College Money Matters™
Get smarter about paying for college

Newsletter
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Insights and info from College Money Matters – a non-profit organization dedicated to helping high school students and their families make informed decisions about applying, choosing and paying for college.

What will the government's new laws mean for student financial aid?

When Congress passed the House Rules 1 bill on July 4th of this year, also known as the "One Big Beautiful Bill Act," the idea was to bring major changes to the US Government's economic and tax policies. The bill is expected to have a significant impact on the funding of higher education. Most provisions take effect on July 1, 2026.

In this newsletter, College Money Matters looks at different ways the changes written into the bill could affect students seeking financial aid to help pay for college. As more information becomes available, we will work to keep you up to date.

Here are some key areas where the new bill calls for changes:

FAFSA and the financial aid application process

The process of applying for financial aid with the FAFSA (Free Application for Federal Student Aid) will remain the same. There are some minor differences in how income will be calculated in the SAI (Student Aid Index) used to determine aid. For the first time, a family's overseas income will be included and farm and fishery income will no longer be included.

Pell Grants

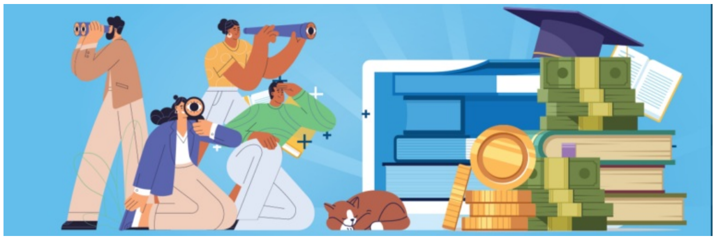
Pell Grants help make college more affordable for undergraduate students with significant financial need. The Pell Grant budget will be fully funded through the academic year of 2027-28, with a minimum of $1.23 billion provided for each subsequent year. If the need increases beyond that amount, Congress will need to allocate additional funds.

Only minimal changes have been made to the requirements for being eligible for a Pell Grant. Beyond the income qualifications, which are determined by the Student Aid Index (SAI), students must still take at least 30 credit hours a year to be eligible.

A new restriction written into the law is that if students have fully funded their education through other means, they will not be eligible for Pell Grants. At this time, however, there is no stated definition of what "fully funded" means and no method for determining it.

New Pell Workforce Grants

To help students seeking credentials to work in the trades and technical fields, a new type of Pell grant will be created. It provides funding for lower-income trainees taking accredited workforce and certificate programs that run for 8 to 15 weeks. To help assure the validity of these "short-term" programs, 70% of the students enrolled must find job placement within six months after graduating. It is not yet clear how these programs will be funded. Unfortunately, deceptive practices among these programs are not uncommon, so College Money Matters recommends that students and families carefully screen any program before applying.



Federal student loans for undergraduates

Although there were some early concerns that this program would change, it remains the same. For helpful information on how Federal Student Loans work, please visit the **"Borrowing money to help pay for college "** section of **collegemoneymatters.org**.

Parent PLUS loans

Parent PLUS loans, which are Federal loans that parents take out to help support their children's education, have new limits. A parent cannot borrow more than $20,000 per year or $65,000 in total per dependent student. Also, when the loans are paid back, parents cannot 'reborrow' the money. These new rules are intended to reduce loan defaults by preventing parents from borrowing more than they can afford to pay back.

Federal loans for graduate students

Most of the student debt owed today is related to borrowing money for graduate school. As a result, the new law sets stricter limits on federal loans for graduate students than ever before. The amounts differ for various kinds of graduate programs, and the law ends federal loans to parents seeking to help pay for their adult children's graduate education. While College Money Matters is mainly focused on helping *undergraduate* students become more knowledgeable about paying and borrowing for college, we want to emphasize that these changes to the federal loan programs for graduate school make it very important for families to limit their borrowing for undergraduate education if a student expects to go on for a higher degree.

Health insurance for college students

Currently, over 3.4 million students use Medicaid to cover their health expenses during college, and many are treated at college health centers and clinics that rely on Medicaid reimbursements. The new law has a “work provision” requirement that says all people receiving Medicaid must show they are employed, and this could well be an issue for full-time college students. In addition, legislated cuts to federal Medicaid reimbursements will leave it to state governments to make up the shortfall, which many states may not be able to do. The cuts to Medicaid are scheduled to take place in 2028 and their impact will become clearer over time.

New financial requirements for colleges

In an effort to make colleges more accountable for the federal loan money they offer to students, the new law establishes two new requirements for college programs.

Earnings after graduation: Colleges must show that graduates of their programs are earning more money than the average high school graduate in their state. The penalty for not meeting this standard is that the program may no longer be eligible to offer federal loans. One potential outcome of this policy is that fewer students will enter comparatively lower-paying, but still important fields, such as teaching, the ministry, the arts, and social work. It is also possible that some college programs may opt out of the federal loan program altogether.

Financial penalties for unpaid loans: Colleges where a certain percentage of students fail to pay back their federal loans may no longer be eligible to offer these loans for a given period of time. They may even be restricted from offering Pell Grants. In addition, unlike today, colleges may be required to pay a portion of any loans their students fail to pay back. The details of how this system will be implemented have yet to be worked out, although it is reasonable to assume that some universities may choose to place further limits on borrowing for students below a certain income level or for some programs.

Taxes on endowments

The new law calls for additional taxes on colleges and universities with a high level of endowment money (ie, investments made by donors to help support the school and its students). With these funds being taxed, there will likely be less money available for scholarships.

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