

# Raising the Cost of Borrowing, Reducing Access: *How the One Big Beautiful Bill Reshapes Financial Aid and Repayment*

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The [One Big Beautiful Bill Act \(OBBBA\)](#) represents the most sweeping rollback of federal student aid and borrower protection in a generation. Signed into law by President Trump on July 4, 2025, after being passed by House and Senate Republicans, OBBBA cuts key federal financial aid programs for undergraduate and graduate students and eliminates critical consumer protections in the federal student loan repayment system. These changes will do lasting harm to the American higher education system and will hit low- and middle-income students and students of color the hardest.

## The New Repayment Plans Will Make Loan Repayment More Expensive

The changes to the student loan repayment system will make loan repayment more expensive for borrowers, especially low-income and middle-income borrowers. One of the consumer protections provided to federal student borrowers is income-driven repayment (IDR) plans, which base a borrower's monthly payment on their income and family size. Existing IDR plans are Income-Contingent Repayment (ICR), Income-Based Repayment (IBR), Pay As You Earn (PAYE), and the enjoined Saving on a Valuable Education (SAVE) plan, which was the most affordable repayment plan.

OBBBA sunsets ICR, PAYE and SAVE for all borrowers after July 1, 2026, and [limits options to IBR and the Repayment Assistance Plan \(RAP\)](#), created by OBBBA, for borrowers moving forward. Existing borrowers who do not take out a new loan after July 1, 2026, will have access to the original IBR plan for loans taken out before July 1, 2014, the new IBR for loans taken out between July 1, 2014, and July 1, 2026, or RAP. Existing borrowers enrolled in ICR, PAYE, or SAVE will have until June 30, 2028, to switch to IBR or RAP. If borrowers do not voluntarily switch by that date, they will automatically be placed in RAP or IBR. Borrowers with new loans after July 1, 2026, will only have access to RAP.

Payments under the RAP plan will be much higher than payments under the SAVE plan. An analysis of the RAP plan by The Institute for College Access and Success (TICAS) found a family of four with two dependent children and an adjusted gross income (AGI) of \$81,000 would have a [\\$440 payment under RAP](#) but only a \$36 payment the SAVE plan.

The [following changes to the repayment system](#) after July 1, 2026, would make loan repayment more unaffordable for borrowers:

- For new borrowers or existing borrowers who take out new loans, it eliminates access to plans that protect 150% or 225% of the federal poverty line for a borrower's family size from repayment. For example, a borrower in a family of three making \$59,963 or less would have had a \$0 payment on the SAVE plan — that income is protected because it is considered necessary to live. The new RAP does not protect any income for families (Table 1).

- For existing borrowers, it eliminates SAVE, which are more affordable than IBR for most borrowers.
- Extends the repayment time period from 20 or 25 years to 30 years for borrowers who only have access to RAP.
- Ends \$0 payments for the lowest-income borrowers who take out new loans and makes the minimum payment \$10 even for borrowers with \$0 in income. In August 2024, 14%, or 4.5 million borrowers, had [\\$0 payment](#) on an IDR plan.
- Increases the minimum payment for defaulted loan rehabilitation from \$5 to \$10
- Designs RAP without an inflation adjustment, which causes [higher payments over time](#). Whereas IDR plans have an automatic inflation adjustment because the protected income is pegged to a percentage of the federal poverty level, which is [adjusted for inflation annually](#).

The RAP plan is more expensive than other IDR plans and significantly more expensive than SAVE. Like the SAVE plan, the RAP plan does provide borrowers with a monthly interest subsidy if their payment does not cover the interest that accrues every month. RAP will also reduce a borrower's principal balance by \$50 every month if the borrower's payment does not. Borrowers on RAP with dependents will receive a \$50 reduction in their payment every month for each dependent. Even with the dependent deduction, the minimum monthly payment will always be \$10. However, the \$50 deduction is far less generous than IDR plans that protect either 150% or 225% of the federal poverty line in income from being counted for repayment.

