

Review of the Provisions of the Deficit Reduction Act of 2005 (S. 1932)

General Effective Date – July 1, 2006 unless otherwise provided

Passed in the House on December 19, 2005 by a vote of 212-206
Passed in the Senate on December 21, 2005 by a vote of 51-50 with Vice President Cheney
casting the deciding vote
Returned to House for action as a Senate point of order was upheld and some technical
language was stricken
Passed the House on February 1, 2006 by a vote of 216-214

President Bush signed the bill into law on February 8, 2006

Distance Education:

- Repeals the 50% rule for courses offered via telecommunications
- Distance education programs must be evaluated as having the capability to effectively deliver distance education through direct assessment by an accrediting agency or association recognized by the Secretary and that has evaluation of distance education within its scope of recognition

New Mandatory Grant Program:

- Creates a new Academic Competitiveness Grant Program
- Creates an Academic Competitiveness Council
- Grants for Pell eligible full time undergraduates in years 1 and 2 called Academic Competitiveness Grants
- Grants for Pell eligible full time undergraduate students in years 3 and 4 majoring in math, science, technology, or engineering or a critical foreign language called National SMART Grants
- Students in year 1 may receive up to \$750; year 2 may receive up to \$1,300; and in years three and four may receive up to \$4,000

Loan Limits:

- Stafford undergraduate – Year 1 increased to \$3,500
- Stafford undergraduate – Year 2 increased to \$4,500
- Graduate Unsub – increase annual borrowing from \$10,000 to \$12,000
- Coursework needed for entry into a graduate or professional program – increase annual limit from \$5,000 to \$7,000
- Coursework needed for a professional credential or certification from a State for teaching – increase from \$5,000 to \$7,000
- The above Loan Limit Increases effective for loans made on or after July 1, 2007
- Graduate and Professionals: may borrow under PLUS program (i.e. Cost minus Aid) effective July 1, 2006

Interest Rates:

- Retains current law for consolidation, i.e. weighted average of the rates being consolidated capped at 8.25%

- Allows the July 1, 2006 switch to a 6.8% fixed interest rate for Stafford, sub and unsub to take effect
- PLUS loans (parents and graduate/professionals) increased to a fixed rate of 8.5% in FFEL (According to the Congressional Budget Office (CBO) "information from committee staff indicates that the intent had been to apply this higher rate to parent loans under the Direct Loan program as well, but the legislation did not include the necessary conforming language.")
- Lenders may not bill interest sooner than 3-days before the first disbursement of a loan when disbursed through an escrow agent and can pay funds into the escrow account no sooner than 10-days before disbursement

Floor Income:

- The effective date of the return is for special allowance payments made on or after April 1, 2006 for loans for which the first disbursement of principal is made on or after April 1, 2006
- SAP gap corrected for PLUS

Deferments:

- Provides for up to three years for a military deferment for FFELP, DL and Perkins effective for loans first disbursed on or after July 1, 2001

Repayment Plans:

- Aligns standard, graduated and extended repayment plans of DL to that in FFELP as provided for in the initial House bill

Origination Fees Reductions:

FFELP

<u>Fee</u>	<u>Loans disbursed on or after and before</u>
2.0%	7/1/2006 – 7/1/2007
1.5%	7/1/2007 – 7/1/2008
1.0%	7/1/2008 – 7/1/2009
.5%	7/1/2009 – 7/1/2010
0%	on or after 7/1/2010

DL

<u>Fee</u>	<u>Loans disbursed on or after and before</u>
3%	before 7/1/2007
2.5%	7/1/2007 – 7/1/2008
2.0%	7/1/2008 – 7/1/2009
1.5%	7/1/2009 - 7/1/2010
1.0%	on or after 7/1/2010

Amends current law authority within in the DL program for the Secretary to reduce interest rates to encourage on-time payments to include origination fees. However, the requirement for cost neutrality and being in the best interest of the Federal government remain.

Consolidation Loan Provisions:

- Borrower's eligibility for a consolidation loan terminates upon receipt of a consolidation loan either FFELP or DL except a FFELP consolidation borrower may receive a consolidation loan under DL only for the purposes of ICRP and only if the loan has been submitted to the guarantor for default aversion
- If a lender denies a FFELP borrower a consolidation loan or income sensitive repayment, the Secretary shall offer a DL consolidation loan
- Spousal consolidation is repealed
- Requires DL to conform to all FFELP consolidation eligibility requirements
- Amends "early repayment" section that provided for in-school consolidation stating repayment begins the day after six months after the date the student ceases to be at least half time – this repeals the ability for in-school consolidation

Extenders:

- Two institutional extenders, i.e. allowing for single disbursement for a two semester loan and waiving the 30-day delay in disbursement for first year students, are reinstated effective date of enactment

School as Lender:

