STRATEGIC ADVISORY SERVICES

Federal Policy Primer and Discussion Guide: Financial Aid

A Guide to Help Education Leaders Navigate the 2025 Presidential Transition and Related Federal Changes

Date of Publication: March 31, 2025

EAB

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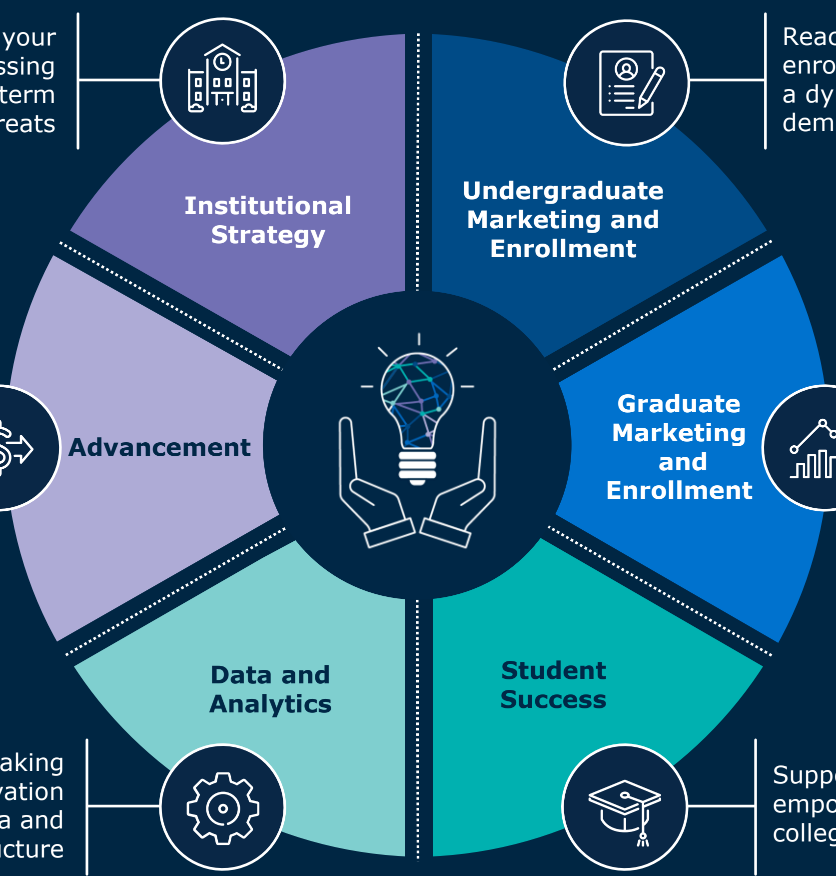

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Preparing for Changes to Financial Aid

Key Considerations for Navigating Federal Policy Shifts and Challenges

The Trump administration's proposed changes to student aid and loan policies, including restrictions on Public Service Loan Forgiveness (PSLF) and disruptions to Income-Driven Repayment (IDR) plans, could significantly impact students' perceptions of affordability. Workforce reductions at the Department of Education (ED) may exacerbate these challenges by causing delays in processing federal aid applications and disbursements, creating uncertainty for borrowers. **These disruptions threaten to make higher education seem – or even become - less accessible or affordable,** discouraging prospective students from enrolling and prompting current students to reconsider their ability to persist.

Institutions must act decisively to address these challenges by implementing proactive strategies that support students' ability to navigate a tumultuous financial aid landscape, stabilize enrollment, and navigate broader trends shaping the financial aid landscape such as rising tuition costs, debt aversion, and general dissatisfaction with higher education that is increasingly fueled by political discourse questioning its value.

This Primer Aims to Help Higher Education Leaders Unpack the Following Topics:

Changes to the Financial Aid Landscape
What changes to student aid and student loan management have occurred thus far

Possible Impact on Student Aid Programs and Tuition Affordability
How students' ability to afford and enroll in college will be impacted by student aid changes

Potential Impact on Institutional Risk-Sharing Requirements
Which tax and risk-sharing requirements for institutions are under consideration for reform

Steps Higher Ed Leaders Can Take to Prepare for Financial Aid Changes
Key questions and discussion prompts for cabinet members and other leaders

Please See EAB's Federal Policy Primer and Discussion Guide: Diversity, Equity, and Inclusion (DEI) and Civil Rights for updates about funding changes directly related to DEI.

NOTE: This document is not to be construed as legal advice. The implications mentioned may vary between states and institutions. Information and analysis in this document is current as of the date of publication and is subject to change. Consult with legal counsel before taking responsive action.

