[5]

- The “do no harm” provision in the OBBBA ties federal student loan access to minimum earnings outcomes for associate’s degrees and above.[6] The OBBBA also limits the amount of federal student loans graduate students and parents of undergraduate students are allowed to borrow.

These reforms have substantially changed the federal student loan landscape. Moving forward, higher education programs will have to meet new standards to be eligible to receive federal loans, and students will have new limits on how much they can borrow and new terms for repaying their loans, all while borrowers transition back into repayment after the pause. To help understand these reforms and their effects on students, institutions, and the federal loan program, the Urban Institute convened a bipartisan working group of student loan policy experts. These experts included researchers from think tanks and advocacy organizations, academic researchers, legal professionals, and current and former staff members from the US Department of Education and Congress. The working group was intended to facilitate coordination among researchers, advocates, and policymakers on the possible effects of recent student loan reforms, potential future reforms, and policy questions in need of further evidence and analysis. In this brief, we discuss key takeaways from the working group regarding the main areas of future student loan policies, challenges, and research.

Loan Limits and Affordability

The OBBBA established new caps on federal student loans for graduate students and Parent PLUS borrowers. Graduate students, who were previously allowed to borrow up to their full cost of attendance net of other aid, will be allowed to borrow federal loans up to $20,500 annually and $100,000 total (or $50,000 annually and $200,000 total for professional programs). Parent PLUS loans will be capped at $20,000 annually per child and $65,000 total per child. Meanwhile, limits on direct loans to undergraduates—which max out at $7,500 annually for dependent students and $12,500 annually for independent students—have not changed since 2008. Any borrowing beyond the new limits will have to be through the private market.

In the same legislation, Congress passed a provision to prorate loan limits, meaning part-time students will have their borrowing limits adjusted to be proportional to their attendance intensity. This also acts as a limit on lending, as a student who pursues a two-year master’s program will have a total loan limit of $41,000, regardless of whether they enroll full time for two years or part time for three or four years (Matsudaira et al. 2025). These loan limit changes will go into effect in July 2026.

Graduate Loan Limits

Research suggests a substantial share of graduate students in many professional and master’s degree programs typically borrow more than will be allowed under the new limits (Matsudaira et al. 2025).[7] Since 2006, graduate students have been allowed to borrow federal loans up to their full cost of attendance net of other aid, meaning they have rarely needed private loans (Monarrez et al. 2025). When graduate loans are capped, it is likely that private graduate lending will increase substantially and enrollment could decrease.

Because graduate loans make up only about 10 percent of the outstanding balance of student loans in the private market, private loans are currently designed primarily for undergraduates.[8] Private lenders might need to redesign their programs to underwrite a larger volume of private graduate loans. Underwriting for graduate student loans does not necessarily have to work the same way as underwriting for mortgage or auto loans, for example. The investment in education means that a borrower's current income and credit history might not be representative of their ability to repay a loan because their graduate program will likely result in an earnings premium. Lenders could account for outcomes data in the student's graduate institution or field of study to help determine loan terms and availability. Higher education associations and institutions might facilitate this process by partnering with lenders. Partnerships could include sharing graduation and earnings outcomes data to inform underwriting and providing clear financial information to students considering private loans. But a note of caution comes with these partnerships; before the federal government fully adopted Direct Loans, some private lenders provided illegal inducements to financial aid directors to push institutions to keep them as preferred lenders.[9]

If lenders cannot increase their capacity as these changes go into effect or if lenders are conservative in their lending standards for graduate programs, some low-income, low-credit-score students could lose access to valuable programs, leading to decreased enrollment in fields likely to be affected by the new limits, including medicine, dentistry, and public health. Other students could end up borrowing with much higher interest rates.

Undergraduate and Parent PLUS Loan Limits

Undergraduate loan limits for students have not changed since 2008 and remain at $31,000 in aggregate for dependent students (between $5,500 and $7,500 annually, depending on the year of study) and $57,500 for independent students (between $9,500 and $12,500 annually, depending on the year of study).[10] Because these limits are not tied to inflation, their real value has declined more than 20 percent since 2008 (Delisle and Blagg 2022). Previously, dependent borrowers' parents could borrow Parent PLUS loans up to the full cost of attendance net of other aid to cover costs beyond the student borrowing limits. The new caps on Parent PLUS loans ($20,000 annually per child and $65,000 total per child) will limit borrowing for some of these parent borrowers. Many parent borrowers likely to be affected are those with higher incomes,[11] who could be using the loans for liquidity purposes. A small share of low-income parent borrowers could also be affected by the new caps, but most borrow smaller amounts.

