

Calendar No. 277

107TH CONGRESS
1ST SESSION**S. 1762**

To amend the Higher Education Act of 1965 to establish fixed interest rates for student and parent borrowers, to extend current law with respect to special allowances for lenders, and for other purposes.

IN THE SENATE OF THE UNITED STATES

DECEMBER 4, 2001

Mr. JOHNSON introduced the following bill; which was read twice and referred to the Committee on Health, Education, Labor, and Pensions

DECEMBER 12, 2001

Reported by Mr. KENNEDY, without amendment

A BILL

To amend the Higher Education Act of 1965 to establish fixed interest rates for student and parent borrowers, to extend current law with respect to special allowances for lenders, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. INTEREST RATE PROVISIONS.**

4 (a) FFEL FIXED INTEREST RATES.—

1 (1) AMENDMENT.—Section 427A of the Higher
2 Education Act of 1965 (20 U.S.C. 1077a) is
3 amended—

4 (A) by redesignating subsections (l) and
5 (m) as subsections (m) and (n), respectively;
6 and

7 (B) by inserting after subsection (k) the
8 following new subsection:

9 “(l) INTEREST RATES FOR NEW LOANS ON OR
10 AFTER JULY 1, 2006.—

11 “(1) IN GENERAL.—Notwithstanding subsection
12 (h), with respect to any loan made, insured, or guar-
13 anteed under this part (other than a loan made pur-
14 suant to section 428B or 428C) for which the first
15 disbursement is made on or after July 1, 2006, the
16 applicable rate of interest shall be 6.8 percent on the
17 unpaid principal balance of the loan.

18 “(2) PLUS LOANS.—Notwithstanding sub-
19 section (h), with respect to any loan under section
20 428B for which the first disbursement is made on or
21 after July 1, 2006, the applicable rate of interest
22 shall be 7.9 percent on the unpaid principal balance
23 of the loan.

24 “(3) CONSOLIDATION LOANS.—With respect to
25 any consolidation loan under section 428C for which

1 the application is received by an eligible lender on or
 2 after July 1, 2006, the applicable rate of interest
 3 shall be at an annual rate on the unpaid principal
 4 balance of the loan that is equal to the lesser of—

5 “(A) the weighted average of the interest
 6 rates on the loans consolidated, rounded to the
 7 nearest higher one-eighth of 1 percent; or

8 “(B) 8.25 percent.”.

9 (2) CONFORMING AMENDMENT.—Section
 10 428C(c)(1)(A) of such Act (20 U.S.C. 1078–
 11 3(c)(1)(A)) is amended to read as follows:

12 “(1) INTEREST RATE.—(A) Notwithstanding
 13 subparagraphs (B) and (C), with respect to any loan
 14 made under this section for which the application is
 15 received by an eligible lender—

16 “(i) on or after October 1, 1998, and be-
 17 fore July 1, 2006, the applicable interest rate
 18 shall be determined under section 427A(k)(4);

19 or

20 “(ii) on or after July 1, 2006, the applica-
 21 ble interest rate shall be determined under sec-
 22 tion 427A(l)(3).”.

23 (b) DIRECT LOANS FIXED INTEREST RATES.—

24 (1) TECHNICAL CORRECTION.—Paragraph (6)
 25 of section 455(b) of the Higher Education Act of

1 1965 (20 U.S.C. 1087e(b)), as redesignated by sec-
2 tion 8301(c)(1) of the Transportation Equity Act for
3 the 21st Century (Public Law 105–178; 112 Stat.
4 498) is redesignated as paragraph (9) and is trans-
5 ferred to follow paragraph (7) of section 455(b) of
6 the Higher Education Act of 1965.

7 (2) AMENDMENTS.—Section 455(b) of the
8 Higher Education Act of 1965 (20 U.S.C. 1087e(b))
9 is amended—

10 (A) by redesignating paragraph (7) as
11 paragraph (8); and

12 (B) by inserting after paragraph (6) the
13 following new paragraph:

14 “(7) INTEREST RATE PROVISION FOR NEW
15 LOANS ON OR AFTER JULY 1, 2006.—

16 “(A) RATES FOR FDSL AND FDUSL.—Not-
17 withstanding the preceding paragraphs of this
18 subsection, for Federal Direct Stafford Loans
19 and Federal Direct Unsubsidized Stafford
20 Loans for which the first disbursement is made
21 on or after July 1, 2006, the applicable rate
22 of interest shall be 6.8 percent on the unpaid
23 principal balance of the loan.

