

A Working Document on State Policy Responses to OBBBA's Changes to Higher Education Finance

OBBBA, the new federal tax law, makes a variety of changes to the rules regarding student loans and grants. Those changes have the potential to undermine access to college, tilt the playing field towards for profit lenders and colleges, and harm public colleges and universities. States can respond to these changes by strengthening their regulations of predatory actors and providing greater support for students and public institutions. What follows is a review of the federal changes and potential state policy responses.

1) Changes in Student Lending. OBBBA makes changes that will limit access to federal student loans. It caps federal guaranteed loans at \$100,000 for graduate programs and \$200,000 for professional programs, with lower limits for part time attendance. It ends PLUS loans and subsidized Stafford loans for graduate and professional students.

For undergraduates, it limits borrowing for Parent PLUS loans to \$20,000 per year for each student, with a lifetime cap of \$65,000. The law closes new entrants into existing income based loan repayment plan beginning July 2026. Borrowers can choose between a standard plan and a "Repayment Assistance Plan" based on 1% to 10% of their income. OBBBA also sunsets unemployment and economic hardship deferments for loans disbursed beginning July 2027.

These changes will limit college attendance and force some of those who would prefer to use federal student loans or who need to refinance their loans into the private marketplace, which can be exploitative.

Potential Policy Responses

- States should consider, via a state bank or other means, the creation of loan programs to fill gaps and provide support for refinancing exploitative loans. (For a policy analysis of North Dakota's state bank, see [here](#)). A bank also could expand opportunity, for example, by creating a state based public service loan forgiveness program. In doing so, states should be careful about offering services to refinance federal guaranteed loans. Refinancing here can essentially remove the loan from federal jurisdiction meaning that the borrower no longer qualifies for federal PSLF or any improvement we might subsequently create in the federal loan program.
- States should, if they have not done so, create a [student borrower bill of rights](#) that subjects lenders and servicers to state regulation and provides a state ombudsman to help borrowers navigate this new terrain. States that should consider this include Alaska, Florida, Hawaii, Idaho, Kansas, Michigan, Montana, Nebraska, New Hampshire, New Mexico, North Dakota, Ohio, Pennsylvania, Texas, Utah, Vermont and Wisconsin. Per Student Borrower Protection Center, red states with laws already include Kentucky, Louisiana and Oklahoma.
- States should find revenue, by taxing the rich, to insulate their public colleges from the impact of disenrollment caused by these and other federal actions.

- To the extent federal changes will undermine graduate enrollment in particular, one area where new taxes could be used productively is in supporting public graduate education. In 2024, states spent \$15.7 billion on [student aid](#). Less than \$300 million of this went to graduate education. That makes graduate education particularly vulnerable to federal changes. States should consider improved funding to institutions and creating need based aid programs for qualified students to prepare for and attend graduate school as a way of more directly offsetting the obstacles created by federal changes. That could include a state based analog to the federal [McNair Postbaccalaureate Achievement Program](#) to help prepare students for graduate education.

2) Creates New Standards for Colleges to Offer Student Loans. The law bars colleges from offering direct federal loans if their graduates make less than the median earnings of 25- to 34-year-olds with no higher education credentials. It creates parallel restrictions for graduate programs. A school needs to fail to meet this bar in two out of three years.

This is complicated to the extent that public colleges vulnerable to this provision are also likely to be serving a very at-risk population that needs access to good higher education. Such colleges are likely in need of greater support and will find it hard to recover from loss of enrollment.

Potential Policy Response.

- States should be proactive in determining public colleges that are at risk and should take steps to support and improve those programs. They should do that without making those colleges become more selective in admissions.
- If, despite efforts at prevention, a public program falls afoul of these rules, states should create safe harbors that include support in order to protect and improve their institution's ability to succeed.
- States should also consider, via a state bank or other means, the creation of a loan program to fill gaps created by federal action.

3) Creates Short Term Pell. Reconciliation creates a pathway for Pell to be used to pay for short term training programs, up to 15 weeks. This creates the [potential](#) for a flood of new for-profit programs with all of the attending disfunction and poor outcomes for students. It has the potential to divert enrollment from community colleges in particular, increasing their financial pressures. Also, because short term programs are rife with fraud and abuse, as this TICAS [analysis](#) indicates, it will create new regulatory challenges for states.

Potential Policy Responses

- States should evaluate creation of short term programs, particularly in their community college systems to qualify for funding. This is a unique investment opportunity within the law. Programs should be provided in whole by public colleges and not as part of public private partnerships. Employees working on those programs should be included in the appropriate bargaining unit.
- TICAS recommends states collect data on outcomes and enrollment; adopt licensure, with renewal based on performance, and otherwise place limits on the use potentially predatory financing arrangements like income share agreements by for profits.
- The 27 [states](#) that allow need based student aid to be used to attend proprietary colleges should consider closing that path for new students or placing performance requirements on participation. This is a small portion of need based aid (\$156 million or 1.3 percent overall), but to the extent that for-profit

higher education systematically fails our students, states should step away. This doesn't substitute for other regulations.

- States can look to [Veterans' Education Success](#) and [TICAS](#) for effective policies to regulate for profits. In particular, that includes following Maryland's [example](#) and preventing for profit colleges from enrolling new students if federal funds exceed 90 percent of revenue. States can either directly cap non instructional spending or peg tuition to instructional spending.

4) Rollback of Student Protections. The new law delays the Biden Borrower Defense to Repayment rule until July 1, 2035. That rule streamlined the process for defrauded students to access debt cancellation and held predatory colleges accountable. Instead, the bill reinstates the Betsy DeVos rule that DeVos's own Department of Education said would result in only 3 percent of defrauded borrowers getting loans forgiven.

In addition, OBBBA delays Biden's Closed School Discharge rule until July 1, 2035 and restores the weaker DeVos era regulation that made it harder for students to have their loans discharged when their schools close suddenly (which often happens when predatory colleges collapse under the weight of their own misconduct).

Potential Policy Responses (This draws heavily from [this](#) TICAS analysis)

- States should follow California's example and require that students are refunded when a school closes entirely or shuts down a program, unless the school can arrange for the students to complete their program elsewhere.
- Similarly, states should follow Maryland's example, and prohibit schools that close without arranging for students to complete their program elsewhere from collecting on debts that students owe to the school and from selling student debts to third-party debt collectors.
- States should create a tuition recovery fund and tax private colleges to pay into it on a regular basis. According to TICAS, 20 states have a version of this already and California's law is a good example. An additional complementary policy is requiring schools that are seen as particularly at risk of closing to post a bond. This would prevent the fund from being run down by any one particular bad actor.
- Colleges should be required to provide states with electronic access to all students' transcripts in advance of closure. This allows states to ensure that students have access to their records. States should charge colleges a fee for maintaining these records. Minnesota requires private colleges preserve permanent student records, according to a state standard and requires a surety bond if that standard isn't met (cf Subd 12 of [Minnesota136A.822](#)).

States should require that individuals operating a school that abruptly closes are barred from taking on similar roles at other schools in the state.