Parent PLUS loans are not eligible for most IDR plans because these plans are meant to function as a safety net for students, should their own investment in education not pay off.[12] For this reason, it is important to limit borrowing for low-income parents to what they can afford (Baum et al. 2019). But these parent loans are often disproportionately used by Black families, and implementing caps could reduce college choice for families who do not have access to other forms of credit to pay for the remaining costs of college (Dharmagadda and Turner 2025). One option for mitigating this effect could be to increase undergraduate loan limits to account for general inflation.[13] And because loans to students have a stronger payment safety net than loans to parents, increasing the limits could be an effective replacement for any loss of access resulting from limits on Parent PLUS loans.

Future Research on Loan Limits

As the new graduate loan limits in the OBBBA are implemented, researchers will need to monitor student and institutional responses. Researchers should examine whether and how students shift their enrollment choices and how their federal and private debt amounts change. For institutions, researchers should look at how schools and programs with many students borrowing above the new limits respond. Will they change their prices to better align with the limits? Will they offer more need-based aid? Will they see enrollment changes? Will they partner with lenders to support more private borrowing for their programs? Researchers and policymakers should also monitor private loan terms available to graduate students to understand whether lenders are investing in education that pays off for students and are offering fair loan terms.

On the undergraduate side, if limits on loans to students do not change, researchers should build evidence on how their loss of purchasing power affects students. How many families have already shifted to private loans for undergraduate education? How many and what types of students might be choosing not to enroll as a result? Do students choose different institutions because of these affordability barriers? Are students shifting their enrollment to institutions with worse outcomes than they might otherwise choose? Research in this area could inform how policymakers handle undergraduate loan limits going forward.

Repayment Assistance Plan

As part of the OBBBA, Congress replaced previous IDR plans with a single new plan, RAP. After RAP is fully implemented, borrowers will have only two options for repayment: RAP or the standard fixed payment plan, which Congress also amended to extend repayment periods for borrowers with larger balances. RAP operates differently than previous IDR plans. It does not exempt any income from payments, has a minimum $10 monthly payment, assesses higher-income borrowers at higher marginal rates than those with lower incomes, and extends time-based forgiveness to 30 years. The new repayment plan also includes interest and principal subsidies for borrowers whose required payments do not reduce their principal balance by at least $50 per month.

These are substantial changes for borrowers. Reducing the number of options to two repayment plans, one standard and one based on income, should help borrowers navigate their repayment options and reduce confusion. Previous IDR plans allowed $0 monthly payments for borrowers with very low incomes. Increasing the minimum payment to $10 could lead to more defaults (i.e., being 270 or more days delinquent) among low-income borrowers, either because of disconnection with the loan system or because of affordability concerns. The minimum monthly payment might not be affordable for all low-income borrowers. It could be worth exploring whether there is a select group of low-income borrowers for whom a $0 payment makes sense.

RAP has income cutoffs every $10,000 where its assessment rate changes. For example, borrowers earning between $30,000 and $40,000 pay 3 percent of their income, while those earning between $40,000 and $50,000 pay 4 percent of their income. Unlike previous IDR plans, these cutoff points are not indexed to inflation or a national poverty standard, meaning many borrowers' real payments will increase over time.[14] These increases could eventually have substantial negative effects on affordability. As RAP is implemented, policymakers could establish a schedule for adjusting the plan for inflation. For example, they could adjust the cutoff points every year or every five years.

Future Research on Loan Repayment

As borrowers start repaying using RAP, researchers should monitor take-up rates. The plan's differences relative to previous IDR plans and the changes to the standard plan could substantially alter borrowers' choices about which plan to use. Researchers should also examine delinquency and default rates for borrowers using RAP, particularly low-income borrowers who owe the minimum $10 payment. This research will help assess the plan's effectiveness at keeping borrowers current on their loans.

Designing evaluations of these new repayment plans as they first take effect is important. Starting early will allow policymakers and practitioners to collect the data that will be most useful for informing future changes. For example, the US Department of Education could collect loan repayment data for the first cohort of borrowers to repay in RAP, relative to similar borrowers who choose standard repayment, to learn how the new repayment terms are serving borrowers, how long borrowers stay in the plan, how long it takes them to pay off their loans, and how many of them miss payments or default.

Student Loan Default

Now that most of the additional protections for borrowers facilitating the transition out of the payment pause have been removed, research suggests we are likely to see significant increases in default rates (Congressional Research Service 2025).[15] As a result, policymakers and researchers should prioritize finding strategies to help borrowers avoid default and ensuring consequences are not unnecessarily punitive when they do default.

Preventing Default

Student loan servicers' interactions with borrowers are important factors in keeping borrowers current on their loans. Servicers have often had issues communicating with borrowers and connecting them with relief programs, and these issues are likely to be more prevalent after the payment pause (Caldwell and Nguyen 2024). Furthermore, the introduction of new repayment plans, such as RAP, is likely to cause some confusion among borrowers, and servicers will need to provide guidance to keep borrowers engaged and on track. To support repayment and reduce delinquency, policymakers could make servicer communication a top funding priority.

