Fair and Effective Reforms to Graduate Financing

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Overview of proposal:

This proposal sets reasonable, student-focused guardrails around the federal graduate loan programs to ensure that graduate students are not buried in unpayable debt with degrees that have low return-on-investment (ROI), while maintaining access to high quality educational programs for students who might not otherwise have the resources to attend graduate school. To do so, it proposes common-sense fixes to ensure a minimum level of quality, and rewards graduate programs that give low-income students and taxpayers the best returns on their investments. This proposal also provides sufficient price transparency and earnings information so that individuals and policymakers can make informed decisions about the likely financial payoff to different types of graduate programs, and it increases protections for students who take out private loans to finance their graduate education. This balanced approach provides for the continued success of our best-in-the-world graduate education system. At the same time, it repairs the flaws in existing federal policy that leave too many students (particularly low-income students and students of color) with unmanageable debt while draining federal resources that could be otherwise used to maximize student opportunity and success.

Pillar One: Set Reasonable Loan Limits

Currently, the Grad PLUS Loan Program has no aggregate borrowing limit and allows students to borrow any amount up to the cost of attendance set by the institution, which allows for runaway inflation of graduate tuition prices. [1] Under this proposal, Grad PLUS loans would be altered to include loan limits at the program and individual levels rather than simply being determined by the cost of attendance. [2] Origination fees would lowered to 1% of the loan amount (the same as non-PLUS loans) with the option for the borrower to pay the fee immediately rather than capitalized into the principal balance of the loan. Unsubsidized Direct loans are unaltered in this proposal and remain the sole source of borrowing for most graduate students who borrow in small amounts. [1] The new Grad PLUS limits would be automatically adjusted every five years based on inflation, rounded to the nearest $1,000.

Loan Limits Overview

1. An annual limit at the program level: This will help prevent graduate program price gouging.
2. An aggregate limit at the program level: This will encourage students to complete more quickly and prevent runaway debt in graduate programs.
3. A loan limit bonus: Increased loan amounts for high-ROI programs will encourage appropriate pricing based on student outcomes and enable students of all backgrounds to attend programs most likely to pay off.

Program Level Annual and Aggregate Loan Limits

Annual loan limits, outlined below, would be tailored to the different program types and lengths of graduate programs, with annual disbursements limited to the 75th percentile of current borrowing levels for each degree type. In addition to annual limits, each program type would also have limits on aggregate borrowing: the annual limit multiplied by the median time to complete the program type. For example, the aggregate limit for a master's program is found by multiplying the annual limit of $5,000 (the 75th percentile of Grad PLUS borrowing for master's students) by the median time to complete a master's program, which is two years. As a result, the aggregate limit is $10,000. Finally, this proposal includes an individual limit on outstanding borrowing. In addition to the existing lifetime limit of $138,500 for direct unsubsidized loans, the proposal includes an additional $120,000 individual aggregate loan limit for graduate loans.

Introducing annual and aggregate loan limits for Grad PLUS would discourage colleges and universities from artificially inflating program costs, as they can no longer rely on unlimited federal funding to cover excess tuition. This approach ensures that students would continue to have access to necessary financial support (which includes up to $138,500 in lifetime Direct Stafford loans) while promoting more responsible pricing strategies among institutions.

Programmatic Annual and Aggregate Grad PLUS Loan Limits		
Program Type	Annual	Aggregate
Certificate	$0	$0
Master's	$5,000	$10,000
Doctorate	$10,000	$50,000
Terminal Professional Degree (e.g. JD)	$20,000	$80,000
Medical Professions (MD, DO, DDS, DVM)	$35,000	$120,000

Additional Loan Eligibility

Programs that create high return on investment for students (and therefore low risk of unpayable debt) would be able to offer enrolled students access to an additional $50,000 of Grad PLUS loan funds above the annual and aggregate program loan limits. To be eligible, (1) programs must maintain a median debt to earnings rate below five percent and (2) at least 20 percent of the enrolled students must have received a Pell grant at some point. This will help to ensure that low-income students have the ability to access programs that have a demonstrated ability to provide a high financial ROI.

