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F Fannie (Student Loan)

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
Washington, D.C. 20503

April 23, 1993

LEGISLATIVE REFERRAL MEMORANDUM

LRM #D-167
DRAFT #22

TO: Legislative Liaison Officer -

JUSTICE - Faith Burton - (202)514-2141 - 217 Action
TREASURY - Richard S. Carro - (202)622-1146 - 228
CEA - Francine Obermiller - (202)395-5036 - 242 - Debbie Lucas
NEC - Sonia Mathews - (202)456-6722 - 429 - Ellen Seidman
ONS - - ( ) - - Jack Lew

FROM: JANET R. FORSGREN (for) Janet R. Forsgren
Assistant Director for Legislative Reference

OMB CONTACT: Connie BOWERS (395-3803)
Secretary's line (for simple responses): 395-7362

SUBJECT: EDUCATION Draft Bill Federal Direct Student Loan Program Amendments of 1993

DEADLINE: COB MONDAY April 26, 1993

COMMENTS: This is Title III of the National Service/Direct Loans and Income Contingent Repayment bill. The National Service Titles will be circulated for clearance very shortly. Title III is the student loan and income contingent repayment portion. This bill has been previously reviewed at the policy level and is expected to be transmitted by the President on April 30.

OMB requests the views of your agency on the above subject before advising on its relationship to the program of the President, in accordance with OMB Circular A-19.

Please advise us if this item will affect direct spending or receipts for purposes of the the "Pay-As-You-Go" provisions of Title XIII of the Omnibus Budget Reconciliation Act of 1990.

CC:
William Galston
Barbara Selfridge
Barry White
Pat Smith
Larry Matlack/Pam VanWie
Peggy Young/Jack Smalligan
Dan Chenok
Tom Stack
Kim Burke
Greg Simon/Jim Kohlenberger
Bob Damus/Roz Rettman
Vince Foster
Delphine Motley

Comments phoned in D. Lucas

LRM #D-167

RESPONSE TO LEGISLATIVE REFERRAL MEMORANDUM

If your response to this request for views is **simple** (e.g., concur/no comment) we prefer that you respond by **faxing** us this response sheet. If the response is **simple** and you prefer to call, please **call the branch-wide line** shown below (NOT the analyst's line) to leave a message with a secretary.

You may **also respond** by (1) calling the analyst/attorney's direct line (you will be connected to voice mail if the analyst does not answer); (2) sending us a memo or letter; or (3) if you are an OASIS user in the Executive Office of the President, sending an E-mail message. Please **include** the LRM number shown above, and the **subject** shown below.

TO: Connie BOWERS
Office of Management and Budget
Fax Number: (202) 395-6148
Analyst/Attorney's Direct Number: (202) 395-3803
Branch-Wide Line (to reach secretary): (202) 395-7362

FROM: ______________________ (Date)

Dethre Lucas (Name)

______________________ (Agency)

______________________ (Telephone)

SUBJECT: EDUCATION Draft Bill Federal Direct Student Loan Program Amendments of 1993

The following is the response of our agency to your request for views on the above-captioned subject:

_____ Concur

_____ No objection   Comments phoned in

_____ No comment

_____ See proposed edits on pages _____________

_____ Other: ______________________

_____ FAX RETURN of _____ pages, attached to this response sheet

DRAFT APR 23 1993
noon

TITLE ~~V~~ III--FEDERAL DIRECT STUDENT LOAN PROGRAM
AND
INCOME CONTINGENT REPAYMENT OF STUDENT LOANS

PART A--SHORT TITLE

NAME OF TITLE

SEC. 501. This title may be cited as the "Federal Direct Student Loan Program Amendments of 1993".

PART B--AMENDMENTS TO FEDERAL DIRECT LOAN DEMONSTRATION PROGRAM

HEADING FOR PART

SEC. 521. Part D of title IV of the Higher Education Act of 1965 (20 U.S.C. 1001 et seq.; hereinafter in this title referred to as "the Act") is amended in the part heading--

(1) by inserting "STUDENT" immediately following "DIRECT"; and

(2) by striking out "DEMONSTRATION".

PURPOSE; PROGRAM AUTHORIZATION

SEC. 522. Section 451 of the Act is amended to read as follows:

"PURPOSE; PROGRAM AUTHORIZATION

"SEC. 451. (a) PURPOSE.-- It is the purpose of this part--

"(1) to simplify the delivery of student loans to borrowers and eliminate borrower confusion;

"(2) to provide a variety of repayment options, including income contingent repayment, to borrowers so that they have flexibility in managing their student loan repayment obligations, and so that those obligations do not foreclose community service-oriented career choices for those borrowers;

"(3) to replace, through an orderly transition, the Federal Family Education Loan program under part B of this title with the Federal Direct Student Loan program under this part;

"(4) to avoid the unnecessary cost, to taxpayers and borrowers, and administrative complexity associated with the Federal Family Education Loan program under part B of this title through the use of a direct student loan program; and

"(5) to create a more streamlined student loan program that can be managed more effectively at the Federal level.

"(b) PROGRAM AUTHORITY.--The Secretary shall, in accordance with the provisions of this part, make available such sums as may be necessary for loans to all eligible students in attendance at participating institutions of higher education selected by the Secretary (and the eligible parents of such students), to enable such students to pursue their courses of study at such institutions during the period beginning July 1, 1994 and ending on June 30, 1998. Such loans shall be made by participating institutions that also have agreements with the Secretary to originate loans, or by alternative originators designated by the Secretary to make loans for students in attendance at participating institutions (and their parents).".

