

7-14-25

WSJ Print Edition



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New Tax Law Upends Student Loans

BY DALVIN BROWN AND OYIN ADEDOYIN

The federal government is retreating from its central role in financing higher education.

President Trump's big tax-and-spending law includes new restrictions on how much students can borrow and how they repay. The provisions begin to reverse the government's near takeover of the \$1.7 trillion student lending market over the last six decades.

As a result, families are reassessing the costs and risks of college. Many are likely to turn to private lenders, which typically charge higher interest rates and require creditworthy cosigners. Those lenders recently accounted for some 8% of outstanding loans, according to data from Enterval Analytics.

In particular, as many as half of graduate student borrowers may take private loans to cover funding gaps, according to Jordan Matsudaira, director of the Postsecondary Education & Economics Research Center at American University, and former chief economist at the Education Department.

Republican lawmakers say they want to reduce taxpayer risk from the ballooning federal student loan portfolio while forcing colleges to curb their prices.

Higher education observers and borrowers worry the changes will price out middle-class families and reduce access to careers that require expensive graduate training.

"Congress has never removed benefits from existing borrowers like this," said Betsy Mayotte, president of the Institute of Student Loan Advisors. "This is really unprecedented."

The Trump administration has separately been pushing borrowers to resume payments on loans after a pandemic pause, threatening to garnish wages of those who are in default.

Now, the law imposes a series of new borrowing limits. Here's what is changing on July 1, 2026:

Graduate loans are capped at borrowing \$100,000 for master's degrees, and \$200,000 for professional degrees (law, medical, dental). Currently, students can borrow up to the full cost of attendance minus other aid.

Parent PLUS loans, which currently let parents borrow up to the full cost of attendance for their child's undergraduate education, are capped at \$20,000 annually, and \$65,000 total per child.

The Graduate PLUS loan program, which allowed graduate students to borrow up to the full cost of attendance, is being eliminated.

Borrowers like Candice Weather--spoon believe the caps will push them into the private student lending market. The 36-year-old nursing student, at Chamberlain University in Georgia, started her accelerated nursing program in May and expected to rely on federal loans through her May 2028 graduation. Now she says she has to switch to private loans partway through school, since she will hit the \$100,000 cap before graduating.

Her program costs about \$90,000 total, and will layer on top of loans she already took out for a master's degree in marketing. She believes she will pay more out of pocket because of the extra interest on the private loans, and she may have to pick up part-time employment to fill the gap.

"I thought: 'Do you want to do well in school and leave with a lot of debt or do you want to work, make money, and pay off your debt during school, but not do well in your classes?'" Weatherspoon said. "Who can choose from that?"

Private lenders have been largely shut out of the graduate lending market since the government began offering unlimited borrowing through Grad PLUS loans. But many of them see opportunity.

SoFi, for example, has said it wants to expand lending to qualified borrowers. "If the government backs away from providing inschool loans, Grad PLUS, etc., we'll absolutely capture that opportunity," Anthony Noto, CEO of SoFi, said in an April earnings call. "We'd be very happy to step in for the government."

In addition to typically higher rates, private lenders often have less generous repayment options than what the federal government currently offers.

The new law will also eliminate most current repayment options for federal loans, including the SAVE and Pay As You Earn plans that adjust monthly bills based on income, and can lead to forgiveness after 20 or 25 years.

Borrowers will have two choices: a fixed standard plan or a new income- driven option called the Repayment Assistance Plan, which has a \$10 minimum monthly payment and forgives loans after 30 years of payments.

Existing borrowers who borrowed before July 2014 will face payments capped at 15% of discretionary income under a modified income- based repayment plan, while those who borrowed between July 2014 and July 2026 will pay 10% of discretionary income. Currently, borrowers can qualify to have their student loan payments paused if they are earning less than minimum wage, on welfare or lost their jobs. Under the new law, those unemployment and economic hardship deferments are eliminated for borrowers who take out loans after July 2027. During the pandemic, millions of borrowers were put into forbearance, meaning their student loan payments were paused. Under the new law, forbearance will be capped at nine months within a 24-month period for new loans.

Some are skeptical that reducing federal financing will drive down college costs, which have more than doubled at private institutions over the past 30 years, according to the nonprofit College Board.

Instead, students may take the private debt or drop out entirely, says Justin Draeger, senior vice president for affordability at Strada Education Foundation.

Advisers say some prospective students may consider lower-cost alternatives, such as starting at community colleges before transferring to four-year schools, or choosing less expensive programs.

The law has also sought to encourage alternatives to college, such as by expanding Pell Grant eligibility for students enrolled in workforce training programs.

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