Student Aid Faces Uncertainty Due to Reconciliation

Summary of Changes

The Trump Administration's Reconciliation Bill Increases Funding Discretion, Threatening Key Student Aid Programs

In mid-March, Congress passed a Continuing Resolution (CR) to fund the government through September 30, 2025. This resolution allocated $79.1 billion to ED, with $24.6 billion designated for student aid programs. However, the resolution did not specify exact funding amounts for individual programs including Pell Grants, Federal Supplemental Educational Opportunity Grant (FSEOG), Federal Work-Study, and Federal TRIO Programs (i.e., eight programs targeted to serve and assist low-income individuals, first-generation college students, and individuals with disabilities),[1] potentially allowing the Trump administration to withhold or reallocate funds at its discretion. These programs also face uncertainty under the Executive Order (EO) to dismantle ED, which could impact staffing and result in insufficient resources to support the programs' work. Meanwhile, the Pell Grant is projected to run out of reserves, facing a $2.7 billion shortfall this fiscal year based on data from the Congressional Budget Office.[2]

The federal budget, which will determine funding reallocations, is due on October 1, 2025, marking the start of the federal fiscal year. Before the CR was passed, changes to the federal budget were unlikely to affect the 2025-26 academic year, but now the door is open for potential shifts that could impact student aid programs.

Historically, there has been bipartisan support[3] for maintaining the Pell program's solvency and consistently increasing grant maximums, even during the Trump administration’s first term. Yet, the House GOP Budget Committee has considered capping Pell grants at the median cost of attendance and expanding eligibility to short-term credential programs.[4]

Furthermore, FSEOG, Federal Work-Study, and TRIO programs are at risk. Without specific funding allocations for student aid programs, the Trump administration could choose to withhold funding, request that Congress rescind it, or reallocate the funds to other priorities.

Recommendations for Institutions

Educate Legislators on Regional Impact of Cuts to Student Aid, Especially Pell Grants

With so much uncertainty around the future of student aid, it is imperative that those involved in the budget process understand the costs of cuts to their interests, constituents, and regional economies. Lobbying through associations such the American Council on Education (ACE) and the National Association of Independent Colleges and Universities (NAICU) is important. However, direct engagement between higher education leaders and state representatives will be equally important in ensuring that state representatives understand the consequences of the cuts, and this will be critical to securing continued and predictable funding for student aid.

Because the CR removed earmarks for critical programs such as the Pell Grant, TRIO programs, and Federal Work Study, ensure legislators are aware of any attempted changes to distribution of those funds within the next six months, and advocate for continued (or strengthened) protected appropriations for these programs during the next budget cycle.

NOTE: programs such as the Pell Grant have historically received strong bi-partisan support, which should provide optimism that advocacy for this critical program will resonate with leaders from both parties.

Strategic Question

How can we effectively advocate for and influence the outcome of proposed policy changes through lobbying efforts and collaborations with other institutions to protect student affordability and institutional stability?

Trump Admin. Restructures Student Loan Management

Summary of Changes

The Trump Administration and Secretary of Education Indicate Possible Transition of Loan Services to Small Business Administration (SBA)[5]

On March 20, 2025, the Trump administration issued an EO to close ED, which included guidance on student loan management.[6] Currently, ED manages a $1.7 trillion student loan portfolio with fewer than 1,500 staff at the Office of Federal Student Aid.

On March 21, 2025, the Trump Administration announced that SBA would assume responsibility of the student loan portfolio, despite initial indications that a national bank might be better equipped to manage it.[6] The Office of Federal Student Aid currently oversees the Pell Grant program and the Free Application for Federal Student Aid (FAFSA), though it remains unclear if those programs will be affected by this potential change. Secretary of Education Linda McMahon stated that she is collaborating with the SBA on a strategic plan.

Legal and Administrative Shifts in Income-Driven Repayment (IDR) Plans and Public Service Loan Forgiveness (PSLF)

In February 2025, a decision from the Eighth Circuit Court of Appeals temporarily blocked aspects of the Biden administration's SAVE plan and suspended access to IDR applications, leaving 8 million borrowers with paused interest accrual and payments.[8] ED responded by halting all IDR applications, including those for Income-Based Repayment (IBR), Pay As You Earn (PAYE), and Income-Contingent Repayment (ICR).

