

**Major Provisions Affecting Student Loans in  
the Higher Education Reconciliation Act of 2005 (Title VIII of the Deficit  
Reduction Act of 2005 (S. 1932))**

**Loan Program Reauthorized**

- Sunset dates for FFELP extended through FY 2012

**Loan Limits**

- First- year Stafford limit increases from \$2,625 to \$3,500
- Second- year Stafford limit increases from \$3,500 to \$4,500
- Unsubsidized Stafford limit for graduate and professional students increases from \$10,000 to \$12,000
- Increases annual limit for coursework necessary to enroll in a graduate program or to obtain a professional credential as an elementary or secondary school teacher from \$5,000 to \$7,000
- Undergraduate and graduate aggregate limits are unchanged
- Loan limit increases take effect July 1, 2007
- Authorizes PLUS loans to graduate and professional students

**Interest Rates**

- Maintains the scheduled July 1, 2006 change to a fixed interest rate for Stafford and PLUS Loans
- Increases the PLUS fixed interest rate from 7.9% to 8.5%
- Maintains current fixed interest rate for consolidation loans

**Consolidation Loans**

- Retains the single holder rule
- Eliminates spousal consolidation
- Eliminates in-school consolidation
- Eliminates reconsolidation in both FFELP and DL, except that a FFELP borrower whose delinquent loan has been submitted to a guaranty agency for default aversion is eligible for a DL Consolidation loan for the purpose of obtaining an income contingent repayment plan
- Provides that a FFELP borrower may consolidate in the Direct Loan Program only if a FFELP lender denies the borrower's application for a consolidation loan or denies the borrower's application for a consolidation loan with income sensitive repayment terms. Additionally, directs the Secretary to consolidate loans of defaulted borrowers
- Provides that, unless otherwise specifically provided, the terms of DL consolidation loans must be the same as FFELP consolidation loans

### **Loan Fees**

- Creates parallel fee structures for FFELP and DL
- Phases the 3% maximum origination fee on FFELP Stafford loans down to 0% by July 1, 2010:
  - Lowers to 2% for loans first disbursed on or after 7/1/06
  - Lowers to 1.5% for loans first disbursed on or after 7/1/07
  - Lowers to 1% for loans first disbursed on or after 7/1/08
  - Lowers to 0.5% for loans first disbursed on or after 7/1/09
- For FFELP loans guaranteed on or after July 1, 2006, requires the collection, and the deposit into a guaranty agency's Federal Fund of a federal default fee of 1% of principal, which "fee shall be collected either by deduction from the proceeds of the loan or by payment from other non-federal sources
- Phases the 4% origination fee on DL Stafford loans down to 1% by July 1, 2010:
  - Lowers to 3% for loans first disbursed on or after 7/1/06
  - Lowers to 2.5% for loans first disbursed on or after 7/1/07
  - Lowers to 2.0% for loans first disbursed on or after 7/1/08
  - Lowers to 1.5% for loans first disbursed on or after 7/1/09
- Authorizes the Secretary to reduce the origination fee on DL loans in order to encourage on-time repayment, but only if the Secretary determines the reduction is cost neutral and in the best interest of the Federal Government

### **Risk Sharing**

- Reduces lender insurance from 98% to 97% for loans for which the first disbursement is made on or after July 1, 2006
- No change to guarantor reinsurance
- For loans disbursed on or after July 1, 2006, insurance and reinsurance on exempt claims is set at 100%. Exempt claims are claims on loans where the borrower provided false or erroneous information that caused the borrower to be ineligible for federal benefits

### **Exceptional Performance**

- Provides that lenders and servicers designated as exceptional performers receive 99% insurance
- No other changes to exceptional performance

### **Repayment Terms**

- Requires that DL repayment plans other than income contingent be consistent with FFELP plans

### **Regular Floor Income**

- Provides for capture by the government of interest in excess of the special allowance rate for loans disbursed beginning April 1, 2006

### **9.5% Floor Loans**

- Makes permanent the Taxpayer-Teacher Protection Act provisions that pertain to the elimination of the 9.5% floor; eliminates the exemption for recycling beginning on the date of enactment of the Higher Education Reconciliation Act of 2005
- Delays until December 31, 2010 the effective date of the recycling prohibition for governmental or nonprofit entities not owned or controlled by a for-profit entity that receive the 9.5% SAP on less than \$100 million of loans in the most recent quarterly payment prior to September 30, 2005

### **PLUS SAP Gap**

- Limitations on payment of special allowances on PLUS loans made on or after January 1, 2000 are deleted