FUNDS FOR ORIGINATION OF DIRECT STUDENT LOANS

SEC. 523. Section 452 of the Act is amended to read as follows:

"FUNDS FOR ORIGINATION OF DIRECT STUDENT LOANS

SEC. 452. (a) IN GENERAL.--The Secretary shall provide funds for student and parent loans under this part (1) directly to an institution of higher education that has an agreement with the Secretary under section 454(a) to participate in the direct student loan programs under this part that also has an agreement with the Secretary under section 454(b) to originate loans under this part, or (2) through an alternative originator designated by the Secretary, on the basis of the need and the eligibility of students at each participating institution, and parents of such students, for such loans.

"(b) FEES FOR ORIGINATION SERVICES.--(1) The Secretary shall pay fees to institutions of higher education with agreements under section 454(b), in an amount established by the

Secretary, to assist in meeting the costs of loan origination. Such fees--

"(A) shall be paid by the Secretary on a per-borrower, per-year basis; and

"(B) shall be subject to a sliding scale that decreases the amount of such fees as the number of borrowers increases.

"(2) The Secretary shall pay fees for loan origination services to alternative originators of loans made under this part in an amount established by the Secretary in accordance with the terms of the contract between the Secretary and the alternative originator.

"(c) NO ENTITLEMENT TO PARTICIPATE OR ORIGINATE.--No institution of higher education shall have a right to participate in the programs authorized by this part, originate loans, or perform any program function under this part. Nothing in this subsection shall be construed so as to limit the entitlement of an eligible student attending a participating institution (or the eligible parent of such student) to borrow under this part.".

SELECTION OF INSTITUTIONS

SEC. 524. Section 453 of the Act is amended--

(1) by amending subsections (a) and (b) to read as follows:

"(a) PHASE-IN OF PROGRAM.--(1) The Secretary shall enter into agreements pursuant to section 454(a) with institutions of higher education to participate in the direct student loan programs under this part, and agreements pursuant to section 454(b) with institutions of higher education to originate loans in such programs, for academic years beginning on or after July 1, 1994. Alternative origination services, through which an entity other than the participating institution at which the student is in attendance originates the loan, shall be provided by the Secretary, through one or more contracts under section 456 or such other means as the Secretary may provide, for students attending participating institutions that do not originate direct student loans under this part. In order to ensure an expeditious but orderly transition from the loan programs under part B of this title to the direct student loan programs under this part, the Secretary shall, in the exercise of his or her discretion, determine the number of institutions with which he or she shall enter into agreements under sections 454(a) and (b) for any academic year. Such agreements for the first year of the program shall, to the extent feasible, be entered into not later than January 1, 1994.

"(2) The requirements of the Cash Management Improvement Act of 1990 (P.L. 101-453) shall apply to the program under this part only to the extent specified in a schedule established by the Secretaries of Education and the Treasury, except that such schedule shall provide for the application of all such requirements not later than July 1, 1997.

"(b) SELECTION CRITERIA.--(1) PARTICIPATION.--(A) Each institution of higher education desiring to participate in the direct student loan program under this part shall submit an application satisfactory to the Secretary containing such information and assurances as the Secretary may require.

"(B) The Secretary shall select institutions for participation in the direct student loan program under this part, and shall enter into agreements with them under section 454(a), from among those institutions that submit the applications described in subparagraph (A), and meet such other eligibility requirements as the Secretary may prescribe, by--

"(i)(I) categorizing such institutions according to anticipated loan volume, length of academic program, and control of the institution; and

"(II) selecting institutions that are reasonably representative of the respective categories; and

"(ii) if needed to carry out the purposes of this part, selecting additional institutions.

"(2) ORIGINATION.--(A) The Secretary may enter into a supplemental agreement with an institution (or a consortium of institutions) that--

"(i) has an agreement under subsection 454(a);

"(ii) desires to originate loans under this part; and

"(iii) meets the criteria specified in subparagraph (B).

"(B)(i) For academic year 1994-1995, the Secretary may approve an institution to originate loans only if such institution--

"(I) made loans under part E of this title in academic year 1993-1994 and did not exceed the applicable maximum default rate under section 462(g) for the most recent fiscal year for which data are available;

"(II) is not on the reimbursement system of payment for any of the programs under subpart 1 or 3 of part A, part C, or part E;

"(III) is not overdue on program or financial reports or audits required under this title;

"(IV) is not subject to an emergency action, or a limitation, suspension, or termination under section 428(b)(1)(T), 432(h), or 487(c);

"(V) in the opinion of the Secretary, has not had significant deficiencies identified by the State postsecondary review entity under subpart 1 of part H of this title;

"(VI) in the opinion of the Secretary, has not had severe performance deficiencies for any of the programs under this title, including those demonstrated by audits or program reviews submitted or conducted during the five calendar years immediately preceding the date of application; and

"(VII) provides an assurance that it has no delinquent outstanding debts to the United States, unless such debts are being repaid under or in accordance with a repayment arrangement satisfactory to the Secretary, or the Secretary in his or her discretion determines that this subparagraph shall not apply because the existence or amount of such debts have not been finally determined by the cognizant Federal agency or agencies.

"(ii) For academic year 1995-1996 and subsequent academic years, the Secretary shall publish regulations governing the approval of institutions to originate loans.";

(2) by striking out subsections (c), (d), (e), and (f);

(3) by amending subsection (g) to read as follows:

"(g) CONSORTIA.--Subject to such requirements as the Secretary may prescribe, eligible institutions of higher education may apply to originate loans under this part for students in attendance at such institutions, as consortia. Such institutions shall be required to meet the requirements to participate in the program under this part individually, but only those institutions in a consortium that accept responsibility and liability for errors in origination shall be required to meet the requirements to originate loans under this part."; and

(4) by redesignating subsection (g) as subsection (c).

