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So Long to Simplification:
An Analysis of the House Reconciliation Bill's Overhaul of Title IV Student Aid

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The House Education and the Workforce Committee advanced legislation that would fundamentally alter the Title IV Federal Student Aid Programs authorized under the *Higher Education Act*. These changes, which would save the federal government more than $350 billion over 10 years, are part of the larger budget reconciliation package currently under consideration in Congress.

The measure would bring the most significant change to the student aid programs and the student lending marketplace since the Obama Administration and Congressional Democrats used the same legislative process to establish Obamacare and eliminate the Federal Family Education Loan Program (FFELP) 15 years ago. This proposal, dubbed the "Student Success and Taxpayer Savings Plan," passed on a party-line vote of 21 Republican "yeas" vs 14 Democratic "nays."

It is important to remember that, at this point, this is still "just a bill," it has not (yet) become law. There are still many open questions and internal debates amongst Republicans regarding the overall reconciliation package which have led to delays and the fate of the larger bill is far from decided.

That said, the "Student Success and Taxpayer Savings Plan" is part of Congressional Republicans budget reconciliation package, which is the legislative vehicle for delivering President Donald Trump's policy agenda, and it has passed through its House Committee process with relatively little pushback. This is certainly a proposal with some momentum.

The legislation envisions significant changes to all of the major Title IV Student Aid Programs—Pell, Direct Loans, and the Campus-Based Programs. proposed changes are discussed in detail below.

Summary

<u>"Cost of Attendance" Becomes "Median Cost of College"</u>

Tying available aid to the median cost of academic programs is a fundamental tenant of the "Student Success and Taxpayer Savings Plan." The bill replaces the "cost of attendance" in current law with the "median cost of college," which the Education and the Workforce Committee defines as "the median cost of attendance for students enrolled in the same program of study nationally and calculated by the Secretary using data from the previous award year."

Under the plan, the Department of Education would calculate the "median cost of college" for hundreds of CIP Codes, which are the six digit codes the Department of Education uses under the Classification of Instructional Programs to identify different types of degrees, certificates, and programs. Essentially, the Department will calculate the median costs for each individual major or program of study at institutions of higher education; and the amount of loan and grant aid for students, as well as accountability measures for institutions, will be based on those calculations.

<u>Major Reforms to Direct Loan Terms and Conditions & An Increased Role for the Financial Aid Office?</u>

The proposal would make significant changes to the terms for student loans originated on or after July 1, 2026 both in terms of front-end reforms such as annual and aggregate loan limits, the elimination of the in-school interest subsidy and the differentiation of independent and dependent borrowers, eliminating Graduate PLUS loans and instituting aggregate caps on the Parent PLUS Program for the first time. The bill would also make significant changes to back-end repayment.

Subsidized loans would be eliminated under the plan. All loans would begin accruing interest at disbursement. Additionally, there are no longer separate loan limits for dependent and independent borrowers. All borrowers would be allowed to borrow up to the median cost of college for their individual academic program minus other aid, meaning there could be different loan limits for students at the same institution depending on their course of study.

Under this plan, most dependent students would see their annual loan limits increase dramatically. The proposal includes three tools for addressing overborrowing: Aggregate loan limits, risk sharing tied to loan repayment, and providing financial aid administrators with explicit authority to reduce loan limits. The aggregate limits are as follows:

- Undergraduate Students: $50,000
- Graduate Students: $100,000
- Professional Students: $150,000

These loan limits are certain to be alarming to some graduate and professional schools. Given the current debt loads of graduate and professional students, it is clear these limits may create problems under current pricing structures. Additionally, some schools may not be fond of the idea of capping Parent PLUS Loans in any way, though expanded lending to undergraduates should assuage many of those concerns. Notably, there is a three-year grandfathering for currently enrolled borrowers to complete their course of study under previously available caps.

Whereas graduate and professional institutions and students would likely find challenges with loan availability under this plan, the problem for students and schools on the undergraduate side of the ledger could be *overborrowing*. The law removes any meaningful annual loan caps for undergraduates and its $50,000 aggregate cap is a significant increase in the loans available to dependent students under current law (though a decrease for independent students). Left unchecked, it is easy to see how many students could overborrow, particularly early in their studies, and then find themselves without access to loans to finance the requisite courses to complete their degrees.

To help combat overborrowing, the bill provides financial aid administrators with the explicit authority to lower annual loan limits, but they must treat all students in the same academic program equally (i.e. $20K limits for engineers, but $10K limits for history majors). In addition to helping students manage their finances and aid packages, schools are further incented to minimize overborrowing through the risk sharing component of the proposal—institutions will now have a clear business case to ensure students are repaying their loans.

It remains to be seen how active schools will be in reducing loan limits. In spite of the bill explicitly stating financial aid administrators may reduce loan limits by program of study and punishing schools if loans are not repaid (not to mention an Executive Order criticizing "disparate impact" as a legal theory), some schools may remain concerned with Fair Lending laws.

