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New Federal Loan Limits for Graduate Students and the Rise of Private Lending: What They Mean for Institutions of Higher Education

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Update (April 2026): In a reversal of its previous position, the Department of Education has announced that Graduate PLUS loans will now count toward the new $257,500 lifetime borrowing limit established under the One Big Beautiful Bill Act, effective July 1, 2026. This includes Graduate PLUS loans borrowed prior to July 1, 2026, which will be counted against a borrower's lifetime eligibility at whatever point the new limits apply to them; note that Parent PLUS loans remain exempt from this limit.

Beginning July 1, 2026, the One Big Beautiful Bill Act (OBBBA) will sharply curtail federal borrowing options for graduate and professional students—pushing private lending, and the compliance obligations that come with it, to center stage for colleges and universities.

Key Changes: Federal Loan Limits Slashed

The most significant change: Graduate/Professional PLUS Loans will be eliminated for new borrowers after July 1, 2026. Students will no longer be able to borrow up to their full cost of attendance after exhausting Direct Unsubsidized Loans.

New graduate borrowers will also face strict caps on Direct Unsubsidized Loans:

Graduate students (not in professional programs):

Annual limit: $20,500

Aggregate (lifetime) limit: $100,000 (excluding undergraduate borrowing)

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Professional students (including those pursuing graduate degrees in law, medicine, dentistry, veterinary medicine, pharmacy, optometry, podiatry, chiropractic medicine, clinical psychology, and theology, with few exceptions):

Annual limit: $50,000

Aggregate (lifetime) limit: $200,000 (excluding undergraduate borrowing)

Combined lifetime limit for new-borrower students for Direct Subsidized and Unsubsidized (including undergraduate and Grad PLUS excluding Parent PLUS Loans): $257,500

For many programs—especially law, medicine, and business—annual costs far exceed these caps, leaving students with significant funding gaps that federal loans alone cannot fill.

Legacy Borrower Protections

The new limits will not apply to all students immediately. Borrowers will retain access to prior loan programs and limits for the lesser of three academic years or the remainder of their program, provided they:

Are currently enrolled in a program.

Have received a Direct Loan or Grad PLUS Loan for that program before June 30, 2026.

Remain continuously enrolled in the same program.

Private Lenders Step into the Gap

With federal limits falling well short of program costs, **private lenders**—banks, credit unions, fintech companies, and institutions themselves—are poised to fill the gap with loan products tailored to graduate and professional students.

Compliance Obligations Remain – Regardless of Lender

This shift carries important regulatory and practical implications for institutions:

Interest rates and repayment: Private loans typically carry higher interest rates, fewer borrower protections, and less flexible repayment options than their federal counterparts.

Underwriting standards: Private lenders may require strong credit histories or co-signers, potentially limiting access for some students.

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Consumer protections: Federal and state laws. including the Truth in Lending Act (TILA) and its state equivalents, apply to private education loans. Lenders must provide required disclosures, may not engage in certain unfair practices, and are subject to oversight by regulators like the CFPB and state attorneys general.

Preferred lender rules: Schools that develop lists of recommended private lenders or enter formal or informal arrangements to refer students to specific lenders must comply with U.S. Department of Education preferred lender and other regulations, including strict disclosure, transparency, and conflict-of-interest requirement, to ensure students receive unbiased information and fair access to loan options.

What This Means to You

Evaluate lending arrangements. Colleges and universities should anticipate surging student demand for private loan products. Institutions that partner with private lenders, develop curated lender lists, or otherwise facilitate access to private lending should consider evaluating whether those arrangements trigger federal preferred lender compliance obligations, and whether they can withstand heightened regulatory scrutiny.

Support and develop student resources. Institutions should assess their financial aid offices' capacity to guide students through an increasingly complicated borrowing environment that includes private lenders offering different rates, terms, and protections. Clear resources comparing federal and private options, consistent with applicable legal obligations, can mitigate compliance risk while supporting student access to financing.

Contact Us

For assistance with Title IV Federal Student Aid compliance or other student funding matters, please contact Annie Cartwright, Abby Felter, Julie Miceli, Lisa Parker, or your Husch Blackwell attorney.

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