Separately, an EO on March 7, 2025, directed the Secretary of Education to amend the PSLF program to exclude organizations that the administration alleges are:[9] aiding violations of federal immigration laws, supporting terrorism, and engaging in violence to influence federal policy. This sparked legal challenges; on March 18, 2025, student loan borrowers and advocacy groups filed a lawsuit arguing that ED's removal of IDR applications impedes borrowers' ability to qualify for PSLF forgiveness.[10]

On March 26, 2025, ED reopened applications for these plans after revising the process to comply with the court ruling. While SAVE remains partially blocked, borrowers can now access other IDR options.[11]

Recommendations for Institutions

Establish a List of Viable Alternative Loan Providers in Anticipation of Disruptions to Federal Loan Access

Despite Secretary McMahon and the Trump administration indicating that the SBA will assume responsibility of the student loan portfolio, only Congress can authorize this transition. However, institutions cannot afford to be caught off-guard if these changes are made. Therefore, institutions should identify viable alternative loan providers for students to ensure students continue to have access to loans in the event of a transition.

Develop Loan Transition Support Materials

Consider preparing educational materials to clarify the transition between student loan managers in the event this change occurs.

Proactively Educate Borrowers and Advocate for Equitable Loan Policies

Statutory programs like PSLF and IBR are established by law, which provides critical protections and extra stability for borrowers, but their implementation can be shaped by administrative decisions, introducing some uncertainty in how they operate.

Similarly, plans such as PAYE, REPAYE, and SAVE are created through administrative action rather than legislation, making them more vulnerable to legal and political shifts.

Proactively educate borrowers about their current repayment options and potential changes, offering workshops, one-on-one counseling, or online resources to help them navigate evolving policies.

Additionally, consider advocating for policies that safeguard affordable repayment options and forgiveness programs.

Strategic Question

How can we develop comprehensive strategies to help students understand the implications of financial aid and loan changes, improve their sense of affordability, and mitigate potential impacts on enrollment and financial decision-making?

Student Aid Proposals Affect Affordability

Summary of Proposed Changes

Legislative Proposals to Amend Student Aid Programs Could Significantly Impact Processing Times and Lead to Enrollment Delays

In addition to the uncertainty facing student aid programs due to the March CR, the Trump administration, in partnership with the Republican-led Congress, is considering several reforms to financial aid.[12,13,14] The House Budget Committee's 2025 fiscal year's budget resolution, proposed on February 7, 2025,[15] outlines $330 billion in cuts to the Committee on Education and Workforce budget allocation. Notable programs and policies under consideration for reform include:

- **Grants, Scholarships, and Work Study:**
    - Federal Supplemental Educational Opportunity Grant (FSEOG)
    - PROMISE Grants
    - Federal Work-Study Program
- **Student Loan and Forgiveness Programs:**
    - Subsidized Federal Student Loans
    - Graduate Student Loans
    - Parent PLUS Loans
    - Public Service Loan Forgiveness (PSLF)
    - SAVE Plans
- **Other Financial Aid Benefits:**
    - Lifetime Learning Credit
    - In-School Interest Subsidy
    - Title IV Student Aid

Recommendations for Institutions

Develop Strategies to Support Students Amid FAFSA Delays and Aid Processing Challenges

If federal aid programs are cut or eligibility changes, students may struggle to afford tuition, leading to stop-outs, drop-outs, deferments, or defaulting on loans. Furthermore, the reductions to ED's workforce may lead to slower processing times, potentially affecting enrollment projections.

Prepare for potential FAFSA delays and disruptions due to funding shortages, staff reductions, and system changes, and develop strategies to assist students and manage financial aid processes to mitigate the impact. Alongside FAFSA disruptions, other disbursement platforms may require reconfiguration, experience processing delays, or face operational challenges due to federal reforms. Preparations could include encouraging earlier submission for FASFA applications and other disbursement requests, increasing financial aid office hours, offering non-traditional hours for support, and ensuring students have access to assistance in various modalities.

Conduct an Internal Review to Assess Dependence on Student Aid Programs and the Impact of Changes

Assess how many students are receiving various forms of aid (e.g., Pell, Grad PLUS), the types of students receiving aid (e.g., first-generation, traditional, out-of-state), and other institution-specific factors (e.g., minority-serving status) to gather a more accurate snapshot of who changes could impact most.

Notably, the federal budget that will include decisions on reallocation funding for several of these programs is due on October 1, 2025, marking the beginning of the federal fiscal year, which affects the 2026 - 2027 academic year.

EAB Resource: Scaling Support for Financially Insecure Students

Strategic Question

What are the key components of our financial aid portfolio (e.g., federal and state grants, subsidies, endowments), and how might federal or state-level policy changes impact these funding sources or student eligibility?

