

## Patterson Policy Watch – A Resource for the Nonprofit Sector

Welcome to the *Patterson Policy Watch*, which tracks key legal and policy developments that matter to the nonprofit sector. In response to the rapidly evolving landscape under the new presidential administration, Patterson Belknap's Tax-Exempt Organizations Group is highlighting executive actions, agency directives, legislative updates, and judicial responses that have the potential to impact nonprofit organizations and the communities they serve.

Below is a digest of select developments from the past week through March 23, 2026, which are organized broadly by issue area. We note that this is not a comprehensive list of all updates that may potentially be relevant to tax-exempt organizations. We will continue to provide regular updates to the *Patterson Policy Watch* to help you anticipate and navigate policy and legal developments. You can also view prior editions of the *Patterson Policy Watch* [here](#).

### Education

- March 19: The Department of Education (ED) and the Department of the Treasury (Treasury) [announced](#) that the ED and Treasury entered into an interagency agreement to establish the "Federal Student Assistance Partnership," which will transition operational responsibility for certain aspects of the federal student aid portfolio from the ED to Treasury. Under the initial phase of the interagency agreement, Treasury will assume responsibility for collecting defaulted federal student loan debt and provide operational support to return borrowers to repayment status. In subsequent phases, Treasury will provide operational support for non-defaulted student loan debt and other functions of the Office of Federal Student Aid. This partnership, like previous interagency agreements with the Departments of Labor, Interior, Health and Human Services, and State (covered in the [September 9, 2025](#) and [November 25, 2025](#) issues of the *Patterson Policy Watch*), is in furtherance of the March 20, 2025 executive order, entitled "[Improving Education Outcomes by Empowering Parents, States, and Communities](#)" (covered in the [March 25, 2025](#) issue of the *Patterson Policy Watch*), which directed the Secretary of Education to facilitate the closure of the ED and return authority over education to the states.
- March 20: The Department of Justice (DOJ) [filed](#) a lawsuit against Harvard University, alleging that Harvard unlawfully discriminated against Jewish and Israeli Jewish students, in violation of Title VI of the Civil Rights Act of 1964, which prohibits discrimination on the basis of race, color, and national origin in any program or activity receiving federal financial assistance. The lawsuit seeks, among other relief, a declaratory judgment that Harvard violated Title VI based on "its intentional conduct and its deliberate indifference to discriminatory harassment of Jewish and Israeli students and creation of a hostile educational environment since October 7, 2023, up to the present day." The DOJ [issued](#) a press release stating that Harvard "has continued to be deliberately indifferent to a level of hostility on its campus" and "has refused to enforce its campus rules against students who harass their Jewish and Israeli peers." The press release states that the lawsuit "seeks to compel Harvard to comply with Title VI and to recover the taxpayer funds that Harvard accepted while in violation of Title VI."
- March 23: The ED [issued](#) a press release stating that it was opening two new investigations into Harvard "amid allegations that it continues to discriminate against students on the basis of race, color, and national origin in violation of Title VI of the Civil Rights Act of 1964." The ED will investigate "illegal race-based preferences in admissions" and "antisemitic harassments on Harvard's campus and the institution's purported failure to protect Jewish students." The ED issued a Letter of Impending Enforcement Action to Harvard "for its continued refusal to provide requested information relating to its admissions process," giving Harvard 20 calendar days to comply with the request before the University faces enforcement actions, such as referral to DOJ.

### Other

- March 18: CBS News [reported](#) that the Internal Revenue Service Criminal Investigation (IRS-CI) division is working with the Federal Bureau of Investigation (FBI) to form "a new initiative to investigate nonprofit organizations over suspected links to domestic terrorism." According to an IRS-CI spokesperson, the division "is collaborating with federal law enforcement agencies, including the FBI, to investigate individuals and entities that may be funding domestic terrorism or political violence."
  - The article references the December 4, 2025 memorandum that Attorney General Pam Bondi [sent](#) to all federal prosecutors and federal law enforcement agencies regarding the implementation of National Security Presidential Memorandum 7, entitled "[Countering Domestic Terrorism and Organized Political Violence](#)" ("NSPM-7"). In the memo, Attorney General Bondi stated that "[a]cts of domestic terrorism are priority matters for federal law enforcement and will be zealously investigated and prosecuted," and directed federal law enforcement and federal prosecutors to "consider any applicable tax crimes in cases in which extremist groups are suspected of defrauding the Internal Revenue Service." Attorney General Bondi's December 4, 2025 memo was covered in the [December 9, 2025](#) issue of the *Patterson Policy Watch*, and NSPM-7 was covered in our [September 29, 2025](#) client alert.

### Judicial Watch

As legal challenges to executive actions continue to grow, and as the DOJ has begun to initiate actions in court to enforce the administration's priorities, we are tracking developments in key cases that have the potential to most directly impact nonprofit organizations across the sector.

#### Denial of Congressionally Appropriated Funds

A growing number of nonprofit grantees have sued the federal government (and their agents) for improperly withholding Congressionally appropriated funds. Updates in cases we are following in this area include:

- *New York et al. v. Donald J. Trump et al.* (District of Rhode Island): On January 28, 2025, the attorneys general of 22 states and the District of Columbia [sued](#) the Office of Management and Budget (OMB), challenging its directive to pause federal funding (the "OMB Directive") as a violation of the Administrative Procedure Act and the First Amendment. While the OMB later rescinded the OMB Directive, the federal courts since then have ruled that the administration should release the funding freeze and the First Circuit issued a voluntary dismissal of the government's appeal of the District Court's ruling.
  - On March 6, 2025, the District Court [issued](#) a memorandum opinion in which it granted Plaintiffs' motion for a preliminary injunction. The District Court enjoined the government from "reissuing, adopting, implementing, giving effect to, or reinstating under a different name" the OMB Directive and from "pausing, freezing, blocking, canceling, suspending, terminating, or otherwise impeding the disbursement of appropriated federal funds to the States under awarded grants, executed contracts, or other executed financial obligations based on the OMB Directive, including funding freezes dictated, described, or implied by Executive Orders issued by the President before rescission of the OMB Directive or any other materially similar order, memorandum, directive, policy, or practice under which the federal government

imposes or applies a categorical pause or freeze of funding appropriated by Congress.”

