

# Navigating Legal and Operational Challenges of the 2025 Federal Reconciliation Bill

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# Introduction and OBBB Overview

# Executive Overview

- **Snapshot:** H.R. 1 “One Big Beautiful Bill.”
- **Bill highlights:** Loan limit reform, new repayment framework, earnings premium accountability, Pell Grants, and Workforce Pell.
- **Open Questions:** Reimagining and Improving Student Education (RISE) and Higher Education and Access through Demand-driven Workforce Pell (AHEAD) NegRegs.
- **Timeline:** Enactment → NegReg → Key effective dates → Institutional deadlines.
- **Big-picture implications:** Student funding, finance, compliance, litigation, reputational risk, strategic and risk management planning.

## New Annual & Lifetime Loan Limits

- New **maximum lifetime borrowing limit** for all students (excluding Parent PLUS): \$257,500.
- **Graduate students:** \$20,500/year and \$100,000 aggregate. **Professional students:** \$50,000/year and \$200,000 aggregate. *Grad Plus eliminated.*
- **Parent Plus:** New annual cap of \$20,000/year per dependent student and \$65,000 aggregate limit per dependent student.
- **Part-time students:** Annual and aggregate loan limits prorated based on reduced enrollment status.
- **Institutional Limits:** Institutions have ability to set consistent annual loan limits per program (both student and parent borrowing).

## “Professional Student” Definition

- The Act defines “professional student” as “a student enrolled in a program of study that awards a professional degree, as defined under section 668.2 of title 34, Code of Federal Regulations (as in effect on the date of enactment of this paragraph), upon completion of the program.”

- **Section 668.2:**

*Professional degree:* A degree that signifies both completion of the academic requirements for beginning practice in a given profession and a level of professional skill beyond that normally required for a bachelor's degree. Professional licensure is also generally required. Examples of a professional degree include but are not limited to Pharmacy (Pharm.D.), Dentistry (D.D.S. or D.M.D.), Veterinary Medicine (D.V.M.), Chiropractic (D.C. or D.C.M.), Law (L.L.B. or J.D.), Medicine (M.D.), Optometry (O.D.), Osteopathic Medicine (D.O.), Podiatry (D.P.M., D.P., or Pod.D.), and Theology (M.Div., or M.H.L.).

## Interim Exception (Grandfathering) for Existing Borrowers

- **Who is covered?:** A student who, *as of June 30, 2026*:
  - Was enrolled in a Title IV-eligible program; and
  - Had received a loan for that same program (or a Parent PLUS loan was made on their behalf).
- **Timeframe limit:** New loan limits suspended during “expected time for credential,” which is lesser of:
  - Three academic years; or
  - The student’s remaining time to complete the program (program length minus amount of time student has completed as of June 30, 2026).



# Changes to Repayment Plan Programs

- Two repayment plan options for new loans starting July 1, 2026:
  - New standard repayment plan with fixed payments and terms.
  - Repayment Assistance Plan (RAP) — minimum payments \$10/month over 30 years; income-based using sliding scale based on percentage of borrower AGI.
- Eliminates economic hardship and unemployment deferments; forbearances reduced to 9 months at a time during a 24-month period. Students can rehabilitate any of their loans twice.
- Transition: Existing borrowers under old plans must shift to new structures by July 1, 2028.

# New Accountability Metric (Earnings Premium)

**Scope:** Applies to *all* Title IV-eligible degree programs (public, nonprofit, and proprietary).

## **Mechanics:**

- Compare the **median earnings of program completers** four years after completion to a benchmark group of “working adults” with the next-lower credential (high-school/GED for undergrad programs, bachelor’s for graduate programs).
- Programs must show graduates earn **at least the benchmark** or face sanctions.

## **Consequences:**

- Program **fails 2 of 3 consecutive years** → loss of Direct Loan eligibility (not Pell or other federal funds) for that program.
- **Warning requirements** for students in failing programs; opportunity to appeal data for programmatic mean earnings.

## **BDR & Closed-School Loan Discharge Delay (Regulatory Relief)**

- The 2022 final rules for Borrower Defense to Repayment (BDR) and closed-school discharge are delayed until July 1, 2035.
- Meanwhile, the 2019 versions remain in effect.

## Workforce Pell (Short-Term Credentials)

- **Expansion of Pell Grants to short-term programs:** between 150 and 600 clock hours (or between 8-15 weeks).
- **Requirements:** Program must:
  - o Lead to “portable, stackable” credential across more than one employer or prepare students for entry-level employment for which there is only one recognized postsecondary credential.
  - o Be approved by the state governor as aligned with in-demand jobs and meeting employers’ needs.
  - o Been offered for at least one year.
  - o Satisfy performance benchmarks.