AGREEMENTS WITH INSTITUTIONS

SEC. 525. Section 454 of the Act is amended to read as follows:

"AGREEMENTS WITH INSTITUTIONS

"SEC. 454. (a) PARTICIPATION.--An agreement with any institution of higher education for participation in the direct student loan program under this part shall--

"(1) provide for the establishment and maintenance of a direct student loan program at the institution under which--

"(A) the institution will identify eligible students who seek student financial assistance at such institution in accordance with section 484;

"(B) the institution will estimate the need of each such student as required by part F of this title;

"(C) the institution will set forth a schedule for disbursement of the proceeds of the loan in installments, consistent with the requirements of section 428G;

"(D) the institution will, in carrying out subparagraphs (A) and (B), provide a statement that certifies the eligibility of any student to receive a loan under this part that is not in excess of the maximum amount applicable to such loan;

"(E) for an academic year for which an estimate of need under subparagraph (B) is made, any loan obtained by a student under this part with the same terms (except as otherwise provided in this part) as loans made under section 428A or 428H, or a loan obtained by a parent under this part with the same terms (except as otherwise provided in this part) as loans made under section 428B, or obtained under any State-sponsored or private loan program, may be used to offset the expected family contribution of the student for that year;

"(F) the institution may, in exceptional circumstances specified by the Secretary, refuse to certify a statement that permits a student to receive a loan under this part, or certify a loan amount that is less than the student's determination of need (as determined under part F of this title), if the reason for such action is documented and provided in written form to such student;

"(G) if the institution does not have an agreement with the Secretary under subsection (b), the institution will provide timely and accurate information concerning student eligibility and need, as determined under subparagraphs (A) and (B), to the Secretary as needed for the alternative origination of loans to eligible students and parents in accordance with this part; and

"(H) the institution will provide timely and accurate information concerning the status of student borrowers (and students on whose behalf parents borrow under this part) <u>while such students are in attendance at the institution and concerning any changes of address of which the institution is aware for such students (or their parents?) after they leave the institution,</u> to the Secretary for the servicing and collecting of loans made under this part;

"(2) provide assurances that the institution will comply with requirements established by the Secretary relating to student loan information with respect to loans made under this part;

"(3) provide that the institution accepts responsibility and financial liability stemming from its failure to perform its functions pursuant to the agreement;

"(4) provide that students at the institution and their parents (with respect to such students) will not be eligible to participate in the programs under part B of this title for the period during which such institution participates in the direct student loan program under this part;

"(5) provide for the implementation of a quality assurance system, as established by the Secretary, to ensure that the institution is complying with program requirements and meeting program objectives;

"(6) provide that the institution will not charge any fees of any kind, however described, to student or parent borrowers for origination activities or the provision of any information necessary for a student or parent to receive a loan under this part, or any benefits associated with such loan;

"(7) include such other provisions as the Secretary determines are necessary to protect the interests of the United States and to promote the purposes of this part.

"(b) ORIGINATION.--An agreement with any institution of higher education for the origination of loans under this part shall--

"(1) supplement the agreement entered into in accordance with subsection (a);

"(2) include provisions established by the Secretary that are similar to the participation agreement provisions described in paragraphs (1)(G), (2), (3), (4), (5), (6), and (7) of subsection (a), as modified to relate to the origination of loans by the institution;

"(3) provide that the institution will originate loans to eligible students and parents in accordance with this part; and

"(4) provide that the note or evidence of obligation on the loan shall be the property of the Secretary.

"(c) WITHDRAWAL AND TERMINATION PROCEDURES.--The Secretary shall establish procedures by which institutions may withdraw or be terminated from the program under this part.".

TERMS OF LOANS

SEC. 526. Section 456 of the Act is amended to read as follows:

"TERMS AND CONDITIONS OF LOANS

"SEC. 456. (a) IN GENERAL.--(1) Unless otherwise specified in this part, loans made to borrowers under this part shall have the same terms, conditions, and benefits as loans made to borrowers under sections 428, 428A, 428B, and 428H of this title.

"(2) Loans made to borrowers under this part that, except as otherwise specified in this part, have the same terms, conditions, and benefits as loans made to borrowers under--

"(A) section 428 shall be known as "Federal Direct Stafford Loans";

"(B) section 428A shall be known as "Federal Direct Supplemental Loans for Students";

"(C) section 428B shall be known as "Federal Direct PLUS Loans";

"(D) section 428C shall be known as "Federal Direct Consolidation Loans"; and

"(E) section 428H shall be known as "Federal Direct Unsubsidized Stafford Loans".

"(b) INTEREST RATE.--(1) Section 427A(a) shall not apply to loans made under this part.

"(2)(A) For Federal Direct Stafford Loans and Federal Direct Unsubsidized Stafford Loans made before July 1, 1997, the applicable rate of interest shall, during any 12-month period beginning on July 1 and ending on June 30, be determined on the preceding June 1 and be equal to--

"(i) the bond equivalent rate of 91-day Treasury bills auctioned at the final auction held prior to such June 1; plus

"(ii) 3.1 percent,

except that such rate shall not exceed 9 percent.

"(B) For Federal Direct Stafford Loans and Federal Direct Unsubsidized Stafford Loans made on or after July 1, 1997, the applicable rate of interest shall, during any 12-month period beginning on July 1 and ending on June 30, be determined on the preceding June 1 for all such loans and be equal to--

"(i) the bond equivalent rate of the security with a comparable maturity, as shown in the table "Interest Rates for Credit Reform" in the Economic Bulletin Board published by the Department of Commerce [OMB still checking]; plus

"(ii) 1 percent.

