THIRD WAY

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How We Got Here: The Rise and Fall of the Grad PLUS Loan Program

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Change is coming for higher education after the summer 2025 budget reconciliation process. The *One Big Beautiful Bill Act* (OBBBA) ushered in a new era for colleges and universities with the most significant policy shifts in a generation, among them the elimination of the Graduate PLUS (Grad PLUS) lending program, which allowed graduate students to borrow up to the cost of attendance set by their institution.

Much has been said and written about the double-edged sword that was Grad PLUS. While it opened doors to graduate education by allowing nearly unlimited borrowing, it was also a key contributor to the student loan portfolio's unsustainable debt levels and policy challenges. This memo examines the origins and original intent of the Grad PLUS loan program, situating it within the political and economic context of the time, to unpack how we arrived at this point and how these shifts will impact the future of graduate education.

Financing Graduate Education Before Grad PLUS

The New Millennium Economy

The early 2000s were a booming time for graduate education amid a cool economy after the dot-com bubble burst. [1] The 2001 economic recession and a slower-than-normal job market followed historical trends, where more students tend to go back to (or stay in) school during an economic downturn. [2] Students had two primary ways to finance graduate education at the time, beyond paying out of pocket: an unsubsidized federal student loan and a private student loan. For most programs, federal student loans for graduate education were capped at an annual limit of $18,500. [3] While many graduate students could cover tuition and living expenses within this cap, students in advanced degree programs often faced price tags exceeding the federal borrowing limit. Even with slower economic conditions, students rationalized the cost of these higher-priced degrees, assuming they would, in turn, offer greater job security and economic opportunities. Yet the cap on federal loans for graduate school left some students with an affordability gap between what their loans would cover and the overall price of their program.

With limited options besides paying the gap out of pocket—unrealistic for most students—some turned to the private student loan market to cover high tuition and living expenses. [4] Believing in the promise of higher wages and job security from a graduate degree, many overlooked the potential dangers of a private student loan. These loans often had variable interest rates, were credit-based (and thus usually required a co-signer), and lacked the same consumer protections as a federally-backed student loan. [5] The private loan market recognized the opportunity, and some lenders pushed aggressive marketing tactics to prospective students, helping turn up the heat on the total volume of private student loans, which rose from $1.5 billion in 1996 to over $10 billion by 2004. [6]

From The Private Market to Grad PLUS

In addition to the dot-com bust recession, the economy of the early 2000s was characterized by increased access to credit, low interest rates, and lenient lending standards. [7] The private student loan market was no exception, and Congress zeroed in on the acute risk of unregulated private student loans for graduate students. A perfect storm of factors, including variable interest rates on high principal amounts, interest accrual in school, and deferred payments, often led to untenable private student loan balances. [8] Combined with borrowing for graduate programs that didn't consistently deliver the assumed ROI for graduates, students were left on the hook for large amounts of debt without the consumer protections of a federal loan.

While some in Washington questioned the role of private lenders in the student loan market, intense lobbying helped increase their total market share by more than 900% in inflation-adjusted terms from 1995 to 2006. [9] That exponential growth and mounting concerns from the advocacy community around the risks of private loans for students drew scrutiny from federal policymakers on both sides of the aisle, as well as state leaders and attorneys general. [10] These concerns continued to grow as some concerning relationships between the private market and financial aid offices were exposed. Many institutions had established preferred lending agreements, steering students to lenders that may not offer the best terms. Some campus-based financial aid staff were even receiving financial kickbacks, including stock value in certain private loan companies, as a reward for funneling students to lenders with whom they had back-door quid-pro-quo agreements. [11] Congress and the Department of Education pointed fingers and sought accountability—investigating private lenders and institutions accused of collaborating to maximize profits at the expense of student borrowers. [12]

Under the intense scrutiny of risky private lending, Congress created the Grad PLUS loan program through the *Deficit Reduction Act of 2005*, a budget reconciliation bill. [13] The bill aimed to reduce mandatory federal spending by nearly $39 billion over 10 years, and the higher education provisions were the source of many of these money savers. [14] The budget reconciliation process is essentially an exercise in zero-based budgeting: for every added expenditure, there must be a corresponding cost saver. Many of these savers that created Grad PLUS came from changes to interest rates for Stafford and Parent PLUS loans and cuts to subsidies to lenders through the now-defunct Federal Family Education Loan (FFEL) program. [15] The Bush Administration cited that student loan changes would save taxpayers $22 billion and, in turn, add $10 billion to student aid spending. [16]

Expanded federal lending through Grad PLUS felt like a safe bet for the government: graduate students already had a four-year degree and were enrolling in high ROI programs, making them less likely to default. [17] The cuts to FFEL mitigated concerns about cost, and Congress assumed that the program's specifics would be a subject of further legislative negotiation in what became the 2008 reauthorization of the *Higher Education Act*. Unfortunately, Congress went zero for two on these predictions. Not only was graduate lending not addressed in the 2008 (and most recent) reauthorization of the *Higher Education Act*, but the total cost of the Grad PLUS loan program also swelled beyond its original intent. Rather than saving the government money by providing a last-resort top-up for students who would otherwise be pushed into the private loan market, as of 2025, nearly two million borrowers collectively hold a balance of around $1.2 billion in Grad PLUS loans. [18] Instead of being a less-risky investment, students borrowed high balances to enroll in high-cost programs that didn't always lead to manageable debt loads compared to their earnings. Programs like Public Service Loan Forgiveness, passed in 2007, offered some students borrowing higher amounts through Grad PLUS assurance that their debt would be forgiven after 10 years of payments—providing an important recruitment and retention tool for public service employers, but also impacting the cost of graduate loans to the federal government. [19]

