MEMO *Published August 6, 2026 · 11 minute read*

State Graduate Loan Playbook

Emily Rounds

With new loan caps, some graduate students will not be able to cover the cost of their education with federal loans, and they will need other solutions when they max out. Students may look to the private market to finance their education, but there is another, lesser-known option that some can access: state loans. State loans are not a new concept. Seventeen states currently offer loans that are operated by a state agency or another entity established by state government to service or manage the loans.

As borrowers consider a patchwork of financing options, this is an opportunity for states to rise to the occasion. States can create loan programs with better eligibility criteria and repayment terms than the private market. They should also provide graduate student borrowers, financial aid officers, and institutions with clear, accessible information about loan offerings.

The Problem

Private loans can be risky, and not all students will qualify.

Students can finance their education with private loans, but these options can be risky or inaccessible for many. Private loans are operated by private entities, like banks or credit unions, and loan amounts, interest rates, and other terms are based on a borrower's creditworthiness. Graduate students with a stellar credit score or a co-signer with good credit may qualify for low-interest loans to cover the remainder of their education costs. On the other hand, private lenders view borrowers with high financial need as riskier investments, as they may lack a strong credit history, assets, or savings. Private lenders can outright deny these students a loan; require a co-signer, which may not be a possibility for some students; or offer a loan with undesirable terms, high interest rates, or that does not meet their full financial need. If a student hits the limit on their federal loans, seeking a private loan may seem like the next logical step to finance their education, but private loans are risky and sometimes a dead end for students who need them the most.

Many state loan programs offer better terms than private lenders—but fewer than half of states have loan programs.

Students may think that their only borrowing options are federal loans and those from the traditional private market. State loans are a lesser-known option for graduate students, and they are currently offered by seventeen states. Loan eligibility and repayment terms vary significantly across states. Minnesota's SELF Grad Loan, for example, allows doctoral students to borrow up to $300,000 and graduate students to borrow up to $150,000.[1] Interest rates range from 6.00% to 7.95%.[2] In comparison, Louisiana's CHOICE loan program allows graduate students to borrow up to $250,000, and interest rates can range from 2.70% to 7.12%.[3] While the loan terms differ across states, these programs often offer students more desirable terms than a private lender would. State loans can provide students with a better pathway to finance their education than the private market, but not all graduate students have access to them.

It can be difficult for borrowers to find clear information about state loans.

State loans can be a helpful tool for graduate students—but the details about available options are often unclear. Not every state has a dedicated website for their loan program, and even when they do, key details about the loan can be difficult—or impossible—to find. Prospective borrowers may spend hours combing through websites trying to figure out if they qualify for a loan, what interest rates and repayment plans they can expect, and who services the loan. Some websites are outdated, making it hard to even understand if the state still offers the program to graduate students. Students may have to resort to contacting state agencies directly to find more information or, ultimately, guessing about the details of these loans. Currently, not all state loan programs provide borrowers with clear, accessible information before they sign on the dotted line and make one of the biggest financial decisions of their lives.

The Solution

States expanding or creating new student loan programs for graduate students must lead with transparency. Those with existing plans should promptly update their websites to create a central place for borrowers to find information. Websites should, at minimum, include details about eligibility terms, borrowing limits, repayment terms, interest rates, how to apply, who operates the loan, and how the state is involved in the program. Students should not have to search for hours online to find basic information about these plans.

States that are considering implementing a new loan program should likewise prioritize the development of a clear, informative website in their planning. Websites and marketing materials should also include contact information so that borrowers can easily get in touch with their servicer to answer questions and address concerns. Minnesota's SELF Loan program has an accessible, up-to-date website that other states can look to as a model. [4]

As states evaluate their ability to expand or establish new loan programs, they should design programs that prioritize workforce and student needs. States with acute need for certain professions that require graduate degrees should create or redesign programs to meet these demands. The Kansas Medical Student Loan Program is an example of a loan program that is built to address a state need—helping Kansas retain primary care doctors and psychiatrists. University of Kansas medical students can apply to receive a loan that covers education and living costs in exchange for them practicing in Kansas after their primary care or psychiatry residencies. [5] If the student completes their full-time medical practice requirements, the remainder of the loan is forgiven. [6] This program creates an affordable way for students to fund their medical school education, and helps Kansas fill in health care workforce gaps to support its residents. Other states could model this program for medical students or other shortage professions, like nurse practitioners, occupational therapists, or mental health specialists.

State officials should also assess how much students should be able to take out in loans for different programs. Almost all existing state loan programs set a maximum borrowing amount for students, though those amounts vary based on states' resources and populations. Program design should establish borrowing caps that correlate to students' expected earnings by graduate programs, like offering higher limits for medical students. States should be conscious not to worsen the graduate lending issue by allowing borrowers to take out unaffordable loan amounts relative to their likely income with the degree. Minnesota's newly expanded SELF Grad Loan does just this. Students in select doctoral programs (dentistry, medicine, pharmacy, and veterinary medicine) can borrow up to $300,000, while those in all other graduate programs can borrow up to $150,000. Other states can consider following a similar model or creating loan caps that are even more specific to each graduate program.

Beyond loan caps, states should prioritize ensuring their loan programs contain robust consumer protections. Borrowers should be able to select from a few repayment timelines, rather than one timeline for all borrowers. A few states, like Louisiana, Maine, and Minnesota, already do this, offering students three repayment terms from which to choose. Having at least one income-based repayment plan available makes repayment more manageable for borrowers, especially those who enter lower-earning fields. Likewise, having clear loan forbearance and deferment options so that borrowers can temporarily pause or reduce payments due to sickness, unemployment, military service, and other select reasons provides a critical protection in the event of unpredictable hardship. Additionally, state loan program servicers should be equipped to answer borrowers′ questions in a timely manner. Contact information for loan counselors and servicing staff should be prominently displayed on websites and communicated to borrowers when they take out a loan and regularly during repayment.

