

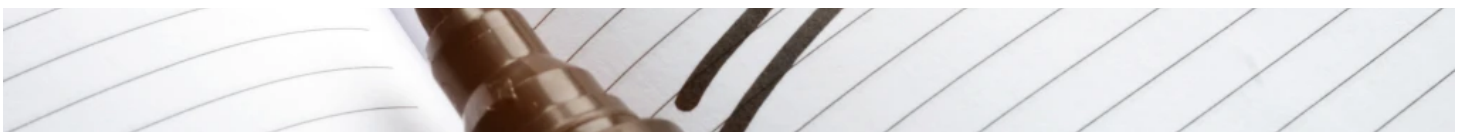
PRACTICE AND CLIENT MANAGEMENT

New student loan cap creates planning challenges for advisors

By [Elijah Nicholson-Messmer](#) July 23, 2025, 5:06 p.m. EDT 5 Min Read



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Students planning to pursue advanced degrees could soon face a complicated financial situation thanks to a new federal student loan borrowing cap, financial advisors warn.

A provision in the [tax and spending package](#) signed into law on July 4 will set a lifetime borrowing limit of \$257,500 for federal student loans starting in mid-2026. Graduate students will be capped at \$20,500 per year in unsubsidized loans, with a lifetime maximum of \$100,000. For those pursuing professional degrees such as medicine or law, borrowing will be limited to \$50,000 per year and \$200,000 over a lifetime.

Parents taking out federal Parent PLUS loans will face a new cap of \$20,000 per year per student, with a \$65,000 lifetime limit. Currently, both graduate and professional students, as well as parents of dependent undergraduates, can borrow up to the full cost of attendance each year. The proposal would also eliminate Grad PLUS loans entirely, which now allow graduate students to borrow up to whatever expenses remain after other federal aid.

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Experts say these limits will have little to no impact on the average college student. But for students seeking costly [advanced degrees](#), the new cap could significantly impact their ability to pay for school.

"The biggest impacts will be felt in graduate programs when students max out on borrowing," said Ann Garcia, a financial advisor at The Mather Group in Portland, Oregon. "Medical school, law school, veterinary, physical therapy, etc., all cost considerably more than the new loan limits."

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In 2024, medical school graduates had \$264,519 in student loan debt on average, according to the [Education Data Initiative](#) — roughly \$7,000 more than the new borrowing cap. And that's an average, meaning many students exceeded the cap by larger amounts. Because the new borrowing cap is not pegged to inflation, advisors say that gap is likely to widen as education costs keep rising.

For clients looking to get ahead of the new borrowing cap, advisors point to a few potential strategies.

Advise clients on front-loading loans now

Although the new limits don't take effect until July 2026, advisors say that families with multiple children attending college may want to begin shifting their borrowing strategies now.

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"For parents with multiple kids, say one already enrolled and another preparing to enroll, you might need to consider borrowing more now for the student already in college to stay under the lifetime borrowing cap for younger children," Garcia said.

By borrowing more now, parents can save up a bigger [cash cushion](#) to help cover future college bills, when borrowing limits will be in effect.

Help clients use private loans strategically

With greater flexibility and more repayment options, federal student loans are widely considered the best option for students who need to borrow money for college. But under the new borrowing limit, some advisors say that students may be better off taking out private loans first if they anticipate needing more than the federal limit allows.

"The challenge will be qualifying for the [private] loans if you've borrowed the lifetime federal loan limit," said Mike Hunsberger, founder of Next Mission Financial Planning in Saint Charles, Missouri. "I envision a strategy where it will make more sense to borrow private loans first and then switch to federal loans to make sure you're getting the best rates while your debt is low and your credit score is good."

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Currently, competition with federal student loan options keeps private lenders relatively competitive when it comes to interest rates. But that incentive could disappear under the new borrowing cap, as more students turn to private loans as their only option.

"I think there could be situations in the future that borrowers who use the federal loans first could be unable to borrow more from private lenders, or that the rates will be so high that even those who are making great money will have trouble paying them back," Hunsberger added.

If private loans become necessary, it's important to compare options carefully, according to Andrew Latham, a certified financial planner and the content director at SuperMoney. Having a creditworthy cosigner can lead to much better terms, and some [credit unions](#) or nonprofit lenders may offer lower rates than major banks, Latham said.

Emphasize proactive cost-reduction options

The best way for a client to avoid hitting the new borrowing limits is to minimize how much they

need to borrow, either by cutting costs or paying more out of pocket.

For parents who still have time before their children enter college, advisors say now is the time to increase contributions to [529 plans](#) and Roth IRAs, funds from which can be used tax- and penalty-free for education expenses.

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Depending on a family's financial situation, advisors say there are a variety of other strategies they can use to avoid taking out private loans.

"Advisors should also review whether families are candidates for gifting strategies, cash-flow planning, or low-interest lending within the family to help bridge the gap," Latham said. "And talk to students directly. The earlier they understand the implications of the cap, the more control they'll have over school choice, program length and future debt load.

Students and their parents should also be proactive about looking for grants and scholarships, advisors say.

"Instead of asking what school could the student get into, families need to ask what schools will give them the most aid," said Jack Wang, a financial advisor at Innovative Advisory Group in Lexington, Massachusetts. "If families need to borrow, eligibility for merit and need-based aid becomes much more important to lower the cost of college and reduce the need to borrow."

Garcia echoed that same point.

"The most important piece of this is making good choices about where your student goes to school and using your budget as a guide to those choices," Garcia said. "College is available at every price point, and parents need to be realistic about which of those price points work for them."

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