



Legislative Bulletin.....May 21, 2013

Contents:

H.R. 1911—Smarter Solutions for Students Act

H.R. 1911 Smarter Solutions for Students Act — (Kline, R-MN)

Order of Business: [H.R. 1911](#) is [scheduled](#) to be considered on the Floor on Thursday, May 23, 2013, subject to a rule. The bill is [scheduled](#) to be considered by the House Committee on Rules on Wednesday, May 22, 2013, at 3:00 P.M. Amendments are due by 10:00 A.M. Wednesday. Detailed amendment filing instructions can be viewed [here](#).

Summary: This bill ties student loan interest rates originating after July 1, 2013, to market-based rates by linking the base interest rate to the 10-year Treasury Note.¹

- Stafford Loans, subsidized and unsubsidized, would be tied to the 10-year Treasury Note plus 2.5 percent, with an overall interest rate cap of 8.5 percent.
- PLUS loans, for graduate students and parents, would be tied to the 10-year Treasury Note plus 4.5 percent, with an overall interest rate cap of 10.5 percent.

The interest rates would be variable and reset once a year to reflect the current 10-year Treasury Note. All outstanding loans would reset to the current 10-year Treasury Note rate once a year. Upon graduation or thereafter, students could consolidate and lock in fixed rate for the life of their loans. The consolidated loan fixed interest rate would be based upon a weighted average of their outstanding loan interest rates that originated after July 1, 2013. There would be no interest rate cap on the consolidated interest rate.

Additional Background: Last year, in Congress approved [H.R. 4628](#) by [vote](#) of 215 to 195. H.R. 4628 extended the 3.4 percent interest rate on subsidized Stafford loans for one year. Student loan interest rates for subsidized Stafford loans are set to double (from 3.4 percent to 6.8 percent) on July 1, 2013. Under current law, unsubsidized Stafford loans would remain at 6.8 percent and GradPLUS and parent loans would remain at 7.9 percent. These rates would be fixed and would not be market-based.

RSC Bonus Fact: President Obama supported moving towards market-based interest rates in his FY-2014 budget proposal. ([Budget for Fiscal Year 2014](#), Page 83)

¹ The 10-year Treasury note rate used will be “the high-yield 10-year Treasury notes auctioned at the final auction held prior to such June 1” of each year. See [H.R. 1911](#).

Committee Action: H.R. 1911 was introduced on May 9, 2013 and referred to the House Committee on Education and the Workforce. The Committee held a markup and ordered the bill, as amended, to be reported by a [vote](#) of 24-13.

Possible Conservative Concerns: Some conservatives have expressed concerns that:

- there is no sunset provision in the bill;
- an individual student's ability to repay the loan is not a factor in the loan approval;
- the aggregate loan repayment risk is not accounted for (no Fair Value Accounting); and
- implementation of the bill costs the government \$4.225 billion in lost revenue in the first two years after enactment. However, the bill does provide a savings over ten years of \$3.72 billion per CBO.
- In addition, some conservatives have expressed concerns that there is a cap on interest rates that can be charged to students. However, the proposed caps are higher than fixed interest rates under current law:
 - Proposed caps of 8.5 percent for subsidized and unsubsidized Stafford loans originating after July 1, 2013 versus the 6.8 percent fixed-rate under current law for loans originating after July 1, 2013; and
 - Proposed cap of 10.5 percent for PLUS graduate and parent loans versus the 7.9 percent fixed-rate under current law.
 - In addition, there is no cap on interest rates if the students choose to lock in a rate and consolidate their loans.

Administration Position: No Statement of Administration Policy (SAP) was available at time of press.

Cost to Taxpayers: According the Congressional Budget Office (CBO) [cost estimate](#), implementation of the bill would cost taxpayers \$4.225 in lost revenue in the first two years after enactment. After five years, the CBO estimates a savings to taxpayers of \$995 million. After ten years, the CBO estimates a savings to taxpayers of \$3.72 billion.

Does the Bill Expand the Size and Scope of the Federal Government?: It is possible that the number of government originated student loans would increase due to lower interest rates thereby increasing the role of government in financing higher education.

Does the Bill Contain Any New State-Government, Local-Government, or Private-Sector Mandates?: No.

Does the Bill Contain Any Federal Encroachment into State or Local Authority in Potential Violation of the 10th Amendment?: No.

Does the Bill Delegate Any Legislative Authority to the Executive Branch?: No.

Does the Bill Contain Any Earmarks/Limited Tax Benefits/Limited Tariff Benefits?: No.

Constitutional Authority: According to the sponsor, “Congress has the power to enact this legislation pursuant to the following: Article I, section 8 of the Constitution of the United States.” Congressman Kline’s statement in the Congressional Record can be viewed [here](#).

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