Republicans Signal Financial Burden Shift to Students

Summary of Proposed Changes

Republican College Cost Reduction Act (CCRA) Proposal Shifting More Financial Burden to Students[16]

The College Cost Reduction Act, proposed by Republican Representative Virginia Foxx, seeks to further shift the financial burden of higher education directly onto students, holding them more responsible for the costs of their education. This Act is in contrast to actions taken by the Biden Administration, which sought to eliminate debt for student borrowers and ease the burden of loan repayment. The CCRA introduces several provisions that may increase the financial responsibility of students in higher education, including:

- **Eliminate PLUS loans** including Parent PLUS and Graduate PLUS.
- Change aggregate borrowing caps per loan type and **establish a new lifetime borrowing cap of $200,000**.
- Change income-driven repayment plans, replacing existing IDR plans with a single plan that would increase payments for most borrowers and eliminate existing safeguards that protect borrowers from carrying debt for more than 25 years.

The CCRA also requires institutions to be more transparent about financial aid offers, ensuring students clearly understand the terms and consequences. It proposes to:

- **Standardize financial aid offers for transparency**, requiring institutions to list:
    - The entire cost of attendance for a student, including both direct costs billed to the student and additional costs, including books, supplies, technology, and transportation.
    - All forms of grants and scholarships that student is offered/received and the source.
    - A calculation of net price; subtracting direct costs minus grants and/or scholarships.

Once net price is calculated, loans (e.g., unsubsidized, private, institutional) may be offered, but they must be listed as "loans" in plain language.

Recommendations for Institutions

Evaluate the Impact of Financial Aid Transparency on Student Enrollment and Pricing Strategies

The CCRA emphasizes the need for greater transparency from institutional financial aid offices, which could significantly influence students' decisions to pursue higher education. Clearer communication about costs, available aid, and repayment options may empower students to make more informed choices, but it could also highlight affordability challenges that deter some students.

To address this, enrollment and financial aid leaders should proactively assess how increased transparency might affect student decision-making and enrollment patterns. This evaluation should include analyzing whether clearer financial aid information encourages more applications or highlights gaps in affordability that require intervention. Based on these findings, institutions can refine their pricing strategies. See the below resource for more information about pricing strategies.

EAB Resource: Alternative Pricing Strategies for Colleges and Universities

Enhance Program Portfolio Relevance and Demonstratable ROI, and Craft a Compelling Value Proposition

As the financial burden increasingly shifts to students, urgency is growing to demonstrate value and communicate ROI.

EAB Resources:

1. Financial Performance Collaborative, Academic
2. Dynamic Strategy Services and Value Proposition Design Workshops

Strategic Question

Are our systems and financial aid teams equipped to handle policy changes requiring increased financial aid transparency in higher education institutions? If not, what steps can we take now to prepare for this transition?

Risk-Sharing Proposals Add Financial Obstacles

Summary of Proposed Changes

Proposed Financial Aid Rules and Tax Changes Could Restrict Student Access to Affordable Loans

Republican lawmakers are proposing reforms to federal student loan programs and tax policies that could reduce loan availability and increase borrowers' financial obligations, though passage remains uncertain.

Reforms, listed below, may limit some students' ability to take out loans as needed, while also primarily burdening existing loan recipients with new costs.

- **Tax Policy:**
    - Elimination of deduction of interest on student loans
    - Removal of tax exemptions for scholarship and fellowship income
- **Student Loan Policy:**
    - Elimination of interest capitalization
    - Establishment of new annual and aggregate loan limits for unsubsidized undergraduate and graduate loans

New Risk-Sharing Requirements Could Increase Accountability for Higher Education Institutions in Ensuring Student Success

Though unlikely, proposed risk-sharing requirements under consideration would mandate payments from institutions to the federal government to participate in the federal student loan program.

The calculation of the exact payment amount(s) have not been specified, although previous proposals[17] determined the total payment obligation in accordance with the amount of debt held by alumni.

Recommendations for Institutions

Monitor Policy Changes Impacting Loan Costs and Prepare to Support Affordability to Reenforce Enrollment Stability

Although these policies may not directly affect institutional revenue, they could have significant implications for students. If enacted, changes to tax liability or reductions in the availability of federal loans could undermine students' financial security, potentially impacting their ability to afford college. This, in turn, could influence enrollment and retention rates at higher education institutions.