"(3)(A) For Federal Direct Supplemental Loans for Students made before July 1, 1997, the applicable rate of interest shall, during any 12-month period beginning on July 1 and ending on June 30, be determined on the preceding June 1 and be equal to--

"(i) the bond equivalent rate of 52-week Treasury bills auctioned at the final auction held prior to such June 1; plus

"(ii) 3.1 percent,

except that such rate shall not exceed 11 percent.

"(B) For Federal Direct Supplemental Loans for Students made on or after July 1, 1997, the applicable rate of interest shall, during any 12-month period beginning on July 1 and ending on June 30, be determined on the preceding June 1 for all such loans and be equal to--

"(i) the bond equivalent rate of the security with a comparable maturity, as shown in the table "Interest Rates for Credit Reform" in the Economic Bulletin Board published by the Department of Commerce; plus

"(ii) 1.5 percent.

"(4)(A) For Federal Direct PLUS Loans made before July 1, 1997, the applicable rate of interest shall, during any 12-month period beginning on July 1 and ending on June 30, be determined on the preceding June 1 for loans and be equal to--

"(i) the bond equivalent rate of 52-week Treasury bills auctioned at the final auction held prior to such June 1; plus

"(ii) 3.1 percent,

except that such rate shall not exceed 10 percent.

"(B) For Federal PLUS Loans made on or after July 1, 1997, the applicable rate of interest shall, during any 12-month period beginning on July 1 and ending on June 30, be determined on the preceding June 1 for all such loans and be equal to--

"(i) the bond equivalent rate of the security with a comparable maturity, as shown in the table "Interest Rates for Credit Reform" in the Economic Bulletin Board published by the Department of Commerce; plus

"(ii) 1.5 percent.

"(c) LOAN FEE.--The Secretary may charge the borrower of a loan made under this part a loan fee not to exceed 6.5 percent of the principal amount of the loan.

"(d) REPAYMENT PLANS.--(1)(A) The Secretary shall offer to a borrower of a loan made under this part a variety of plans for repayment of such loan, including principal and interest on the loan. The borrower may choose--

"(i) a standard repayment plan, with a fixed annual repayment amount paid over a fixed period of time;

"(ii) an extended repayment plan, with a fixed annual repayment amount paid over an extended period of time, provided that the borrower annually repays a minimum amount determined by the Secretary;

"(iii) a graduated repayment plan, with annual repayment amounts established at two or more graduated levels and paid over a fixed or extended period of time, provided that any of the borrower's scheduled payments shall not be less than 50 percent, nor more than 150 percent, of what the amortized payment on the amount owed would be if the loan were repaid under the standard repayment plan; and

"(iv) an income contingent repayment plan, with varying annual repayment amounts based on the income of the borrower, paid over an extended period of time, not to exceed a maximum length of time determined by the Secretary.

"(B) If a borrower of a loan made under this part does not select a repayment plan described in subparagraph (A), the Secretary may provide the borrower with a repayment plan described in clause (i), (ii), or (iii) of subparagraph (A).

"(C) The borrower of a loan made under this part may change his or her selection of a repayment plan under subparagraph (A), or the Secretary's selection of a plan for the borrower under subparagraph (B), as the case may be, under such terms and conditions as may be established by the Secretary.

"(D) The Secretary may provide an alternative repayment plan to a borrower of a loan made under this part who demonstrates to the satisfaction of the Secretary that the terms and conditions of the repayment plans available under subparagraph (A) are not adequate to accommodate the borrower's exceptional circumstances.

"(E) The Secretary may require any borrower who has defaulted on a loan made under this part to--

"(i) pay all reasonable collection costs associated with such loan; and

"(ii) repay the loan under an income contingent repayment plan.

"(2)(A) The Secretary may obtain such information as is reasonably necessary regarding the income of a borrower (and the borrower's spouse, if applicable) of a loan made under this part that is, or may be, subject to an income contingent repayment plan for the purpose of determining the annual repayment obligation of the borrower. The Secretary shall establish procedures for determining the borrower's repayment obligation on that loan for such year, and such other procedures as are necessary to implement effectively an income contingent repayment plan.

"(B)(i) An income contingent repayment schedule for a loan made under this part shall be based on the adjusted gross income (as defined in section 62 of the Internal Revenue

Code of 1986, 26 U.S.C. 62) of the borrower or, if the borrower is married and files a Federal income tax return jointly with his or her spouse, on the adjusted gross income of the borrower and his or her spouse.

"(ii) A borrower who chooses, or is required, to repay a loan made under this part through an income contingent repayment plan, and for whom Federal income tax return information is unavailable or whose return information does not reasonably reflect his or her current income, shall provide to the Secretary other documentation of income satisfactory to the Secretary, which documentation the Secretary may use to determine an appropriate repayment schedule.

"(iii) For loans made under this part that enter repayment before July 1, 1995, the income contingent repayment schedule shall require payments that do not exceed ten percent of the adjusted gross income of the borrower (and the borrower's spouse, if applicable), or, for a borrower who provides documentation of income in accordance with clause (ii), payments that equal not more than ten percent of the appropriate portion of the applicable annual income as determined by the Secretary. For loans made under this part that enter repayment on or after July 1, 1995, income contingent repayment schedules shall be established by the Secretary through regulations.

"(iv) The balance due on an income contingent loan made under this part shall equal the unpaid principal amount of the loan, any accrued interest, and any fees, such as late charges, assessed on such loan. The Secretary may limit by regulation the amount of interest that may be capitalized on such loan, and the timing of any such capitalization.