Additionally, the idea of multitudes of loan limits is likely to increase administrative burden on institutions. The bill does not address students changing academic programs, but it is easy to foresee a scenario where transfers and changes in major create headaches for students and institutions alike.

Further, it is not clear how students and prospective students will react to these changes. Could "loan limit shopping" become a thing? Perhaps.

<u>Loan Repayment: The Repayment Assistance Plan (RAP) & More Money for Servicing</u>

The "Student Success and Taxpayer Savings Plan" creates an entirely new repayment plan for borrowers with loans on or after July 1, 2026 and would place existing borrowers in what

is commonly known as "old IBR," reflecting most of the original terms of Income Based Repayment (IBR).

The new plan, dubbed the "Repayment Assistance Plan" (RAP) would serve as the only income driven option for new borrowers. Under RAP, borrowers pay on a tiered model from 1 percent to 10 percent of their adjusted gross incomes (AGI) There is also a $10 minimum payment requirement. The following chart outlines the payment tiers:

Adjusted Gross Income	Required Loan Payments Under RAP
Under $10,000	$10 monthly payment ($120 annually)
$10,001-$20,000	1 percent of AGI
$20,001_$30,000	2 percent of AGI
$30,001-$40,000	3 percent of AGI
$40,001-$50,000	4 percent of AGI
$50,001-$60,000	5 percent of AGI
$60,001-$70,000	6 percent of AGI
$70,0001-$80,000	7 percent of AGI
$80,001-90,000	8 percent of AGI
$90,001-$100,000	9 percent of AGI
$100,001 and up	10 percent of AGI

RAP would generally reduce the time in debt of the typical borrower in two ways: 1) It requires increased monthly payments for many borrowers, which naturally accelerates loan repayment; and 2) It includes new features and subsidies in the repayment programs to eliminate negative amortization.

Interest is waived for borrowers whose payments are not enough to cover principal. The program also features subsidies to give borrowers up to $50 per month in principal reduction. Borrowers whose payments do not cover P&I have matching principal reduction up to $50 per month tied to their monthly payment.

RAP features a 30-year maximum repayment term for all borrowers. This is 120 months of additional payments than under current law for most existing borrowers (though current law is currently under dispute in the courts).

For existing borrowers, the bill would eliminate the Income Contingent Repayment (ICR) Program and all of the subsequent plans tied to the program, such as PAYE and REPAYE. These borrowers would be given the option to switch to the new RAP or they could keep their loans under the terms of Income-Based Repayment, which is 15 percent of discretionary income for with forgiveness at 20 years for undergraduate borrowers and 25 years for graduate borrowers.

Supporters of the "Student Success and Taxpayer Savings Plan" describe the new RAP as "simplifying" the repayment programs, but they are likely to continue to remain rather

complex for the average consumer. Additionally, simplifying repayment plans is an uphill battle due to all the legacy plans for existing borrowers that will need to remain in place.

The legislation tries to accelerate the end of legacy payment plans, but it may be an impossible task in a portfolio of more than 40 million borrowers. In the case of current borrowers who re-enroll in school, they would lose access to this plan if they borrow again from the federal programs.

The plan also makes changes with the Standard Repayment Plan. Instead of standard, graduated, extended, etc., the proposal would make the term length of the Standard Repayment Plan tied to the amount borrowed. The term lengths are as follows:

- Under $25K: 10 years
- $25K-$50K: 15 years
- $50K-$100K: 20 years
- Over $100K: 25 years

As repayment plans have grown in complexity over the years due to executive action making them more generous, the reconciliation bill prohibits the Secretary of Education from making major changes to repayment plans absent Congressional approval. The proposal also eliminates economic hardship and unemployment repayment deferments and limits discretionary forbearances to no more than nine months over a 24-month period.

The legislation would allow borrowers with defaulted loans to access to rehabilitation twice, up from the one time under current law. The option would be available both to new and existing borrowers. As in the case of traditional repayment, $10 would be the minimum allowable payment under loan rehabilitation.

Medical and dental resident borrowers would no longer have payments made during residency count toward Public Service Loan Forgiveness (PSLF) requirements. However, there is a new deferment for residencies allowing for up to four years of zero interest.

It is clear to see implementing all of the changes set forth in the bill will present challenges for schools, students, and industry alike, particularly as student loan repayment and collections are resuming in full force. Notably, the bill proposes $1 billion in additional funding for student loan servicing, spent over FY 2025 and FY 2026,

<u>Campus-Based Aid: Risk Sharing & PROMISE Grants</u>

After being debated and discussed for years, institutional risk sharing on federal student loans is the closest it has ever been to becoming reality via the “Student Success and Taxpayer Savings Plan.” Under institutional risk sharing, institutions of higher education would remit payments to the federal government for a portion of the non-repayment

balance for borrowers who had enrolled in their institution. These payments would begin on loans disbursed on or after July 1, 2027. Reimbursement payments would begin in academic year 2028-2029.