**Table 1:** Repayment Assistance Plan Monthly Payment Schedule

| Income Range         | Percentage of AGI Required to be Paid Monthly |
|----------------------|-----------------------------------------------|
| \$0 - \$10,000       | \$10                                          |
| \$10,001 - \$20,000  | 1%                                            |
| \$20,001 - \$30,000  | 2%                                            |
| \$30,001 - \$40,000  | 3%                                            |
| \$40,001 - \$50,000  | 4%                                            |
| \$50,001 - \$60,000  | 5%                                            |
| \$60,001 - \$70,000  | 6%                                            |
| \$70,001 - \$80,000  | 7%                                            |
| \$80,001 - \$90,000  | 8%                                            |
| \$90,001 - \$100,000 | 9%                                            |
| >\$100,000           | 10%                                           |

Source: H.R.1 - One Big Beautiful Bill Act

Eliminating \$0 monthly payments will harm borrowers experiencing financial hardship. Overall, within four years of completing a bachelor's degree 12.7% of borrowers in repayment had a \$0 payment. Black borrowers — of whom 25.5% had a \$0 payment (Table 2) — will be especially harmed by this. To have had a \$0 payment, the borrowers reflected in this data must have had an income that is less than 150% of the federal poverty level for their family size.

**Table 2:** Percentage of Borrowers who Began College In 2016 with a \$0 Monthly Payment Four Years After Completing a Bachelor's Degree by Race and Ethnicity

|                           | Percentage of Borrowers with a \$0 monthly payment |
|---------------------------|----------------------------------------------------|
| Overall                   | 12.7%                                              |
| White                     | 10.1%                                              |
| Black or African American | 25.5%                                              |
| Hispanic or Latino        | 12.2%                                              |
| Asian                     | 5.5%                                               |

Source: EdTrust analysis U.S. Department of Education, National Center for Education Statistics, *Baccalaureate and Beyond: 2016/2020 (B&B)*.

Note: Reporting standards not met for American Indian or Alaska Native, Native Hawaiian/other Pacific Islander, and more than one race

### OBBBA Creates a New Standard Repayment Plan

To replace the 10-year standard, extended, and graduated repayment plans, OBBBA creates the [new standard plan](#), which bases the length of repayment on a borrower's total amount of direct loans when entering repayment (Table 3).

**Table 3:** Repayment Terms for New Standard Repayment Plan

| Total Amount of Direct Loans | Years for repayment |
|------------------------------|---------------------|
| < \$25,000                   | 10 years            |
| \$25,000 - \$49,999          | 15 years            |
| \$50,000 - \$99,999          | 20 years            |
| >\$100,0000                  | 25 years            |

Source: H.R.1 - One Big Beautiful Bill Act

# OBBBA Eliminates Economic Hardship and Unemployment Deferment and Further Restricts Forbearance

OBBBA [eliminates economic hardship and unemployment deferment](#) and further restricts access to forbearance to nine months in a 24-month period for borrowers who borrow new loans or consolidate a loan after July 1, 2027. Currently, borrowers are eligible for up to 36 months of economic hardship deferment, unemployment deferment, and general forbearance. [Deferment](#) and [forbearance](#) are important consumer protections for borrowers who are experiencing financial hardship and for economic downturns.

Deferment and forbearance pauses a borrower’s payments. Borrowers in deferment are not responsible for paying the interest that accrues on their subsidized Direct, Stafford, Perkins, and the subsidized portion of consolidation loans but are responsible for the interest that accrues on unsubsidized loans. During a forbearance, borrowers are responsible for the interest that accrues.

Currently, there are eight types of deferment: cancer treatment, economic hardship, graduate fellowship, in-school, military service and post-active-duty student, Parent PLUS borrower, rehabilitation training, unemployment. Deferment for unemployment and economic hardship was the second-most cited [reason for deferment at 27.7%](#) behind in-school deferment with 71.3%.

To qualify for an economic hardship deferment, a borrower must [be receiving a means-tested benefit](#) like SNAP or Medicaid, work full time and have a monthly income that is not more than minimum wage or 150% of the federal poverty line for their family size and state of residence, or be serving in the Peace Corps. Unemployment deferment is available to borrowers who are receiving unemployment benefits or are seeking and unable to find full-time employment. For borrowers who began college in 2016, four years after they completed their bachelor’s degree, the typical number of months on a financial hardship deferment was 12 (Table 4).