24 “(B) PLUS LOANS.—Notwithstanding the
25 preceding paragraphs of this subsection, with

1 respect to any Federal Direct PLUS loan for
2 which the first disbursement is made on or
3 after July 1, 2006, the applicable rate of inter-
4 est shall be 7.9 percent on the unpaid principal
5 balance of the loan.

6 “(C) CONSOLIDATION LOANS.—Notwith-
7 standing the preceding paragraphs of this sub-
8 section, any Federal Direct Consolidation loan
9 for which the application is received on or after
10 July 1, 2006, shall bear interest at an annual
11 rate on the unpaid principal balance of the loan
12 that is equal to the lesser of—

13 “(i) the weighted average of the inter-
14 est rates on the loans consolidated, round-
15 ed to the nearest higher one-eighth of one
16 percent; or

17 “(ii) 8.25 percent.”.

18 (c) EXTENSION OF CURRENT INTEREST RATE PRO-
19 VISIONS FOR THREE YEARS.—Sections 427A(k) and
20 455(b)(6) of the Higher Education Act of 1965 (20
21 U.S.C. 1077a(k), 1087e(b)(6)) are each amended—

22 (1) by striking “2003” in the heading and in-
23 serting “2006”; and

24 (2) by striking “July 1, 2003,” each place it
25 appears and inserting “July 1, 2006,”.

1 **SEC. 2. EXTENSION OF SPECIAL ALLOWANCE PROVISION.**

2 Section 438(b)(2)(I) of the Higher Education Act of
3 1965 (20 U.S.C. 1087–1(b)(2)(I)) is amended—

4 (1) by striking “, AND BEFORE JULY 1, 2003”
5 in the heading;

6 (2) by striking “and before July 1, 2003,” each
7 place it appears, other than in clauses (ii) and (v);

8 (3) by striking clause (ii) and inserting the fol-
9 lowing:

10 “(ii) IN SCHOOL AND GRACE PE-
11 RIOD.—In the case of any loan—

12 “(I) for which the first disburse-
13 ment is made on or after January 1,
14 2000, and before July 1, 2006, and
15 for which the applicable rate of inter-
16 est is described in section 427A(k)(2);
17 or

18 “(II) for which the first disburse-
19 ment is made on or after July 1,
20 2006, and for which the applicable
21 rate of interest is described in section
22 427A(l)(1), but only with respect to
23 (aa) periods prior to the beginning of
24 the repayment period of the loan; or
25 (bb) during the periods in which prin-
26 cipal need not be paid (whether or not

1 such principal is in fact paid) by rea-
2 son of a provision described in section
3 427(a)(2)(C) or 428(b)(1)(M);
4 clause (i)(III) of this subparagraph shall
5 be applied by substituting ‘1.74 percent’
6 for ‘2.34 percent.’”;

7 (4) in clause (iii), by inserting “or (l)(2)” after
8 “427A(k)(3)”;

9 (5) in clause (iv), by inserting “or (l)(3)” after
10 “427A(k)(4)”;

11 (6) in clause (v)—

12 (A) in the heading, by inserting “BEFORE
13 JULY 1, 2006” after “PLUS LOANS”; and

14 (B) by striking “July 1, 2003,” and insert-
15 ing “July 1, 2006,”;

16 (7) in clause (vi)—

17 (A) by inserting “or (l)(3)” after
18 “427A(k)(4)” the first place it appears; and

19 (B) by inserting “or (l)(3), whichever is
20 applicable” after “427A(k)(4)” the second place
21 it appears; and

22 (8) by adding at the end the following new
23 clause:

24 “(vii) LIMITATION ON SPECIAL AL-
25 LOWANCES FOR PLUS LOANS ON OR AFTER

1 JULY 1, 2006.—In the case of PLUS loans
2 made under section 428B and first dis-
3 bursed on or after July 1, 2006, for which
4 the interest rate is determined under sec-
5 tion 427A(l)(2), a special allowance shall
6 not be paid for such loan during any 12-
7 month period beginning on July 1 and
8 ending on June 30 unless—

9 “(I) the average of the bond
10 equivalent rates of the quotes of the
11 3-month commercial paper (financial),
12 as published by the Board of Gov-
13 ernors of the Federal Reserve System
14 in Publication H-15 (or its suc-
15 cessor), for the last calendar week
16 ending on or before such July 1; plus

17 “(II) 2.64 percent,
18 exceeds 9.0 percent.”.

Calendar No. 277

107TH CONGRESS
1ST SESSION

S. 1762

A BILL

To amend the Higher Education Act of 1965 to establish fixed interest rates for student and parent borrowers, to extend current law with respect to special allowances for lenders, and for other purposes.

DECEMBER 12, 2001

Reported without amendment