### **Disbursement Relief Renewed**

- Expired provisions which granted disbursement relief for loans to students at schools with low default rates are renewed, effective upon enactment of the legislation

### **Section 458 Account/Account Maintenance Fee**

- For FY 2006, preserves mandatory appropriations for administering the loan programs and for paying guarantors the AMF; caps the amounts at \$820 million (this amount has been set at \$795 million since FY 2003)
- Beginning in FY 2007, provides that administrative funds other than the AMF are subject to the annual appropriations process
- AMF payments from FY 2007-2011 continue to be mandatory
- Eliminates the cap on AMF funds and sets the AMF payment at an amount “not to exceed the basis of 0.10 percent of the original principal amount of outstanding loans”

### **Wage Garnishments**

- Increases the amount that guaranty agencies may garnish without the borrower’s consent to 15% of disposable pay

### **Loan Collection**

- Beginning October 1, 2006, requires guarantors to remit to the Secretary a portion of the collection fees on default consolidations equal to 8.5% of principal and interest, thus effectively cutting retention on those collections to 10%
- Beginning October 1, 2009, prohibits guarantors from retaining any collection fees on default consolidations that exceed 45 percent of the agency’s total collections on defaulted loans
- No other retention cuts
- Reduces the number of payments needed to rehabilitate a loan from “consecutive payments for 12 months” to “9 payments made within 20 days of the due date during 10 consecutive months”

### **VFAs**

- Eliminates the authority to waive the inducement provisions and the required federal default fee in VFAs

### **School as Lender**

- Limits lending to Stafford Loans to graduate and professional students at the school that is acting as lender
- Requires that the lender award any contract for financing, servicing, or administration of Title IV, HEA loans on a competitive basis; offer loans with a origination fee or interest rate below Title IV levels; not have a cohort default rate of more than 10 percent; provide for a compliance audit for any year it serves as lender; and have met the current school-as-lender requirements and made FFELP loans on or before April 1, 2006
- Provides that all proceeds above administrative expenses, including the proceeds from sales of loans, must be directed to need-based aid

### **Military Deferment**

- Provides for a 3-year military deferment for qualifying duty; applies to loans first disbursed beginning July 1, 2001

### **Forbearances**

- Eliminates the requirement that forbearance for serving in certain medical, dental and national service programs, or for borrowers having a Title IV debt burden of over 20%, be in writing is eliminated, provided the borrower is provided a confirming notice

### **Loan Discharge**

- Loans that were falsely certified as a result of a crime of identity theft are dischargeable

### **Grants**

- Authorizes “Academic Competitiveness Grants” of \$750 and \$1,300 to first- and second-year undergraduate students, respectively, and “National Science and Mathematics Access to Retain Talent (SMART) Grants” of \$4,000 for third- and fourth-year undergraduate students
- To be eligible, a student must be a citizen of the United States, be eligible for a Pell Grant, and meet academic requirements. First- and second-year students must have completed a rigorous secondary school program of study recognized by the Secretary; second-year students must also have earned at least a 3.0 GPA in their first year. Third- and fourth-year students must be pursuing a major in one of several areas related to science, mathematics, or foreign language and have earned at least a 3.0 GPA in the coursework required for their major. Authorizes and appropriates \$790 million for FY 2006 and increasing amounts in each succeeding year through FY 2010; provides for ratable reductions in grants

to eligible students if the amount made available in any fiscal year is less the amount required

- Establishes an Academic Competitiveness Council of Federal officials to examine and recommend improvements in Federal programs with a mathematics or science focus

### **College Access Initiative**

- Requires guarantors to provide the Secretary information necessary for the development of web links and access for students and families to a comprehensive listing of the postsecondary education opportunities programs, publications, web sites, and other services in the states they serve. Secretary must ensure the availability of the information provided
- Requires guarantors to undertake activities to promote access to postsecondary education for students, ensure that required information is available without charge to students and parents, and publicize the availability of the information Guarantors may fund these activities from their operating accounts and restricted account earnings
- Guarantors not required to duplicate efforts in which they are already engaged that meet the requirements of the College Access Initiative

### **Needs Analysis and Family Contribution**

- Expands “auto zero” to families or students who receive benefits under certain means-tested Federal benefit programs and to those with adjusted gross income of not more than \$20,000
- Reduces the expected family contribution for both dependent and independent Students

### **50/50 Rule**

- Distance education courses are excluded from the rule

### **Effective Date**

- Unless otherwise specifically provided, amendments made by the legislation become effective July 1, 2006