**Table 4:** Median Cumulative Number of Months in Deferment for Economic Hardship or Unemployment Four Years After Completing a Bachelor’s Degree

|                           | Number of Months |
|---------------------------|------------------|
| Overall                   | 12               |
| White                     | 12               |
| Black or African American | 13               |
| Hispanic or Latino        | 9                |
| Asian                     | 10               |

Source: EdTrust Analysis of U.S. Department of Education, National Center for Education Statistics, *Baccalaureate and Beyond: 2016/2020 (B&B)*.

Note: Reporting standards not met for American Indian or Alaska Native, Native Hawaiian/other Pacific Islander, and more than one race

There are [three types of forbearance](#): general, mandatory, and administrative. A general forbearance is a payment pause requested by the borrower because of financial difficulties, medical expenses, change in employment or other reason acceptable to your loan servicer. Existing borrowers who do not borrow after July 1, 2027, can take up to 12 months of forbearance at one time and are limited to 36 months total. After July 1, 2027, borrowers with new loans can only take nine months of forbearance during a 24-month period. Language in OBBBA is not clear what types of forbearance would be counted towards the nine-month restriction.

Deferment and forbearance are important consumer protections for borrowers. Eliminating economic hardship and unemployment deferment and restricting and limiting flexibility of forbearance will harm borrowers who struggle financially and will make the repayment system less responsive to economic downturns. These changes coupled with loss of \$0 payments will likely increase delinquency and default.

### *Changes to student loan repayment system will likely increase delinquency and default*

These changes will harm borrowers of color, veterans, borrowers with disabilities, elderly borrowers, and low-income borrowers the most. The rollback of affordable income-driven repayment plans and eliminating other consumer protections will increase already high rates of delinquency and default. Seemingly in anticipation of the likely increase in delinquency and default, OBBBA increases the number of times a borrower can [rehabilitate defaulted](#) loans from one to two.

As of May 2025, [5.3 million borrowers were in default](#), which occurs after a borrower misses nine months of payments, and in danger of having their tax returns withheld, social security garnished, and eventually wages garnished. Another 4 million borrowers were in severe delinquency and at risk of defaulting soon.

Delinquency occurs when a borrower is at least 90 days past due. For the first three months of 2025, the [10 states with the highest percentage of delinquent borrowers](#) were Mississippi, Alabama, West Virginia, Kentucky, Oklahoma, Arkansas, Louisiana, Texas, Georgia, and Tennessee (Table 5). The policies in OBBBA would likely increase delinquency and eventually default because borrowers would have higher monthly payments and they would lose access to economic hardship and unemployment deferment, which allows borrowers to pause payments while remaining in good standing.

**Table 5:** 10 States with the Highest Percentage of Delinquent Borrowers

| State         | Percentage of Delinquent Borrowers |
|---------------|------------------------------------|
| Mississippi   | 44.6%                              |
| Alabama       | 34.1%                              |
| West Virginia | 34.0%                              |
| Kentucky      | 33.6%                              |
| Oklahoma      | 33.6%                              |
| Arkansas      | 33.5%                              |
| Louisiana     | 31.8%                              |
| Texas         | 29.7%                              |
| Georgia       | 29.0%                              |
| Tennessee     | 29.0%                              |

Source: Federal Reserve Bank of New York Liberty Street Economicst

# Changes OBBBA Makes to Aid Available to Students

## Pell Grants

The Pell Grant, a need-based grant for undergraduate students, is the cornerstone of federal financial aid. The grant is awarded to low- and moderate-income students who attend public, private nonprofit, and for-profit colleges. Students of color are [more likely to receive a Pell Grant](#). For fiscal year 2023, [\\$31 billion in Pell Grants](#) was awarded to 6.5 million students.