Since the payment pause ended, the student loan portfolio has experienced a wave of defaults. About 3.6 million borrowers were headed to default as of September 30, 2025, roughly 10 times the number of borrowers who defaulted in any given quarter prepandemic.

In addition to current IDR, deferment, and forbearance options, policymakers should continue to work with servicers to support return to repayment. Federal student loan delinquencies are not reported to credit bureaus until they are more than 90 days past due, and a loan is transferred to collections after it is more than 270 days past due. This timeline is longer than for most other types of loans, and servicers should use this time strategically to communicate with borrowers about the consequences they will face if they continue to miss payments.

Consequences and Exiting Default

Student loan default has several negative consequences, and researchers and policymakers must assess them. One consequence for borrowers receiving Social Security benefits is that those benefits can be offset.[16] Last June, the US Department of Education announced that it would pause Social Security offsets.[17] Policymakers could consider making this change permanent to protect older borrowers and borrowers with disabilities from losing important income.

When a student loan goes into default, the full balance becomes due, which could be discouraging for many borrowers. Researchers should assess to what extent borrowers are discouraged from taking action on their loans because of this and what adjustments might be necessary. When a borrower defaults, the loan is transferred to a collection agency. Thus, even if a borrower was communicating with their loan servicer before defaulting, that servicer is no longer handling their loan. Creating more pathways for getting information to borrowers after their loan goes into default could make it easier for them to navigate the loan system and exit default.

One way to exit default is through loan rehabilitation, which requires a borrower to make nine on-time payments (adjusted to borrower household income and expenses, with a monthly minimum of $5) before their loan is put back in good standing and the default is removed from their credit record.[18] While a borrower is rehabilitating their loan, involuntary collections through wage garnishments or US Treasury offsets can continue until the borrower makes at least five of the required nine payments. Policymakers could consider ending involuntary collections sooner in the rehabilitation process, as long as borrowers are making on-time payments. This change could be an incentive for borrowers to rehabilitate their loans (or consolidate them, with three full non-IDR payments) and get into the habit of making monthly payments.

Some student loans that have been in default for several years and are unlikely to be collected on might be in situations where the loan would be written off in a private market setting. The Department of Education could establish rules for a similar process for loans that seem unlikely to be paid or collected, such as those held by borrowers with long-term financial hardship (Blagg 2018). The department could also consider a one-time write-off policy for loans that have been in repayment for 30 years to streamline the portfolio. More than 80 percent of borrowers who first entered repayment more than 20 or 25 years ago have experienced at least one default.[19] Writing off long-defaulted loans or loans that have been in repayment since the early 1990s could enable servicers and collections agencies to streamline services for a smaller group of borrowers and would reduce the number of borrowers with administratively complex loans (e.g., attributable to multiple consolidations or to repayment on multiple plans).

Future Research on Default

Moving forward, researchers should evaluate default prevention strategies and how they affect borrower behavior and outcomes. For example, building evaluations of specific servicer outreach strategies could refine guidance for student loan servicers.

Researchers should also collect and analyze data on the borrowers who defaulted after the payment pause ended. Following these borrowers and learning how similar they are to borrowers who were the most likely to default before the payment pause, how many of them exit default, what prompts default exit, and how they fare in repayment after exiting default will inform processes to help borrowers after they default.

Conclusion

The federal student loan system has seen several major changes over the past six years, including a pause on payments that lasted more than three years, the introduction of two new IDR plans, changes to federal loan limits, and new accountability rules for accessing federal loans. These changes will affect students, institutions, and lenders. As these reforms are implemented, researchers, advocates, and policymakers should consider and study these effects and other possible reforms that might be necessary.

This brief provides an overview of changes to federal student loan limits, loan repayment, and loan default, focusing on the possible effects of the new reforms, additional policy options to consider as they are implemented, and what research will be necessary for informing future policy decisions about the federal student loan program.

Notes

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5 An Act to Provide for Reconciliation Pursuant to Title II of H. Con. Res. 14, H. R. 1, 119th Cong. (2025).

6 An Act to Provide for Reconciliation Pursuant to Title II of H. Con. Res. 14, H. R. 1, 119th Cong. (2025). In negotiated rulemaking, negotiators and the US Department of Education arrived at a consensus to align GE with the do no harm provision in the OBBBA, effectively extending this provision to apply to undergraduate certificate programs. See Katherine Knott, "ED Panel Signs Off on New Earnings Test," Inside Higher Ed, January 9, 2026, https://www.insidehighered.com/news/government/student-aid-policy/2026/01/09/ed-panel-signs-new-earnings-test.

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11 Cohn, "How New Federal Student Loan Limits Could Affect Borrowers."

12 Parent borrowers are allowed to consolidate their loans and pay on the Income-Contingent Repayment plan, but this plan's terms are less generous than current IDR plans.

13 Dependent students whose parents are not credit eligible for Parent PLUS loans do have access to independent student loan limits.

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