- Lend only to graduate/professional students
- Lend only in FFELP sub and unsub (428 and 428H)
- Student must be enrolled at that institution
- School must award any servicing or other contracts based on a competitive process
- Must offer origination fees and/or interest rates lower than that authorized in the HEA
- School's cohort default rate must not be greater than 10%
- School must provide the Secretary with an annual audit
- School must use all proceed earned for need based grant aid
- Portion of funds may be used for administrative expense
- School must have met all requirements of this section as in effect on the day before the date of enactment of the bill and made loans on or before April 1, 2006
- Proceeds of the loans will supplement not supplant non-federal funds that would otherwise be used for need based aid

Discharge provisions:

- Loans falsely certified via identity theft included in the discharge section

Floor Loans – 9.5%

- Provisions of *Taxpayer Teacher Protection Act* made permanent
- Recycling (loans made or purchased) prohibited on date of enactment for all except for a holder that on the date of enactment and during the quarter for which special allowance is paid, is a unit of a State or local government or non-profit entity which was not owned or controlled by or under common ownership of a for-profit entity and held directly or through any subsidiary, affiliate, or trustee; and whose total unpaid balance of principle is equal to or less than \$100,000,000 on loans for which special allowances were paid under this subparagraph (i.e. 9.5%) in the most recent quarterly

payment prior to September 30, 2005. These entities (those subject to the exception) may recycle until 12/31/2010.

- Standard special allowance will be paid on loans that were not earning a quarterly rate of 9.5% as of the date of enactment of the Higher Education Reconciliation Act of 2005.

Teacher Loan Forgiveness:

- Makes permanent provisions of the *Taxpayer Teacher Protection Act* that provide for up to \$17,500 in loan forgiveness for highly qualified teachers of math, science, and special education who teach in low income schools for five years
- Clarifies inclusion of private school teachers provided that the teacher, if exempt from State certification, passes a competency test

Lender Insurance:

- Lender insurance reduced from 98% to 97% for loans made on or after July 1, 2006
- 100% insurance is retained on exempt claims
- Exceptional Performer provisions remain as in current law, however with a reduction of insurance from 100% to 99%

Insurance fees:

- For subsidized Stafford loans with a guarantee of principal on or after 7/1/06 a 1% Federal default fee is to be collected and deposited into the Federal Fund by deduction from the proceeds or paid for by other non-federal resources
- For unsub loans, effective for loans with a date of guarantee of principal on or after 7/1/06 in lieu of the insurance premium, each state or nonprofit private institution or organization with an agreement with the Secretary shall collect and deposit into the Federal fund a federal default fee in the amount of 1% by deduction from the proceeds or by other non-federal resources
- Prohibits the Secretary from waiving the required Federal default fee for agencies with VFA's

GA Collection Retention:

- Contains the House and Senate provisions regarding consolidation of defaulted loans that allows the GA to retain 18.5% on rehab loans but requires remittance to the secretary of 8.5% for defaulted consolidation loans made on or after October 1, 2006
- GA must remit the entire 18.5% for loans made on or after 10/1/09 for "excess consolidation proceeds" (those exceeding 45% of total collections)
- Guarantor must bill the Secretary for reimbursement within 30 days of discharging its insurance obligation on the loan

Forbearance:

- Deletes the "in writing" requirement for forbearance requests; the provision does require the borrower be provided with a confirmation of the request and the agreed upon terms retained in the borrower record

Rehabilitation:

- Reduces requirements from 12 consecutive monthly payments to 9 monthly payments made within 20 days of the due date over 10 months

Section 458:

- Beginning in FY 2007 through 2011, department administrative funds would be subject to appropriations
- GA account maintenance fee remains mandatory not to exceed .10% of original principle amount of outstanding loans insured under part B

529 Plans:

- As in previous versions of these bills, both tuition prepaids and tuitions savings accounts will be treated as assets of the parent

Other Issues:

- Cost of attendance (COA): modifications to items allowed to be included in COA
- Family Contribution: dependent student income protection allowance increased from \$2,200 to \$3,000 for determinations of need for periods of enrollment beginning on or after July 1, 2007; income protection allowance for independent students is increased for various categories of student; the dependent student contribution from assets is decreased from 35% to 20%
- Income Protection Table Updates: for the 2007-2008 academic year, the Secretary is to revise the tables except that the amounts shall be increased by a percentage equal to the greater of the estimated percentage increase in the CPI or 5 percent
- Simplified Need Test: amends eligibility to allow more families to complete the simplified need test and be eligible for "auto-zero"
- Active Duty Military: amends the definition of independent student to include active duty military
- Definition of Academic Year: the definition is revised for programs measured in clock hours with a reduction to 28 weeks from 30 weeks
- Data Match with the IRS: Secretary is authorized to confirm with the IRS specific information reported by applicants (including parents) for the purpose of verification of the information reported
- Drug Provision: this provision is amended to affect only those students convicted while enrolled and receiving title IV aid
- College Access Initiative: requires guaranty agencies participating in the federal student loan programs to undertake activities to promote access to postsecondary education
- Wage Garnishment: the amount deducted for any pay period has been increased from 10% to 15% of disposable pay