## Additional Pell Changes

- **Foreign Income in AGI:** Foreign income excluded from U.S. taxation (or for which a foreign tax credit is claimed) must now be included in the calculation of a student's (or parent's) AGI.
- **SAI Threshold:** Students whose Student Aid Index equals or exceeds twice the maximum Pell Grant for an academic year are ineligible for Pell Grant.
- **Full COA Covered by Other Grants:** Students who receive non-federal grant aid (from states, institutions, or private sources) that meets or exceeds their full cost of attendance (COA) are ineligible for a Pell Grant for that period.

# RISE and AHEAD Rulemakings

## Schedule for Negotiations

### The RISE Committee

Session 1: September 29 to October 3, 2025.

Session 2: November 3 to November 7, 2025.

### The AHEAD Committee

Session 1: December 8 to December 12, 2025.

Session 2: January 5 to January 9, 2026.

## RISE Committee – Proposed Issues

1. Phase-out of graduate and professional PLUS Loans.
2. Establishment of new annual loan limits for graduate and professional students and parent borrowers, and implementation of new lifetime borrowing caps.
3. Simplification of student loan repayment plans into a standard repayment plan and a single income-based Repayment Assistance Plan (RAP) for new borrowers, elimination of the Income-Contingent Repayment (ICR) plan, and streamlining requirements for Income-Based Repayment plans for existing borrowers.
4. Institutional flexibility to apply lower annual limits for student and parent borrowers for selected programs of study.
5. Modifications to loan rehabilitation, including allowing defaulted borrowers to rehabilitate their loans a second time and setting minimum monthly payment amounts for such loans, phase-out of unemployment and economic hardship deferments, and limitations on a borrower's ability to receive a general forbearance.
6. Other provisions included in Public Law 119-21 that are effective upon enactment, on July 1, 2026, on July 1, 2027, or on July 1, 2028.



## AHEAD Committee – Proposed Issues

1. Changes in institutional and programmatic accountability measures, including loss of Direct Loan eligibility for certain programs with low earnings outcomes for 2 out of 3 years, and Financial Value Transparency and Gainful Employment.
2. Establishment of program eligibility requirements for a new Workforce Pell Grant for students enrolled in programs that last a duration of 8-15 weeks, are transferable to a recognized postsecondary credential or degree, are approved by the state governor, and have strong outcomes.
3. Exclusion of Pell Grant assistance for students who receive grant or scholarship aid covering their entire cost of attendance or for students with a Student Aid Index in excess of twice the maximum Pell Grant award.
4. Other provisions included in Public Law 119-21 that are effective upon enactment, on July 1, 2026, on July 1, 2027, or on July 1, 2028.

# Rulemaking Process

- Public Hearings
- Notice of Intent to Establish a Rulemaking Committee
- Negotiated Rulemaking Sessions
- Notice of Proposed Rulemaking (NPRM)
- Public Comment Period (30 to 90 days)
- Final Rule

## View From GC's Office

# Strategic Preparations for Higher Ed Institutions

## Financial Modeling and Scenario Planning

- Build multiple “stress test” models showing the impact of tightened student borrowing on a programmatic basis.
- Simulate impact of new accountability measures on program offerings.



# Strategic Preparations for Higher Ed Institutions

## Tuition Aid and Strategy

- Reassess institutional aid allocation: you may need to increase internal scholarships where federal borrowing is constrained.
- Identify academic programs where graduate borrowing is essential and assess vulnerability (can any of your graduate programs be designated as “Professional”?).

# Strategic Preparations for Higher Ed Institutions

## Student Communication and Support

- Begin outreach to current and prospective students about what changes to borrowing limits and repayment changes mean to them.
- Expand financial counseling and repayment guidance.
- Explore alternate (private) financing options.



# Auditor Takeaways

# Preparing for Your Title IV Audit

## 34 CFR Part 685 – *Federal Direct Loan Program*

Outlines institutional responsibilities for loan origination, disbursement, reconciliation, and borrower eligibility.

- Changes noted are for periods of ***enrollment beginning on or after July 1, 2026:***

### Eliminated:

- Graduate PLUS loans

### New Limits:

- **Annual:** Graduate student \$20,500 / Professional student \$50,000
- **Aggregate:** Graduate student \$100,000 / Professional student \$200,000
- **Parent PLUS:** \$20,000 annual / \$65,000 aggregate per student

### New Requirements:

- Proration for less-than-full-time students\*
- Optional: Program-specific borrowing caps

\*provision effective as of the date the Secretary determines.