"(C) The Secretary shall establish procedures under which a borrower of a loan made under this part who chooses or is required to repay such loan through an income contingent repayment plan is notified of the terms and conditions of such plan, including notification of such borrower--

"(i) that the Internal Revenue Service will disclose to the Secretary the most recent available information concerning the borrower's income; and

"(ii) that if a borrower considers that special circumstances, such as a loss of employment by the borrower or his or her spouse, warrant an adjustment in the borrower's loan repayment as determined using the information described in clause (i), or the alternative documentation described in subparagraph (B)(ii), the borrower may contact the Secretary, who shall determine whether such adjustment is appropriate, in accordance with criteria established by the Secretary.

"(e) DEFERMENT.--(1) A borrower of a loan made under this part who meets the requirements described in paragraph (2) shall be eligible for a deferment, during which periodic installments of principal need not be paid, and interest--

"(A) shall not accrue, in the case of a Federal Direct Stafford Loan or a Federal Direct Consolidation Loan that consolidated only Federal Direct Stafford Loans, or a combination of such loans and Federal Stafford Loans for which the student borrower received an interest subsidy under section 428; or

"(B) shall accrue and be capitalized or paid by the borrower, in the case of a Federal Direct Supplemental Loan for Students loan, a Federal Direct PLUS Loan, a Federal Direct Unsubsidized Stafford Loan, or a Federal Direct Consolidation Loan other than those described in subparagraph (A).

"(2) A borrower of a loan made under this part shall be eligible for a deferment during any period--

"(A) during which the borrower--

"(i) is pursuing at least a half-time course of study at an eligible institution, as determined by such institution; or

"(ii) is pursuing a course of study pursuant to a graduate fellowship program approved by the Secretary, or pursuant to a rehabilitation training program for individuals with disabilities approved by the Secretary, "except that no borrower shall be eligible for a deferment under this subparagraph, or a loan made under this part (other than a Federal Direct PLUS Loan, or a Federal Direct Consolidation Loan), while serving in a medical internship or residency program;

"(B) not in excess of three years during which the borrower is seeking and unable to find full-time employment; or

"(C) not in excess of three years during which the Secretary determines, in accordance with regulations prescribed under section 435(o), that the borrower has experienced or will experience an economic hardship, regardless of the reason for such hardship.

"(f) FORBEARANCE.--(1)(A) A borrower of a loan made under this part shall be eligible for forbearance, as defined in subparagraph (B), which shall be granted by the Secretary if the borrower is willing but unable to make scheduled loan payments.

"(B) The term "forbearance" means permitting the temporary cessation of payments, allowing an extension of time for making payments, or temporarily accepting smaller payments than previously scheduled.

"(2)(A) A borrower of a loan made under this part who is serving in a National Service position (cite) shall be eligible for forbearance granted by the Secretary, which, for purposes of this paragraph, shall mean the temporary cessation of payments unless the borrower selects another option described in paragraph (1)(B).

"(B) The length of the forbearance granted by the lender under subparagraph shall equal the length of time remaining in the period of service[, if the borrower is not eligible to receive a deferment under subparagraph (M), or such length of time remaining after the borrower has exhausted his or her eligibility for such deferment?];

"(C) Any interest that accrues during the service described in subparagraph (A) shall be paid by the National Service Trust.

"(g) FEDERAL DIRECT CONSOLIDATION LOANS.--A borrower of a loan made under this part may only consolidate such loan with the loans described in subsections (a)(4) and (d)(1)(C) of section 428C under the terms and conditions established by the Secretary under this part, including a variety of repayment plans such as the plans described in subsection (d)(1) of this section.

"(h) BORROWER DEFENSES.--Notwithstanding any other provision of State or Federal law, the Secretary shall specify in regulations (except as authorized under section 459(a)) which acts or omissions of an institution of higher education a borrower may assert as a defense to repayment of a loan made under this part, except that in no event may a borrower recover from the Secretary, in any action arising from or relating to a loan made under this part, an amount in excess of the amount such borrower has repaid on such loan.

"(i) OPTICALLY IMAGED DOCUMENTS.--Records maintained in accordance with section 484A(c) may be used in any proceeding, as permitted by section 484A(c), with respect to a loan made under this part.

"(j) NONDISCHARGEABILITY IN BANKRUPTCY.--Notwithstanding any other provision of law, a loan made under this part shall not be dischargeable in bankruptcy.".

CONTRACTS

SEC. 527. Section 457 of the Act is amended to read as follows:

"CONTRACTS

"SEC. 457. (a) The Secretary may award one or more contracts for services and supplies under subsection (b). In order to ensure the successful implementation of the direct student loan programs under this part and the orderly transition from the loan programs under part B to the direct student loan programs under this part, the Secretary may, notwithstanding the requirements for full and open competition in 41 U.S.C. 253, award such contracts on a sole source basis without regard to the procedural requirements of the Federal Acquisition Regulation until July 1, 1998 [or "through June 30, 1998"?]. After such date [or "On and after July 1, 1998"?], all requirements for full and open competition in such section shall apply to the award of a contract under this section.

"(b) The Secretary may enter into one or more contracts for--

"(1) the alternative origination of loans to students attending institutions with agreements to participate in the program under this part (or their parents), if such institutions do not have agreements with the Secretary under section 454(b);

"(2) the servicing and collection of loans made under this part;

"(3) the establishment and operation of one or more data systems for the maintenance of records on all loans made under this part;

"(4) services to assist in the orderly transition from the loan programs under part B to the direct student loan programs under this part; and

"(5) such other aspects of the direct student loan programs as the Secretary determines are necessary to ensure the successful operation of the programs.".