- On April 4, 2025, the District Court granted Plaintiffs’ motion to enforce the preliminary injunction, finding that the government had delayed disbursement of Federal Emergency Management Agency (FEMA) grants to states based on the OMB Directive, in violation of the District Court’s preliminary injunction. The District Court ordered FEMA to take certain steps to pay out specific grants.
- On April 14, 2025, the District Court denied the government’s motion for reconsideration of the District Court’s enforcement order related to the FEMA grants.
- On **March 17**, the First Circuit affirmed in part and vacated in part the March 6, 2025 preliminary injunction and affirmed the April 4, 2025 and April 14, 2025 orders enforcing the preliminary injunction against FEMA. The First Circuit determined that the Plaintiffs’ case was not moot because while the OMB’s memorandum had been rescinded, the OMB’s Directive to pause federal funding was not rescinded. The First Circuit also determined that Plaintiffs were likely to show that the government’s actions were arbitrary and capricious as they did not attempt to consider the impact of agency-wide funding freezes and the scope of the government’s legal authority to implement such freezes. The First Circuit did, however, determine that the scope of the preliminary injunction was too broad, and vacated, or set aside, the preliminary injunction to the extent that it required the government to make “disbursements to the States on awarded grants” and “executed contracts.”

#### Public Service Loan Forgiveness Litigation

On October 30, 2025, the ED promulgated a Final Rule that amends the Public Service Loan Forgiveness (PSLF) Program regulations to redefine a “qualifying employer” whose employees can participate in the PSLF Program to exclude organizations that have a “substantial illegal purpose,” such as aiding and abetting violations of federal immigration laws, supporting terrorism or engaging in violence for the purpose of obstructing or influencing federal government policy, engaging in the illegal chemical or surgical castration or mutilation of children, and engaging in a pattern of aiding and abetting illegal discrimination, among others. The Final Rule was issued pursuant to the March 7, 2025 executive order, entitled “Restoring Public Service Loan Forgiveness.” A number of nonprofits and state and local jurisdictions have sued the ED seeking to prevent this Final Rule from going into effect on July 1, 2026. Cases we are following on this issue include:

- National Council of Nonprofits v. McMahon (District of Massachusetts): On November 3, 2025, a coalition of cities, nonprofits, and membership associations sued the ED to challenge the Final Rule as violating the Administrative Procedure Act because the ED is exceeding its statutory authority and because the Rule is arbitrary and capricious and contrary to the Constitutional rights of Free Speech and Due Process.
  - On February 13, Plaintiffs filed a motion for summary judgment, arguing that the District Court should find that the Final Rule violates the Administrative Procedure Act and that the District Court should vacate the Rule to render it void.
  - On **March 16**, Defendants filed an opposition to Plaintiffs’ motion for summary judgment and also filed a cross-motion to dismiss Plaintiffs’ complaint, or in the alternative a motion for summary judgment. Defendants argue that they acted pursuant to their authority to promulgate the Final Rule, that the Final Rule is not arbitrary and capricious, and that the Final Rule does not target constitutionally protected speech.

## Legislative Watch

On March 17, Senators Jeanne Shaheen (D-NH) and Todd Young (R-IN) introduced S. 4114, the “Student Protection and Success Act.” On March 19, Representative Erin Houchin (R-IN) introduced a companion bill, H.R. 8009, in the House of Representatives. The bipartisan bill would modify the eligibility standards for institutions of higher education to participate in federal student aid programs under Title IV of the Higher Education Act of 1965.

- The bill would require institutions of higher education to maintain a cohort repayment rate of at least 15 percent within three years of students leaving the institution in order to maintain eligibility to participate in Title IV federal student aid programs. A cohort rate is the percentage of students who default on their federal loans over a given timeframe after going into repayment.
- Additionally, the bill would implement a “risk-sharing” fee for institutions of higher education in which institutions would pay a fee equal to a percentage of the student loan balance that is not repaid to the ED. The revenue generated from these fees would be reallocated by the ED to institutions that demonstrate success in graduating and supporting low-income students who receive Pell Grants.

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Laura E. Butzel	212.336.2970	lebutzel@pbwt.com
Robin Krause	212.336.2125	rkrause@pbwt.com
John Sare	212.336.2760	jsare@pbwt.com
Susan M. Vignola	212.336.2256	svignola@pbwt.com
Justin S. Zaremby	212.336.2194	jszaremby@pbwt.com
Tiffany N. Tam	212.336.2520	ttam@pbwt.com
Peter B. Franklin	212.336.2978	pfranklin@pbwt.com
Jack McGlone	212.336.2974	jmcglone@pbwt.com
Colleen O’Leary	212.336.2516	coleary@pbwt.com

To subscribe to any of our publications, call us at 212.336.2813, email [info@pbwt.com](mailto:info@pbwt.com), or sign up on our website, <https://www.pbwt.com/subscribe/>.

1133 Avenue of the Americas New York, NY 10036-6710 212.336.2000 [www.pbwt.com](http://www.pbwt.com)

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