A Runaway Train: Grad PLUS's Contribution to Student Debt

The Early Days of Grad PLUS

The first few years of the Grad PLUS program were a welcome shift for many students, borrowers, and advocates. On the surface, moving away from the private market's predatory pitfalls while increasing access to graduate education worked better and provided greater protections for borrowers. Although 2008 brought a *Higher Education Act* reauthorization, the Grad PLUS program was not revisited in those negotiations. At the time, it wasn't cause for concern. The median debt of those borrowing through Grad PLUS was $21,800 when the program began—a lower amount of debt than most undergraduate student borrowers hold today. [20] At the same time, 2008 brought about the worst financial crisis since the Great Depression, leading to increased interest among Americans in returning to school as job prospects dimmed and financial markets crumbled. There was a noticeable increase in overall higher education enrollment from 2007 until 2011, in line with the worst economic impacts of the Great Recession. [21] With more students interested in graduate school, the federal investment in Grad PLUS continued to grow, and there was little incentive to change the program given the political and economic conditions of the time.

The program largely flew under the radar of advocates and policymakers for several years following the Great Recession. That lack of attention, however, continued to compound the federal investment in graduate education at a disproportionate level compared to the total number of Grad PLUS borrowers. Recent research uncovered that less than two-in-ten (16%) graduate students use Grad PLUS dollars to attend graduate school. [22] Yet this group makes up nearly a third (32%) of the overall federal loan portfolio. The same research showed that students who borrowed through Grad PLUS attended the most expensive programs. For students enrolling in programs exceeding $70,000 in total cost, 30% of students borrowed through Grad PLUS. [23] These disproportionate figures show that a smaller number of students have accumulated a significant—and growing—amount of federal debt for costly programs, potentially leading to a misalignment between cost and return on investment in the form of future earnings.

A Moral Hazard

While Grad PLUS loans continued to fuel the ballooning of the federal student loan portfolio in the 2010s, the national conversation around student debt was shifting. Some advocates, elected officials, and political candidates focused on canceling student debt rather than controlling the rising costs that led to overborrowing. Early in the national discourse around student debt, much of the finger-pointing was toward undergraduate student debt. While these students certainly do hold debt—at a 2023-24 average of $29,560—there were other culprits, including the Grad PLUS program. [24] Combined with the increased enrollments in graduate school and a societal belief that a graduate degree is always worth the investment, students justified the high cost of some graduate programs based on the expected rewards. [25] For a prospective student deciding whether to attend a high-cost graduate degree program, the government's blank check to meet affordability gaps through Grad PLUS functioned as a seal of approval and a sign that the juice would be worth the squeeze even with a higher price point.

Yet a lack of institutional accountability created one of the program's main unintended consequences: producing a moral hazard wherein institutions keep receiving federal dollars up to the cost of attendance they set while being shielded from the risks of overborrowing for students and taxpayers. Uncapped lending meant that students knew they could access loans to cover their costs for any graduate program, and institutions knew the check would clear. This cyclical lending environment created no incentives to lower costs, and some research has indicated it enabled tuition growth in graduate programs. [26]

While it's easy to blame institutions, they are only one part of the larger system of graduate student lending. In 2005, the policy choices and environment that created Grad PLUS made sense for students and the federal budget. Yet several unintended consequences of not revisiting the terms of Grad PLUS lending in 2008 emerged: shifting financial conditions during the Great Recession led to an increase in students enrolling, and rising program costs were set by those who would benefit from them. What started as a program to create less-risky access to graduate school evolved into greater risk as Grad PLUS debt increased, leaving policymakers to wonder if the price of access compared to ROI was finally too high. This long-simmering discontent came to a head in summer 2025, with lawmakers ultimately choosing to eliminate the Grad PLUS program as part of the OBBBA.

Conclusion

For every action, there's an equal but opposite reaction. The very conditions and factors that helped create the Grad PLUS program in a budget reconciliation law ultimately led to its repeal two decades later through the same legislative vehicle. While some question the effects on access to graduate education without unlimited Grad PLUS, the policy change also represents a significant opportunity to help address student debt—an issue long opined as a crisis by advocates and elected officials on both sides of the aisle. In addition to the elimination of Grad PLUS, new loan limits are set to take effect next year: beginning July 1, 2026, new borrowers will be eligible for federal loans up to $20,500 annually and $100,000 in aggregate for graduate programs, or $50,000 annually and $200,000 in aggregate for professional programs. For students entering graduate school, these shifts are significant but not insurmountable—and if implemented smoothly, they offer an opportunity to reset the market and an incentive structure in favor of students and taxpayers, rather than colleges and universities. Recalling the context that led to the rise and fall of Grad PLUS highlights the significant challenges plaguing the program and opens the door to recalibrating the funding and incentive structures for graduate education to promote both sustained access and fiscal responsibility.

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