For instance, if tax exemptions for scholarships and fellowships are removed, students might be discouraged from accepting financial awards due to the added tax burden. In response, explore alternative strategies to reduce tuition costs. *See the recommendations and resources on the previous page.*

Explore Strategic Use of Endowment Funds to Reduce Tuition Costs

Monitor policy developments related to risk-sharing requirements, including the timeline for implementation. These policies would require institutions to track students' graduation rates and post-graduation outcomes to determine whether they meet federal benchmarks. If outcomes are deemed insufficient, institutions could be held financially responsible for covering a portion of the associated costs.

Risk-sharing regulations are designed to incentivize institutions to reduce student and alumni debt. To mitigate potential financial liabilities under these policies, institutions might consider strategically utilizing endowment funds to expand scholarships or other forms of direct financial aid. This approach could help lower tuition costs for students while reducing reliance on loans, aligning with the broader goal of minimizing student debt burdens

Strategic Question

How can we prepare for potential changes to risk-sharing requirements (e.g., ensuring data collection methods are in place, considering funding sources) and what can we do to effectively communicate complex changes to the cost of federal loans to students?

Discussion Questions and EAB Resources

The CR passed in mid-March, a long with the Trump administration's proposed or enacted changes impacting the financial aid landscape, has created uncertainty for higher education leaders. Several programs face potential funding changes that could impact student aid for the 2025-2026 academic year or affect student loan management even sooner. Students are increasingly concerned about the affordability of college, and the current administration is attempting to shift even more of the financial burden to students, doubling down on these concerns. This increases urgency and underscores the importance of investing in strategy to demonstrate the return on investment of higher education and effectively communicating value proposition.

As you review this policy primer and consider the implications of proposed financial aid changes, use the following discussion questions to inform your institution's next steps. We suggest engaging your cabinet, along with key stakeholders such as the Vice President of Enrollment and/or Financial Aid, the Chief Business Officer, Legal Counsel, Chief Advancement Officer, Provost, and Vice President of Student Affairs.

5 Strategic Questions Every Team Should Be Discussing Right Now

- How can we effectively advocate for and influence the outcome of proposed policy changes through lobbying efforts and collaborations with other institutions to protect student affordability and institutional stability?
- What are the key components of our financial aid portfolio (e.g., federal and state grants, subsidies, endowments), and how might federal or state-level policy changes impact these funding sources or student eligibility?
- How can we develop comprehensive strategies to help students understand the implications of financial aid and loan changes, improve their sense of affordability, and mitigate potential impacts on enrollment and financial decision-making?
- Are our systems, processes, and financial aid teams adequately prepared to adapt to new transparency requirements? What proactive steps can we take to ensure readiness?
- How can we prepare for potential changes to risk-sharing requirements, such as enhancing data collection methods or identifying alternative funding sources to minimize institutional liability?

4 Steps to Strengthen Your Institution's Resilience in Response to Financial Aid Changes

- **Determine Institutional Aid Strategy:** All higher education leaders must be sure they are getting the most from their allocation of financial aid. EAB's Get the Most from Allocating and Communicating Financial Aid Roadmap can help higher ed leaders improve access, headcount, tuition revenue, student success, and more.
- **Align Budget Model with Long-Term Goals:** Consider using EAB's How-to-Guide: Aligning Institutional Budget Models to Strategic Goals to reevaluate the institutional budget model to ensure long-term financial sustainability by emphasizing unit-level financial accountability, aligning with institutional strategic goals, and safeguarding mission-critical activities.
- **Consider the Impact of Delayed FASFA Rollout on College Retention:** EAB's Ten Questions Success Leaders Should Be Asking to retain returning students and ensure incoming students stay engaged.
- **Schedule a EAB Facilitated Scenario-Planning Workshop:** to learn more about EAB's scenario-planning workshop contact your Strategic Leader or email policy@hello.eab.com.

EAB's Federal Policy Navigation Services

To help education leaders make informed strategic decisions amid a rapidly shifting policy landscape, EAB's Federal Policy Navigation Services offers a unique suite of resources and support. This includes **policy primers, an implementation probability index, scenario-planning exercises, workshops, and peer position pulse checks**.

To **learn more** about EAB's Federal Policy Navigation Services please contact your EAB Strategic Leader, Account Manager, or email policy@hello.eab.com.

Endnotes

Student Aid Faces Uncertainty Due to Reconciliation

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Trump Admin. Restructures Student Loan Management

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Student Aid Proposals Affect Tuition Affordability

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Risk-Sharing Proposals Add Financial Obstacles

17. https://www.americanprogress.org/article/proposed-legislation-threatens-to-raise-costs-for-student-borrowers-and-dismantle-consumer-protections/#:~:text=The%20risk%2Dsharing%20proposal%20included,students%20struggle%20with%20repaying%20loans.

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