REPORTS

SEC. 528. Section 458 of the Act is amended--

(1) in subsection (a), by striking out "demonstration program." and inserting in lieu thereof "program under this part.";

(2) by striking out subsections (b), (c), (d), and (e); and

(3) adding at the end thereof the following new subsections:

"(b) RESEARCH, DEMONSTRATION, AND EVALUATION.--The Secretary may use a portion of the funds described in section 459 for research on, or the demonstration or evaluation of, any aspects of the administration of the program authorized by this part, including flexible repayment options, that the Secretary determines are necessary to implement such program effectively.

"(c) PLAN FOR IRS PARTICIPATION AND OTHER REPAYMENT OPTIONS.--The Secretaries of Education and the Treasury shall--

"(1) develop a plan for providing repayment options for loans made in accordance with this part through the Internal Revenue Service;

"(2) evaluate the feasibility of providing repayment options for such loans through the Internal Revenue Service, and by means of other wage withholding mechanisms; and

"(3) transmit such plan, and the results of such evaluation, to the President by June 30, 1994.

SECRETARIAL ACTIVITIES

SEC. 529. Section 459 of the Act is amended--

(1) in the section heading, by striking out "SCHEDULE OF";

(2) by striking out subsection (a) and inserting in lieu thereof the following new subsection:

"(a) NOTICE IN LIEU OF REGULATIONS FOR FIRST YEAR OF PROGRAM.--The Secretary shall publish in the *Federal Register* whatever standards, criteria, and procedures, consistent with the provisions of this part, the Secretary determines are reasonable and necessary to the successful implementation of the first year of the direct student loan program authorized by this part. Section 482 of the Act and section 431 of the General Education Provisions Act shall not apply to the publication of such standards, criteria, and procedures.";

(3) by striking out subsections (b) and (e);

(4) in subsection (c)--

(A) by inserting "a date not later than" immediately preceding "October 1, 1993,"; and

(B) by striking out "participate" through the end thereof and inserting in lieu thereof the following: "participate in the first year of the direct student loan program under this part.";

(5) in subsection (d), by striking out "participate" through the end thereof and inserting in lieu thereof the

following: "participate in the first year of the loan program under this part."; and

(6) by redesignating subsections (c) and (d) as subsections (b) and (c), respectively.

REPEALS AND REDESIGNATIONS

SEC. 530. (a) Section 455 of the Act is repealed.

(b) Sections 456, 457, 458, 459, and 459A are redesignated as sections 455, 456, 457, 458, and 459, respectively.

FUNDS FOR ADMINISTRATIVE EXPENSES

SEC. 530A. Section 459 of the Act (as redesignated by section 530) is amended by striking out "administrative costs under this part," through the end thereof and inserting in lieu thereof the following: "administrative costs under this part, including the costs of the transition from the loan programs under part B to the direct student loan programs under this part, not to exceed $127,000,000 in fiscal year 1994, $367,000,000 in fiscal year 1995, $619,000,000 in fiscal year 1996, $632,000,000 in fiscal year 1997, and $770,000,000 in fiscal year 1998. If in any fiscal year, the Secretary determines that additional funds for administrative expenses are needed as a result of such transition, or the expansion of the direct student loan programs under this part, the Secretary is authorized to use funds available under this section for a subsequent fiscal year for such expenses. The Secretary is also authorized to carry over funds available under this section to a subsequent fiscal year.".

[NOTE: ABOVE NUMBERS ARE SUBJECT TO CHANGE.]

PART C--CONFORMING AMENDMENTS TO THE HIGHER EDUCATION ACT OF 1965

PRESERVING LOAN ACCESS

SEC. 531. (a) PURPOSE.--It is the purpose of the amendments made by this section to preserve access to student and parent loans under part B of title IV of the Act as needed during the transition from the Federal Family Education Loan program under such part to the Federal Direct Student Loan program under part D of such title.

(b) ADVANCES TO GUARANTY AGENCIES FOR LENDER-OF-LAST-RESORT SERVICES.--(1) Section 428(j) of the Act is amended by adding at the end thereof the following new paragraph:

"(4) ADVANCES TO GUARANTY AGENCIES FOR LENDER-OF-LAST-RESORT SERVICES DURING TRANSITION TO DIRECT LENDING.--(A) In order to ensure the availability of loan capital during the transition from the Federal Family Education Loan program under this part to the Federal Direct Student Loan program under part D of this title, the Secretary is authorized to provide a guaranty agency with additional advance funds in accordance with section 422(c)(7), with such restrictions on the use of such funds as is determined appropriate by the Secretary, in order to ensure that the guaranty agency will make loans as the lender-of-last-resort. Such agency shall make such loans in accordance with this subsection and the requirements of the Secretary.

"(B) Notwithstanding any other provision in this part, a guaranty agency serving as a lender-of-last-resort under this paragraph shall be paid a fee, established by the Secretary, for making such loans in lieu of interest and special allowance subsidies, and shall be required to assign such loans to the Secretary on demand. Upon such assignment, the portion of the advance represented by the loans assigned would be considered repaid by such guaranty agency.".

(2) Section 422(c)(7) of the Act is amended by striking out "to a guaranty agency" through the end thereof and inserting in lieu thereof the following: "to a guaranty agency--

"(A) in accordance with section 428(j), in order to ensure that the guaranty agency shall make loans as the lender-of-last-resort during the transition from the Federal Family Education Loan program under this part to the Federal Direct Student Loan program under part D of this title; or

"(B) if the Secretary is seeking to terminate the guaranty agency's agreement, or assuming the guaranty agency's functions, in accordance with section 428(c)(10)(F)(v), in order to assist the agency in meeting its immediate cash needs, ensuring the uninterrupted payment of claims, or ensure that the guaranty agency shall make loans as the lender-of-last-resort, in accordance with section 428(j)(4);".