- **Legacy Provision** applies to enrollment in a program of study on or before June 30, 2026, ***AND*** received a Direct Loan prior to July 1, 2026 for that program of study, *\*except proration for LTHT.*



# Preparing for Your Title IV Audit

## 34 CFR Part 685 – *Federal Direct Loan Program*

### Potential Compliance Issues:

- Incorrect Direct Loans (under or over awards)
- Exceeding aggregate loan limits

### Likely “Cause” of Compliance Issues:

- Two sets of rules operating at once (legacy vs. new)
- Legacy provision calculation for expected time to credential
  - **Lesser of** 3 academic years OR the difference between the minimum program length for the program the student is enrolled and the period of study the student has already completed in that program.
  - Who is responsible for monitoring?
- Loan prorations for less than full-time
  - Following the schedule provided by the Secretary (rounding rules)
  - Applies to all student borrowers (undergraduate and graduate/professional)
  - Provision does not list an effective date

# Preparing for Your Title IV Audit

## 34 CFR Part 685 – *Federal Direct Loan Program*

### Potential Compliance Issue:

- Setting a Program-Specific Loan Caps (*Optional*)

### Likely “Cause” of Compliance Issue:

- Applied inconsistently
  - Subsidized, Unsubsidized, and Parent PLUS limits MUST apply to all students enrolled in the program of study.
- Policies & Procedures Manual not updated
- Lack of disclosure to students
  - Catalog, website, award notifications
  - “Prior to taking such action, an institution must notify the student who plans to enroll or is enrolled in the program subject to this limitation.”

[[Discussion Paper and Proposed Regulatory Text: Loan Limit Provisions and Definitions, RISE Negotiated Rulemaking](#)]

# Preparing for Your Title IV Audit

## 34 CFR Part 685 – *Federal Direct Loan Program*

### *Unanswered Questions and Concerns for Less Than Full-Time Enrollment:*

- Will the proportion be based on actual credits attempted or standard enrollment statuses?
  - For example, a student attempted 8 credits out of 12 (full-time definition) = 67% actual credits OR 50% for half-time.
- Will 34 CFR 685.301(a)(5)(ii) be amended in future negotiated rulemaking to include the proration of loans for less than full-time enrollment or not?
- If amended:
  - Will institutions need to perform recalculations of Federal Direct Loans (FDLs) for enrollment changes as they do for Pell Grants?
  - Will institutions be able to set FDL recalculation dates (like Pell Recalc Dates), or will recalculation be required with every schedule change?
  - How will this interact with Return to Title IV (R2T4) calculations?

# Preparing for Your Title IV Audit

## 34 CFR Part 685 – *Federal Direct Loan Program*

### *Unanswered Questions and Concerns for Program-Specific Loan Caps:*

- Can an institution set the program cap based on incoming cohorts or would it apply all students after the implementation date?
- Can institutions set limits by academic year, total program, loan type (Subsidized vs. Unsubsidized), or for Parent PLUS separately?
- If a student is less than full-time and enrolled in a program with institutional loan caps, will the cap or the federal maximum be the starting point for calculating proportional reductions?

# Preparing for Your Title IV Audit

## 34 CFR 601.21 – Code of Conduct

Requires covered institutions participating in preferred lender arrangements (including income share agreements) to adopt, publish, enforce, and annually inform agents of a code of conduct.

### Potential Compliance Issue:

- Noncompliance with Code of Conduct

### Likely “Cause” of Compliance Issue:

- Code of Conduct not in place
- Lack of administration and enforcement
- Lack of annual notification to inform staff
- Not published on institution’s website



**Required Audit Procedures: 2023 Title IV Audit Guide, pg 69**



# Preparing for Your Title IV Audit

## **34 CFR Part 690** – *Federal Pell Grant Program (Workforce Pell)*

Establishes requirements for awarding and disbursing Pell Grants, including student eligibility, enrollment status, and payment schedules.

### Potential Compliance Issues:

- Incorrect Pell Grant (under or over awards)
- Exceeds Pell Lifetime Eligibility Usage
- Ineligible Disbursement

### Likely “Cause” of Compliance Issues:

- Error in calculation (common)
- Unable to receive traditional Pell and Workforce Pell for the same period
- Program Eligibility (34 CFR 668.8):
  - Must be in existence for at least one year prior to eligibility, documentation of state-level discretion, 70/70 performance standard, and value-added earnings testing.
  - Workforce Pell are being inserted into Section 481(b)(3), immediately following the statutory definition of short-term programs.

# Preparing for Your Title IV Audit

## Other Components to Monitor

- **Gainful Employment / Financial Value Transparency** is a requirement but currently outside audit scope.
  - McClintock anticipates **Accountability Metric** will likely remain outside audit procedures until GE/FVT is formally reinstated.
  - AHEAD Committee should clarify unknowns.
- **Repayment Plan** changes may impact an institution's cohort default rate.  
(34 C.F.R. Part 668, Subpart N).
- Increases in Workforce Pell funding and reductions in Direct Loan volumes may affect institutional **90/10 calculations** and should be monitored for potential impact.
- No direct impact to the **composite score** is anticipated from the new loan limits; any effect will likely be indirect through operational and financial changes such as cash flow, receivables, and collectability.

## Institutional Action Plan: Issues and Recommendations

- Strategic Planning and Strategic Risk Management
- Financial-Aid Counseling & Packaging
- Marketing & Consumer Disclosures
- Teach-Out & Program Sunset Planning
- Financial responsibility/cash flow pressure

# Questions

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