



JAMES STEINBERG FOR WSJ

What to Know About New Student-Loan Rules

Changes affect how much families can borrow and how loans are repaid

BY CHERYL WINOKUR MUNK

Families applying for financial aid this fall are facing a new studentloan landscape.

The recent overhaul of the federal loan system is having an impact on how much families can now borrow and how those loans will eventually be repaid.

Here's a look at some of the changes and what to consider as you fill out the Free Application for Federal Student Aid, or Fafsa.

New lifetime max

For new undergraduate student borrowers whose federal loans are disbursed on or after July 1, the annual loan limits haven't changed. However, student borrowers now have a lifetime maximum loan limit of \$257,500. This amount is important because it includes loans students might also take for their graduate-school education.

A first-year undergraduate student can borrow up to \$5,500, of which not more than \$3,500 can be federally subsidized. A second-year student can borrow up to \$6,500, and not more than \$4,500 can be subsidized. A third-year student and beyond can borrow up to \$7,500, and not more than \$5,500 can be subsidized.

The interest rate on subsidized and unsubsidized undergraduate loans first disbursed between July 1, 2026, and June 30, 2027, is 6.52%. Students also should expect to pay a loan fee of 1.057% for loans disbursed before Oct. 1, 2027. (The repayment calculator at Federal Student Aid, which oversees the federal government's student-loan program, lets you see estimated monthly payments.)

Status matters

There are some new wrinkles that could affect the annual loan limits for some students, however.

One involves enrollment status. Students enrolled less than full time (those taking six to 11 credits) will now receive a proportional total loan amount, says Betsy Mayotte, president and founder of the Institute of Student Loan Advisors, a nonprofit that advises families on student loans. Previously, students were eligible for the same loan amounts whether they were enrolled full time or part time.

Another change involves a student's choice of major. Under the new rules, a school can set a loan limit that is lower than the maximum amount allowed by law, as long as the same limit is applied to all borrowers in the same program of study. For instance, a school might decide to set the loan limit for education majors lower than the federal limit.

Sarah Austin, policy analyst at the National Association of Student Financial Aid Administrators, says a college might decide to implement a lower limit for a program that's already relatively low in cost, especially if generous institutional aid is offered. Or, if a certain program has issues with former students defaulting on loans, she adds, a school might set limits lower to ensure that current students aren't graduating with debt they can't repay.

Loan limits for parents

Parents looking to take out their own loans to pay for a child's tuition now face reduced borrowing eligibility.

Dependent undergraduate students may receive up to \$20,000 annually from parental federal loans, known as Direct Plus Loans, with an overall aggregate limit of \$65,000, according to Federal Student Aid. Previously, parents could borrow up to the cost of a school's attendance minus any aid received.

Parent loans carry a fixed interest rate of 9.07% for those disbursed between July 1, 2026, and June 30, 2027. There's also a loan fee of 4.228% for loans disbursed before Oct. 1, 2027.

Parents whose children attend colleges that don't give a lot of school-based aid often turn to Direct Plus Loans, but they have to consider what's economically feasible given that an undergraduate education often lasts four to six years, says Kim Cook, chief executive of the nonprofit National College Attainment Network. Parents need to consider the effect on their finances of borrowing for school in its entirety, not just one year.

Repayment options

Paying back student loans might seem like a distant thing for students just applying to college, but it should be part of the calculus—especially with the new rules.

Students with federal loans first disbursed on or after July 1 will be required to repay the loans under the Repayment Assistance Plan (RAP) or the Tiered Standard Plan. RAP is the new federal income-driven repayment option, replacing the SAVE plan that was discontinued. With RAP, the required monthly payment amount is based on the borrower's income and number of dependents. RAP generally results in higher monthly payments and a longer forgiveness timeline of 30 years, compared with the previous plan that offered forgiveness in 10 to 20 years for undergraduate debt.

With the new Tiered Standard Plan, the monthly payment will be based on the amount of the borrower's principal balance at the time they enter the plan, the interest rate on the loans and the length of the repayment period.

Parents who take out Plus loans for their children after July 1 are only eligible to repay using the Tiered Standard Plan. Previously, parents could take certain steps to have their parent loans qualify for income-driven repayment.

While the government reduced the amount parents can borrow and runs a credit check, there's no ability-to-pay component to taking out the loan. So "it's still very possible for parents to get into unaffordable Parent Plus debt," says Mayotte.

Last resort

Student-loan professionals expect to see a rise in the number of families turning to private loans to pay for college, largely due to the changes to the amount parents can tap in federal loans. Some students will have a funding gap now who didn't used to, says Austin.

But private loans are typically viewed as a last option since they have less-favorable terms than federal loans. Interest rates for private loans vary widely, based on the provider, credit history and whether it's a fixed-rate loan or a variable-rate loan. Fixed-

rate loans, for instance, range from about 2% to roughly 18%.

Potential borrowers can review options using aggregator sites such as Savingforcollege.com and [NerdWallet](http://NerdWallet.com). They also should compare rates at a local bank or credit union and look into lower-cost, state-offered private loans.

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