(c) LENDER REFERRAL SERVICES.--Section 428(e) of the Act is amended--

(1) in paragraph (1)--

(A) by amending the paragraph heading to read as follows: "IN GENERAL; AGREEMENTS WITH GUARANTY AGENCIES.--";

(B) by inserting the subparagraph designation "(A)" immediately after the paragraph designation;

(C) by striking out "in any State" and inserting in lieu thereof "with which the Secretary has an agreement under subparagraph (B)"; and

(D) by adding at the end thereof the following new subparagraph:

"(B)(i) The Secretary may enter into agreements with guaranty agencies that meet standards established by the Secretary to provide lender referral services in geographic areas specified by the Secretary. Such guaranty agencies shall be paid in accordance with paragraph (3) for such services.

"(ii) The Secretary shall publish in the *Federal Register* whatever standards, criteria, and procedures, consistent with the provisions of this part and part D of this title, the Secretary determines are reasonable and necessary to provide lender referral services under this subsection and ensure loan access to student and parent borrowers during the transition from the loan programs under this part to the direct student loan programs under part D of this title. Section 482 of the Act and section 431 of the General Education Provisions Act shall not apply to the publication of such standards, criteria, and procedures.";

(2) in paragraph (2)--

(A) in the matter preceding subparagraph (A), by striking out "in a State" and inserting in lieu thereof "with which the Secretary has an agreement under paragraph (1)(B)";

(B) by amending subparagraph (A) to read as follows:

"(A)(i) such student is either a resident of, or is accepted for enrollment in, or is attending, an eligible institution located in, a geographic area for which the Secretary (I) determines that loans are not available to all eligible students, and (II) has entered into an agreement with a guaranty agency under paragraph (1)(B) to provide lender referral services; and";

(4) in paragraph (3), by striking out "The" and inserting in lieu thereof "From funds available for costs of transition under section 459 of the Act, the"; and

(5) by striking out paragraph (5).

(d) <u>STUDENT LOAN MARKETING ASSOCIATION</u>.--Section 439(q) of the Act is amended--

(1) in paragraph (1)(A)--

(A) by striking out "the Association or its designated agent may" and inserting in lieu thereof "the Association or its designated agent shall"; and

(B) by striking out the second sentence therein[?];

(2) in paragraph (2)(A), by striking out "the Association or its designated agent may" and inserting in lieu thereof "the Association or its designated agent shall"; and

(3) in paragraph (3), by striking out "that--" through the end thereof and inserting in lieu thereof the following: "that the conditions that caused the implementation of this subsection have ceased to exist.".

GUARANTY AGENCY RESERVES

SEC. 532. Section 422 of the Act is amended by adding at the end thereof the following new subsection:

"(g) PRESERVATION OF GUARANTY AGENCY RESERVES.--(1) Notwithstanding any other provision of law, the reserve funds of the guaranty agencies, and any assets purchased with such reserve funds, regardless of who holds or controls the reserves or assets, shall be considered to be the property of the United States to be used in the operation of the program authorized by this part or the program authorized by part D of this title. The reserves shall be maintained by each guaranty agency to pay program expenses and contingent liabilities, as authorized by the Secretary, except that the Secretary may--

"(A) direct a guaranty agency to return to the Secretary all, or any portion of, its reserve fund which the Secretary determines is unnecessary to pay the program expenses and contingent liabilities of the guaranty agency; and

"(B) direct the guaranty agency to require the return, to the guaranty agency or to the Secretary, of any reserve funds or assets held by, or under the control of, any other entity which the Secretary determines is necessary to pay the program expenses and contingent liabilities of the guaranty agency, or which are required for the orderly termination of the guaranty agency's operations and the liquidation of its assets.

"(2) To ensure that the funds and assets of the guaranty agency are preserved, any contract with respect to the administration of a guaranty agency's reserve funds, or the administration of any assets purchased or acquired with the reserve funds of the guaranty agency, that is entered into or extended by the guaranty agency, or any other party on behalf of or with the concurrence of the guaranty agency, after the effective date of this provision shall provide that the contract is terminable by the Secretary upon 30 days notice to the contracting parties if the Secretary determines that such contract includes an impermissible transfer of the reserve funds or assets, or is otherwise inconsistent with the terms or purposes of this section.".

TERMS OF LOANS

SEC. 533. Section 428 of the Act is amended--

(1) in subsection (b)(1)--

(A) in subparagraph (D), by striking out "be subject to" through the end thereof and inserting in lieu thereof the following: "be subject to income contingent repayment in accordance with subsection (m);";

(B) by redesignating subparagraphs (W), (X), and (Y) as subparagraphs (X), (Y), and (Z), respectively; and

(C) by inserting immediately after subparagraph (V) the following new subparagraph:

"(W)(i) provides that, upon written request, a lender shall grant a borrower forbearance, renewable at 12-month intervals, agreed to in writing by the parties to the loan with the approval of the insurer, and on such terms as are otherwise consistent with the regulations of the Secretary, if the borrower is serving in a National Service position (cite)

"(ii) provides that the length of the forbearance granted by the lender under clause (i) shall equal the length of time remaining in the period of service[, if the borrower is not eligible to receive a deferment under subparagraph (M), or such length of time remaining after the borrower has exhausted his or her eligibility for such deferment?];

"(ii) provides that clauses (iii) and (iv) of subparagraph (V) shall also apply to a forbearance granted under this subparagraph; and

"(iii) provides that any interest that accrues during the service described in clause (i) shall be paid by the National Service Trust;";

(2) in subsection (c)(3), by striking out "subsection (b)(1)(V)" through the end thereof and inserting in lieu thereof the following: "subsections (b)(1)(V) and (W);"; and

(3) in subsection (m)--

(A) by amending paragraph (1) to read as follows:

"(1) The Secretary may require any borrower who has defaulted on a loan made under this part that is assigned to the Secretary under subsection (c)(8) to repay that loan under an income contingent repayment plan, the terms and conditions of which shall be established by the Secretary and similar to the income contingent repayment plan established for purposes of part D of this title.";

(B) by striking out paragraphs (2) and (4);

(C) by amending paragraph (3) to read as follows:

"(3) LOANS FOR WHICH INCOME CONTINGENT REPAYMENT IS REQUIRED.--A loan made under this part is required to be repaid under this section if the note or other evidence of the loan has been assigned to the Secretary for collection pursuant to subsection (c)(8)."; and

(D) by redesignating paragraph (3) as paragraph (2).