OBBBA makes the following changes to [Pell Grant eligibility staring July 1, 2026](#):

- Makes students who have a Student Aid Index (SAI) that is equal to or exceeds double the amount of the maximum Pell Grant award ineligible
- Includes foreign income in the SAI calculation
- No longer counts the net worth of family-owned small businesses with 100 or fewer full-time or full-time equivalent employees, family farms, and family-owned commercial fisheries will not be included as an asset in the SAI calculation, which is used to determine Pell Grant eligibility
- Makes students who receive non-federal aid (e.g., state financial aid, institutional aid, and private scholarships) that equals or exceeds the student’s full cost of attendance, which includes tuition and fees, room and board, and other expenses, ineligible for the Pell Grant
- Makes students enrolled in short-term credential programs that are longer than eight weeks and at least 150 clock hours but shorter than 15 weeks and less than 600 clock hours eligible for the Pell Grant

Most of the changes to Pell Grant eligibility will not seriously harm the lowest-income students. However, the provision that ends eligibility for students receiving non-federal aid that covers their cost of attendance will harm otherwise eligible low-income students. However, not counting family-owned [small businesses, farms, and fisheries](#) unfairly helps [wealthier families](#) who are more likely to be [white](#). Excluding the net worth of these assets allows students from wealthy families to receive aid intended for lower-wealth students.

## *Parent PLUS*

Parent PLUS loans are federal education loans taken out by parents (be they biological, legally adoptive, or in some cases, a stepparent) of dependent undergraduate students attending college at least half time. These loans are held solely by the parent. Parent PLUS loans can be used to pay for tuition, fees, and other education expenses up to the cost of attendance, minus any scholarship and grants a student has received. In 2016, Parent PLUS loans accounted for [23% of all federal education](#) loans disbursed for undergraduates. Currently, parents can borrow up to the student's cost of attendance and through loan consolidation can access ICR.

OBBBA [caps Parent PLUS borrowing](#) and eliminates access to more affordable repayment options for parent borrowers after July 1, 2026. Parent PLUS loan borrowers will only be able to borrow \$20,000 per year per student, and borrowing is capped at \$65,000 per student. The Postsecondary Education & Economic Research Center (PEER) estimates [29% of parent borrowers](#) took out more debt than the new limits will allow, on average exceeding the new limits by more than \$10,000.

Additionally, existing Parent PLUS borrowers will [lose access to an IDR plan after July 1, 2026](#), if they have not already been in repayment on an IDR plan. For parent borrowers who currently have Parent PLUS loans and are not currently enrolled in an IDR plan, they have until July 1, 2026, to consolidate their loans into a Direct Consolidation Loan and until July 1, 2028, to enroll in an IBR plan. New Parent PLUS borrowers will not have access to IBR or RAP.

The caps on Parent PLUS borrowing and ending access to ICR [will harm both](#) higher-income and wealthy parents and low-income, low-wealth parents. Undergraduate federal financial aid has failed to keep pace with [inflation or the rising cost of college](#). As result, low- and middle- income parents borrow to help their children cover their full cost of attendance. For a parent to borrow they must pass a minimal adverse credit history check, which does not mean they are financially able to repay. Often these parents struggle to repay and need the help of ICR. The borrowing caps on Parent PLUS loans will harm higher-income parents who are using Parent PLUS loans for liquidity and are financially able to pay for college and can manage the debt.

## *Grad PLUS*

OBBBA eliminates Grad PLUS loans for graduate and professional students and implements strict annual and aggregate loan limits for graduate borrowers after July 1, 2026. Professional students are allowed to [borrow \\$50,000 annually](#) and \$200,000 in total for their professional education. Graduate students are limited to borrowing [up to \\$20,500 annually](#) and \$100,000 total for their graduate education.

Graduate students receive an outsized amount of federal student loans. As of 2021, graduate students received [47% of federal student loan disbursements](#) but were only 21% of borrowers. In 2020, median graduate debt was \$50,000. Grad PLUS loans account for 32% of federal student loans disbursed to graduate students.



About one-third of graduate borrowers borrowed more than the new loan limits allow, and the private student loan market likely does not have the capacity to fill the gap. PEER estimates [26% of all graduate student borrowers](#) — and 38% of student borrowers in professional programs — borrowed more than the new limits will allow. That includes about [\\$8 billion in graduate loan volume](#) above the new limits, or nearly four times the size of the current private student loan sector for graduate students.