States with existing loan programs or those in development should also connect with financial aid counselors at public colleges and universities to explain these options. College financial aid staff are at the front lines addressing students' questions and concerns about federal loan changes. It would be beneficial for them to understand other options to which they can point borrowers, rather than just the private market. State-affiliated lenders can connect with financial aid staff, train them on the options that they offer, and explain the details of the loans. In addition to clearer online resources, educating financial aid counselors will support transparency around these loan programs.

Critiques & Responses

State loans won't make graduate school cheaper.

Correct, but state loans are also not intended to make tuition cheaper—they are intended to help students fill affordability gaps that would otherwise prevent them from enrolling or staying enrolled. States will ideally be simultaneously driving forward plans to cut costs and limit the need for lending, but as such solutions will take longer to develop and implement, sustained access to supplemental loan financing will remain important for graduate students for the foreseeable future. And while state loans will not change the price of tuition, they can offer students better loan repayment terms than the private market, helping borrowers save in the long term.

Will state loan programs recreate the same problem of unlimited lending that Grad PLUS had?

They could, but they don't have to. Each state can set borrowing limits in accordance with state resources, workforce needs, and the student population. Most current state loan programs do not allow unlimited lending—they have annual and/or total caps that limit how much a borrower can take out. For example, through the Oklahoma HELP Loan program, students can take out $300,000 total (including undergraduate loans). Through the Louisiana Education Loan Authority's CHOICE Loan, students can take out a maximum of $170,000 to finance their education. States could even go a step further to tailor loan caps to the type of program a borrower attends and their expected salary after graduation.

Not every state can create a loan program. What are students supposed to do if they want to pursue graduate education, can't get a private loan, and their state doesn't have a loan option?

Creating a loan program may not make sense for every state, given their resources, economy, and populations. Some states with loan programs offer access to any student who pursues a degree in their state, regardless of residency. For example, Maine offers loans to New England residents enrolled at least half-time at a Maine-based institution, and other states have similar eligibility criteria. These eligibility terms are particularly beneficial in areas where crossing state lines for work or school is common and may give states a competitive advantage in this new landscape by attracting more out-of-state students to attend their institutions.

State loans are also just one piece of the graduate financing puzzle. Students should have access to more grant aid to fund their programs, institutions should prioritize cost-cutting strategies, and states should look for creative solutions to fund in-demand workforce fields and attract students to those programs. State loans cannot and should not be the only option to finance graduate students' education, just as federal loans won't be.

Creating a state-based loan program from scratch takes time and can involve high start-up costs.

True, creating a new loan program or expanding one takes time and money. As states consider these options, they can still take steps to help borrowers. First, they should communicate their intent to grow or start a loan program, which students and programs will be eligible, and what the terms will look like. While the program is in development, states can publish a roadmap that shows an expected timeline for its progress and when graduate students could take out a loan in the future. These plans should be published online and communicated to institutions, especially financial aid counselors.

Not every state loan program is a good choice for borrowers. They can also be risky.

That's right, not all state loan programs are a smart option for borrowers. Many of these programs do require a credit check to determine a borrower's interest rate or eligibility, and not every student is guaranteed a loan. Some programs have better terms, transparency, and communication with borrowers than others. But this does not mean that state loans should not be an option for students. Most existing state loan programs still offer much more appealing interest rates and repayment plans than the private market. However, states should prioritize consumer protections in their loan programs; they should be transparent, establish clear lines of communication with borrowers, and craft loan terms that support manageable repayment.

Conclusion

States will play a growing role as graduate students look to finance their education differently. States have a core responsibility to protect their students. State loan programs should include baseline consumer protections, details about options must be transparent and accessible; loan terms and maximums should prioritize students' ability to repay; and states should actively seek feedback and make changes to their programs as needed. Remember, state loans are one part of the graduate financing puzzle. As they look to set up or strengthen existing loan programs, states should also work with institutions to cut costs and identify more grant aid. With robust, student-centered loan options, states can be strong partners to graduate students as they navigate the new lending landscape.

ENDNOTES

1. Minnesota Office of Higher Education. “SELF Grad Loan.” https://selfloan.mn.gov/selfloan/self-grad-loan. Accessed 14 July 2026.

2. Minnesota Office of Higher Education. “SELF Grad Loan.” https://selfloan.mn.gov/selfloan/self-grad-loan. Accessed 14 July 2026.

3. LelaCHOICE. “LelaCHOICE Student and Parent Loans.” July 2026, https://lela.org/wp-content/uploads/2026/07/LelaCHOICE-Student-Parent-LoanOptions2026.pdf. Accessed 14 July 2026.

4. SELF Loan: Minnesota Student Loans. “About SELF Loan.”https://selfloan.mn.gov/selfloan/about. Accessed 25 June 2026.

5. KU Medical Center. “The Kansas Medical Student Loan Program.” Oct. 2023, https://www.kumc.edu/documents/sfa/KMSL-%20Primary%20Care%20Information%20Sheet.pdf. Accessed 14 July 2026.

6. KU Medical Center. “The Kansas Medical Student Loan Program.” Oct. 2023, https://www.kumc.edu/documents/sfa/KMSL-%20Primary%20Care%20Information%20Sheet.pdf. Accessed 14 July 2026.