Pillar Two: Award Grant Aid to Students and Institutions to Address Equity and Social Good Considerations

Additional Pell Eligibility

Graduate students would be eligible for two additional semesters of a Pell grant if they received a Pell grant at any time during their undergraduate career and if they are still eligible for Pell given their current income. Additional Pell eligibility would help to relieve loan debt in favor of providing more opportunity for low-income students to access a graduate degree without accumulating unnecessary debt. To ensure that the fiscal sustainability of the Pell program for undergraduate students is not undermined, Pell dollars for graduate students under this proposal would be funded entirely on the mandatory side of the budget ledger.

Additional Grant Funding for Graduate Students Attending Historically Black Colleges and Universities (HBCUs), Tribal Colleges and Universities (TCUs), and Minority Serving Institutions (MSIs)

Title III and V participating institutions with at least five graduate programs would receive an additional $100,000 to $1,000,000 per year in institutional grant awards to provide grants to graduate students at the institution's discretion. The exact amount each eligible institution would receive would be dependent on the number of graduate students enrolled and the percentage of the institution's students who are receiving a maximum Pell grant. For under-resourced institutions (like HBCUs, TCUs, and MSIs), this additional funding will enable them to support their ability to offer essential programming to low-income students. Providing these institutions with additional grant awards would ensure access to graduate programs at these institutions is not disproportionately impacted by the new Grad PLUS loan limits.

Pillar Three: Ensure Sufficient Value and Return on Investment for Students and Taxpayers

Graduate programs would be subject to a fair, student-focused accountability system that would be applied to all graduate programs at all institutions, regardless of size or governance structure. Failure of *any* one of the metrics below could lead a graduate program to lose its eligibility for Title IV funds which would ensure that students are only going into debt at programs offering sufficient value.

Metrics

Completers' ROI

The debt-to-earnings rates for all students who have completed the program must remain at or below 20% of discretionary income and 8% of overall earnings. These limits would ensure programs are not saddling their students with unpayable debt.

Minimum Earnings Premium for Completers

The minimum earnings threshold—the graduates' earnings amount below which a program would be at risk of consequences—is set at the median income for a bachelor's degree holder in the state where the program is authorized to be offered. This earnings threshold would be adjusted every five years to keep pace with the average earnings of a bachelor's degree holder. This would ensure that all graduate programs provide increased earnings above what the student would earn if they had never attended the graduate program.

Completion Rate Minimum

All graduate programs must successfully graduate at least half of their enrolled students.[3] If students have worse than a coin flip's chances of completing the program, the institutional provider is not doing an effective job of providing sufficient support or flexibilities for the students it is choosing to enroll.

Plans for Student Protection and Institutional Improvement

If a program fails to meet any one of the debt-to-earnings, minimum earnings, or completion rate thresholds, plans would be put in place to protect students and support institutional improvement, including the risk of losing federal aid eligibility for chronically underperforming programs.

This student-centered, fair accountability system would function as an additional safety net to already existing mechanisms like cohort default rates and state authorization, but with a focus on ensuring minimum graduate program value for both students and taxpayers. This system evaluates programmatic (not institutional) outcomes because they can differ significantly, even at the same institution, and consequences for a single graduate program can be more easily absorbed by an institution and are therefore more likely to be carried out.

Pillar Four: Enhance the Regulatory Structure and Consumer Protections for Private Lending

Prior to the creation of Grad PLUS in 2005, the private student loan market was widely viewed as in need of better regulation and safeguards to protect borrowers from predatory practices. The financial crash of 2007 and move to 100% direct lending coincided with severe contraction in the private lending industry, and with that contraction the urgent calls for reform receded significantly. To the extent that limits on graduate lending give rise to new or expanded private sector financial products, borrower protections and regulatory clarity for the private student loan industry are warranted.

Bankruptcy Protections

Private student loans made to graduate students would be dischargeable in bankruptcy. Currently, private student loans are largely insulated from bankruptcy proceedings due to provisions in the 2005 Bankruptcy Abuse Prevention and Consumer Protection Act. This is problematic for student borrowers as it leaves them without a necessary safety net and prevents them from regaining financial stability by leaving them with the burden of insurmountable debt during an already vulnerable time, particularly since private instruments rarely include income-based repayment or other safety net options.