Low-income students and students of color are overrepresented in Grad PLUS borrowing. Graduate degree completers with incomes below \$30,000 account for [46% of graduate students](#) but 68% of Grad PLUS borrowers. Black, Latino, and Native American, Alaska Native, Native Hawaiian, and Pacific Islander students represent [12%, 11%, and 7% of graduate students](#) respectively, but 16%, 12%, and 8% of Grad PLUS borrowers.

Graduate and professional education is prerequisite for many critical professions, such as doctors, social workers, nurses, teachers, lawyers, and dentists. Reducing access to loans without implementing policies to replace the lost resources or bring down costs of graduate education threatens to lock low-income students and students of color out of graduate education. Additionally, for higher-cost programs where Grad PLUS use is highest, the new loan limits may cause some programs to close.

## *Loans in General*

OBBBA [introduced prorated loans](#) for students attending less than full time and allows institutions to set loan limits by program of study if applied consistently to all students. Prorated loan limits can harm students financially. While tuition may cost less for taking fewer credit hours, housing, food, and transportation are not prorated. Students who are already enrolled in an institution of higher education and borrow a loan as of June 30, 2026, are exempt from the loan limits for three academic years.

## **Conclusion**

OBBBA makes higher education less affordable and debt repayment more expensive. There are no provisions to make college less expensive, and the loss of loan aid is not replaced with more affordable alternatives. Higher education benefits individuals and society, and OBBBA puts those benefits further out of reach. Current and future students and borrowers should be mindful of these changes and make higher education decisions with the new financial aid and repayment system in mind. Policymakers should continue to focus on making college affordable for low- and middle-income students by creating a federal and state partnership to make college debt-free, doubling the Pell Grant, and providing student debt relief.



# Appendix

Table 1: Percentage of Borrowers (with Payment Due) at Least 90 Days Past Due in Q1 2025 by State

| State                | Percentage of Delinquent Borrowers |
|----------------------|------------------------------------|
| Alabama              | 34.1%                              |
| Alaska               | 23.6%                              |
| Arizona              | 25.3%                              |
| Arkansas             | 33.5%                              |
| California           | 17.9%                              |
| Colorado             | 20.5%                              |
| Connecticut          | 14.5%                              |
| Delaware             | 23.7%                              |
| District of Columbia | 15.8%                              |
| Florida              | 20.1%                              |
| Georgia              | 29.0%                              |
| Hawaii               | 26.0%                              |
| Idaho                | 22.0%                              |
| Illinois             | 13.7%                              |
| Indiana              | 28.0%                              |
| Iowa                 | 20.5%                              |
| Kansas               | 26.1%                              |
| Kentucky             | 33.6%                              |
| Louisiana            | 31.8%                              |
| Maine                | 15.3%                              |
| Maryland             | 25.4%                              |
| Massachusetts        | 14.0%                              |
| Michigan             | 27.7%                              |
| Minnesota            | 18.9%                              |
| Mississippi          | 44.6%                              |
| Missouri             | 28.7%                              |
| Montana              | 19.0%                              |
| Nebraska             | 20.0%                              |
| Nevada               | 27.4%                              |
| New Hampshire        | 14.8%                              |
| New Jersey           | 19.9%                              |
| New Mexico           | 28.5%                              |
| New York             | 23.0%                              |
| North Carolina       | 22.0%                              |
| North Dakota         | 15.4%                              |
| Ohio                 | 28.1%                              |
| Oklahoma             | 33.6%                              |
| Oregon               | 22.9%                              |
| Pennsylvania         | 19.5%                              |
| Puerto Rico          | 29.3%                              |
| Rhode Island         | 22.2%                              |
| South Carolina       | 20.1%                              |
| South Dakota         | 15.1%                              |
| Tennessee            | 29.0%                              |
| Texas                | 29.7%                              |
| Utah                 | 19.0%                              |
| Vermont              | 14.7%                              |
| Virginia             | 23.5%                              |
| Washington           | 21.1%                              |
| West Virginia        | 34.0%                              |
| Wisconsin            | 20.0%                              |
| Wyoming              | 26.4%                              |

Source: Federal Reserve Bank of New York Liberty Street Economics