The legislation uses an "earnings price ratio" (EPR) to determine both how much schools will have to return to federal government for non-payment of Direct Loans by students and their eligibility to receive PROMISE Grants. The Department will create completer and non-completer cohorts for each academic program. Additional information on EPR, institutional risk sharing and PROMISE Grants is available online: https://edworkforce.house.gov/news/documentsingle.aspx?DocumentID=410507

In the case of completers, the percentage is cohort's average "value added earnings" divided by the cost of the program minus one. In the case of non-completers, the program's non-completion rate (after 150 percent of program length) equals the percentage schools must remit in risk sharing. Transfers from two-year colleges are accounted for in determining the non-completion rate.

The proposal would use monies collected via risk-sharing to fund Promoting Real Opportunities to Maximize Investments and Savings in Education (PROMISE) Grants to institutions. Under the new PROMISE Grant program, schools would be awarded funding via formula based on tuition pricing, graduate earnings, and low-income completers.

To receive a PROMISE Grant, schools must offer "maximum price guarantee" to students. Institutions would be required to maintain and disclose a maximum price guarantee to students for the lesser of 6 years or their median completion rate to be eligible for PROMISE Grants

The maximum award available to institutions is $5,000 per student aid recipient. Beyond the "maximum price guarantee" requirement, schools are given significant flexibility in the use of funds for affordability and student success.

PROMISE Grants are considered a "Campus Based Aid" program under HEA. The reconciliation bill does not mention Supplemental Educational Opportunity Grants (SEOG) or the Federal Work Study (FWS) program. However, these programs, particularly SEOG, likely remain untouched due to parliamentary procedures surrounding reconciliation known as the "Byrd Rule," which generally requires an impact on mandatory (as opposed to discretionary) spending. Notably, the College Cost Reduction Act of 2024 called for the elimination of SEOG and the President's FY 2026 budget proposal is calling for the elimination of both SEOG and FWS.

Pell Grants: Increased Class Loads for Full-Time Status & Short-Term Pell

The "Student Success and Taxpayer Savings Plan" provides additional mandatory funding to help address a funding cliff, but also makes some significant changes to the Pell Grant Program.

Most notably, students would be required to take on 30 credit hours per academic year, as opposed to the current 24 credit hours, to be considered as "full-time" for the purposes of Pell. Additionally, students with a Student Aid Index more than double the maximum Pell Grant are no longer permitted to receive Pell Grants.

Regulatory Relief

In addition to these massive changes to the student aid programs, the reconciliation legislation offers Republicans a vehicle to address what they view as regulatory overreach on the part of the Department of Education under Presidents Obama and Biden in terms of for-profit colleges. The bill repeals the following regulations:

- The 90/10 rule
- Gainful employment
- Borrower Defense to Repayment

Conclusion and Next Steps

The "Student Success and Taxpayer Savings Plan" represents a massive rewrite in student aid policy. The outcome of the legislation is far from certain, but the likelihood of major changes is the highest the higher education sector and student finance industry has seen since the early years of the Obama Administration.

Now that the measure has been voted out of the Education and the Workforce Committee, it becomes a waiting game. The proposal is unlikely to meaningfully change before the House passes the full bill. However, there are significant delays and internal debates on other aspects of the House version of legislation, such as tax issues and cuts to Medicaid and the Supplemental Nutrition Assistance Program, which could hold the process up.

Additionally, the Senate may still make some modifications via its version of the plan. The Senate HELP Committee has stayed relatively quiet on student loans and student aid. They are largely expected to follow the House's efforts as at least the basis for their work, but there could be some key differences between the Senate HELP and House Education and the Workforce proposals.

For one, Senate HELP Chairman Bill Cassidy (R-LA) has said he plans he to introduce legislation to eliminate the Department of Education. This legislation would create all sorts of programs and policies that are extremely difficult to manage and administer. It is difficult to reconcile this sort of overhaul of the student aid programs, which will now require

oversight down to the individual program level, with the idea that the Administration is actively working with Congress to shudder the Department of Education.

However, because of the way the legislation is written with interactive provisions, it is difficult to see a scenario where the Senate HELP Committee simply takes the parts of the "Student Success and Taxpayer Savings Plan" it likes and disposes of provisions it doesn't like, as can often be the case in these negotiations. Instead, major parts of the legislation, such as risk-sharing, PROMISE Grants, loan limits, aid administrator authority, the elimination of Gainful Employment from the law, etc., are all very much intertwined. If Senate were to try to make significant changes to one aspect of the plan, it could very easily have major downstream effects on other parts of the bill.

In terms of process, the larger reconciliation package must pass the House, then the Senate, and then the two Houses of Congress must conference to reconcile any differences between the two bills. The entire summer, if not the rest of the year, is likely to be consumed by this process.

The House of Representatives is looking to pass their reconciliation bill by the Memorial Day recess, but unresolved debates at the Committee level are already slowing things down, and that timeline is looking more and more unlikely by the day. Senate Majority Leader John Thune has previously said he would like to pass the Senate bill by July 4, but has later acknowledged that deadline "might be aspirational."

This document was prepared by Wes Huffman. If you have questions or comments on this analysis or the underlying legislation, please feel free to contact Wes at huffman.wes@gmail.com.

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