Death and Disability

Private loans for graduate education would be dischargeable in the case of the student's death or permanent disability similar to protections for federal student loans, even when the loan is cosigned. This would protect borrowers and their families from unmanageable financial burden by ensuring families are not left with the responsibility of repaying debts for a deceased or disabled family member who cannot manage the loan.

Maximum and Variable Interest Rates

Private lenders would be allowed to offer loans with a fixed or variable annual percentage rate (APR) of no more than three percentage points above the current interest rate for Grad PLUS loans. This would protect borrowers from excessive interest rates that would inflate their payments while providing flexibility for lenders to charge amounts more than the federal loan programs. Capping interest rates would ensure borrowers can still access competitive private loans when necessary and protect them from exploitative lending practices that could lead to unduly high balances.

Maximum Origination Fee

Private student loans would have a maximum origination fee of one percent which is set to match the revised Grad PLUS origination fee. The cost of originating a loan given existing technology and processes is negligible and should not be passed on to borrowers in the form of an exorbitant one-time charge—and borrowers should be permitted to pay off the origination fee immediately rather than being statutorily forced to roll it into the outstanding principal balance.

Pillar Five: Improve Data Disclosure and Transparency

This proposal would solve the primary shortcoming of existing graduate data, which is that such programs are currently exempted from federal reporting requirements. We are largely in the dark on how students and programs fare, particularly with respect to pricing and outcomes data.

Ensure Sufficient Data Transparency of Program Costs and Outcomes

The most efficient way to allow for individual-level reporting is to rescind the existing federal student-unit record ban and establish a student-level data network. This network would allow for more informed decision-making by policymakers and students. Additionally, by streamlining the reporting process, these changes would reduce the administrative burden on institutions. All these improvements could be straightforwardly made by passing the bipartisan College Transparency Act.

Fix and Update Reporting and Categories

To ensure accuracy of reporting instructional spending, which is necessary for the accuracy of the third pillar, the institutional spending categories would be made more precise. This would mean reporting spending by specific categories, including nonacademic components like athletic facilities, donor relations, and executive compensation so that spending would not be erroneously combined with spending on instruction and student supports. The Integrated Postsecondary Education Data System (IPEDS) spending categories would be clearly differentiated by whether the spending is truly on academics and supports. Pre-enrollment student supports (such as prospective student outreach or assistance completing an application) would be separated from post-enrollment student supports (such as tutoring or basic needs support). These data reporting changes are critical to ensuring that spending can be differentiated, and institutions categorized by whether they are spending a significant percentage of resources to support their students' learning and success. Institutions would also be required to report both the average tuition and non-tuition costs for graduate programs. This would help provide a clearer picture of pricing trends, the average cost of attendance, and other elements needed by researchers and policymakers.

Improve National Student Loan Data System Reporting and Researcher Access

Administrative student loan data in the National Student Loan Data System (NSLDS) and Common Origination and Disbursement (COD) system would be made more accessible to qualified researchers. NSLDS is administered by the Office of Federal Student Aid (FSA) and contains important longitudinal data on Title IV loans and Pell Grants throughout their lifecycle. However, access to substantial portions of the data is largely restricted to federal agencies, higher education institutions, and lending organizations. Expanding the data produced on the FSA Data Center, the College Scorecard, and analyses published by the Department's Office of the Chief Economist would provide actionable data to policymakers and the public regarding the impacts of these policy changes.

Together, the elements of this proposal would improve federal graduate financing policy to protect students from unpayable debt and low-ROI degrees, while increasing opportunity for institutions to enroll low-income students in high-value programs without excess debt.

Notes

[1] The Unsubsidized Direct Loan Program does have limits, only allowing graduate students to borrow up to $20,500 per academic year. The Unsubsidized Direct Loan Program imposes an aggregate lifetime borrowing limit of $138,500 for graduate students, which includes any undergraduate loans.

[2] For purposes of this proposal, program means four-digit CIP code. In practice, this may sometimes mean two-digit CIP (as in the case of JDs) but there may be wide variation among different master's programs.

[3] For purposes of this proposal, "completion" means graduation within 150% of the published length of the program.