

SFA Research Corner

The Next Phase of Student Lending

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On October 16, the Brookings Center for Economic Security and Opportunity hosted a discussion on the role of loan limits in a well-functioning student loan system, focusing on how the One Big Beautiful Bill Act (OBBBA) has redefined those limits—and what these changes could mean for students, lenders, and higher-education institutions.

Signed into law in July 2025, the OBBBA represents one of the most consequential recalibrations of federal student lending in decades. Effective July 1, 2026, the law will impose new borrowing caps designed to promote fiscal discipline and reduce taxpayer exposure:

- Parent PLUS loans will be capped at \$20,000 per year and \$65,000 total per dependent student.
- The Graduate PLUS program will be eliminated, though current borrowers will be allowed to continue under existing terms.
- Graduate loans will be capped at \$20,500 annually (up to \$100,000 total) and professional loans at \$50,000 annually (up to \$200,000 total).

For perspective, private student loans—including refinancings—currently represent roughly 8% of the total student loan universe. Within that universe, graduate loans account for 10.13% as of Q1 2025, up from 9.30% a year earlier, according to [Enterval Analytics](#). With Graduate PLUS eliminated and Parent PLUS capped, billions in annual federal lending are expected to migrate toward private and institutional channels as students and families seek alternative sources of credit.

That migration carries meaningful implications for borrowers. Gail daMota, President of the Education Finance Council (EFC), noted that “the elimination of the Grad PLUS loan will increase the need for private education loans, which can vary widely and come with very high interest rates.” She emphasized that as more borrowers turn to private lenders, nonprofit and state-based education finance organizations will play an increasingly important role—offering lower-cost loan options and supplemental resources such as scholarships and grants that help mitigate borrowing needs.

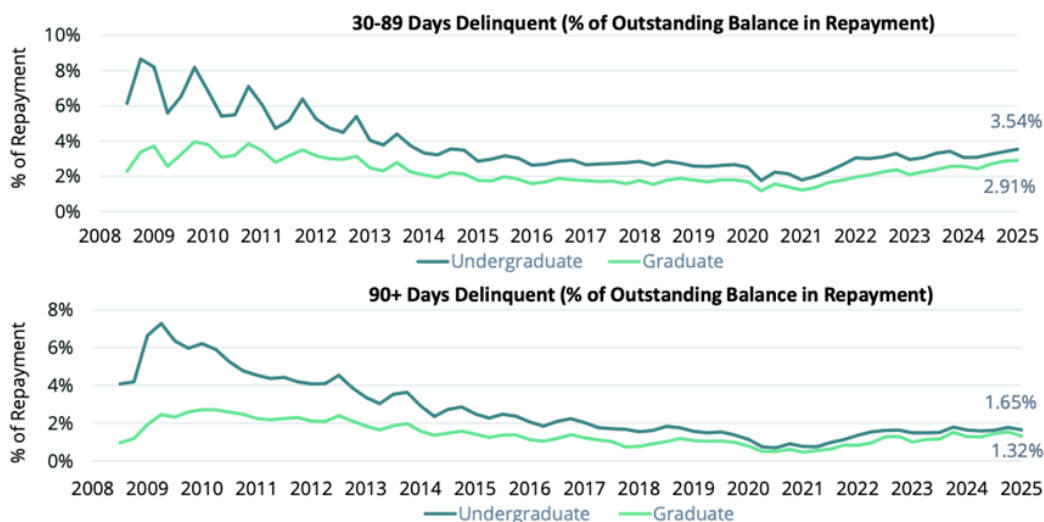
Other policy changes have also been aiding this market shift. The Supreme Court’s July 2025 ruling clearing the way for the Trump administration to move forward with layoffs and restructuring at the Department of Education is expected to strain borrower support. With roughly one-third of the agency’s workforce slated for elimination, a leaner department may have less capacity to manage servicing and compliance—potentially pushing more borrowers toward private lenders and expanding the role of private credit and securitization in higher-education finance.

According to Jonathan Riber, Senior Vice President and Senior Sector Lead of U.S. ABS Ratings at [Morningstar DBRS](#), this shift will likely accelerate after 2026. “New private loan originations are expected to be greater overall, with larger, well-established lenders such as Sallie Mae benefiting the most,” Riber said. He added that new lending will likely concentrate among borrowers with strong performance histories, such as medical or professional students, while those with lower FICO scores, no co-signers, or degrees in lower-demand fields may face reduced access to credit.

Performance Review

Since 2008, both undergraduate and graduate student loans have maintained relatively stable delinquency trends, though graduate loans consistently perform better—a gap driven by borrower profiles and loan structures. Graduate borrowers tend to have stronger credit, higher and more predictable income, and lower unemployment risk. Their loans are concentrated in professional fields such as medicine, law, and business, where earning potential and job stability offset repayment risk.

Delinquency Comparisons Across Undergraduate and Graduate Loans



Source: Enterval Private Student Loan Semi Annual Report Ending Q1 2025, Enterval Analytics LLC.

Private graduate loans also undergo stricter underwriting or rely on borrowers with established credit histories, while many undergraduate loans depend on parental co-signers for repayment assurance. These structural and borrower differences have produced a durable performance advantage across graduate portfolios.

Looking Ahead

As policy reforms curb federal lending and strain the Department of Education's operational capacity, the private market is poised to absorb a growing share of education finance. This will likely translate into greater issuance of private student loan ABS, especially from established lenders like Sallie Mae, as well as new entrants.

Issuance volume will ultimately depend on several factors: the pace of federal retrenchment, the availability of private credit warehouse and forward-flow capacity, macroeconomic conditions such as unemployment and interest rates, and investor appetite for shorter-duration, high-credit-quality paper. If market liquidity remains strong and credit performance stable, the post-OBBA era could mark a renewed expansion of student-loan securitization.