ASSIGNMENT OF LOANS

SEC. 534. (a) Section 428(c)(8) of the Act is amended--

(1) by inserting the subparagraph designation "(A)" immediately following the section heading;

(2) by striking out the second and third sentences therein; and

(3) adding at the end thereof the following new subparagraphs:

"(B) An orderly transition from the Federal Family Education Loan program under this part to the Federal Direct Student Loan program under part D of this title shall be deemed to be in the Federal fiscal interest, and a guaranty agency shall promptly assign loans to the Secretary under this paragraph upon his or her request.".

TERMINATION OF GUARANTY AGENCY AGREEMENTS;
ASSUMPTION OF GUARANTY AGENCY FUNCTIONS BY THE SECRETARY

SEC. 535. Section 428(c)(10) of the Act is amended--

(1) in subparagraph (C), by inserting a comma and "as appropriate," immediately following "the Secretary shall";

(2) in subparagraph (D)--

(A) by inserting the clause designation "(i)" immediately following the subparagraph designation;

(B) by striking out "Each" and inserting in lieu thereof the following "If the Secretary is not seeking to terminate the guaranty agency's agreement under subparagraph (E), or assuming the guaranty agency's functions under subparagraph (F), a";

(C) by adding at the end thereof the following new clause:

"(ii) If the Secretary is seeking to terminate the guaranty agency's agreement under subparagraph (E), or assuming the guaranty agency's functions under subparagraph (F), a management plan described in subparagraph (C) shall include the means by which the Secretary and the guaranty agency shall work together to ensure the orderly termination of the operations, and liquidation of the assets of, the guaranty agency.";

(3) in subparagraph (E)--

(A) in clause (ii), by striking out "or" at the end thereof;

(B) in clause (iii), by striking out the period at the end thereof and inserting in lieu thereof a semicolon; and

(D) by adding at the end thereof the following new clauses:

"(iv) the Secretary determines that such action is necessary to protect the Federal fiscal interest;

"(v) the Secretary determines that such action is necessary to ensure the continued availability of loans to student or parent borrowers; or

"(vi) the Secretary determines that such action is necessary to ensure an orderly transition from the loan programs under this part to the direct student loan programs under part D of this title.";

(4) in subparagraph (F)--

(A) in the matter preceding clause (i), by striking out "Except as provided in subparagraph (G), if" and inserting in lieu thereof "If";

(B) by amending clause (v) to read as follows:

"(v) provide the guaranty agency with additional advance funds in accordance with section 422(c)(7), with such restrictions on the use of such funds as is determined appropriate by the Secretary, in order to--

"(I) meet the immediate cash needs of the guaranty agency;

"(II) ensure the uninterrupted payment of claims; or

"(III) ensure that the guaranty agency shall make loans as the lender-of-last-resort, in accordance with subsection (j)(4);";

(C) in clause (vi)--

(i) by striking out "and to avoid" and inserting in lieu thereof a comma and "to avoid";

(ii) by striking out the period at the end thereof and inserting in lieu thereof a comma and "and to ensure an orderly transition from the loan programs under this part to the direct student loan programs under part D of this title."; and

(iii) by redesignating such clause as clause (vii); and

(D) by inserting immediately following clause (v) the following new clause:

"(vi) use all funds and assets of the guaranty agency to assist in the activities undertaken in accordance with this subparagraph and take appropriate action to require the return, to the guaranty agency or the Secretary, of any funds or assets provided by the guaranty agency, under contract or otherwise, to any person or organization; or";

(5) by striking out subparagraph (G);

(6) by redesignating subparagraphs (H), (I), and (J) as subparagraphs (I), (J), and (K), respectively;

(7) by inserting immediately following subparagraph (F) the following new subparagraphs:

"(G) Notwithstanding any other provision of Federal or State law, if the Secretary has terminated or is seeking to terminate a guaranty agency's agreement under subparagraph (E), or has assumed a guaranty agency's functions under subparagraph (F)--

"(i) such guaranty agency may not file for bankruptcy;

"(ii) no State court may issue any order affecting the Secretary's actions with respect to such guaranty agency;

"(iii) any contract with respect to the administration of a guaranty agency's reserve funds, or the administration of any assets purchased or acquired with the reserve funds of the guaranty agency, that is entered into or extended by the guaranty agency, or any other party on behalf of or with the concurrence of the guaranty agency, after the effective date of this provision shall provide that the contract is terminable by the Secretary upon 30 days notice to the contracting parties if the Secretary determines that such contract includes an impermissible transfer of the reserve funds or assets, or is otherwise inconsistent with the terms or purposes of this section.".[?]; and "(iv) no provision of State law shall apply to the actions of the Secretary in terminating the operations of a guaranty agency;

"(H) Notwithstanding any other provision of law, the Secretary's liability for any outstanding liabilities of a guaranty agency (other than outstanding student loan guarantees under this part), the functions of which the Secretary has assumed, shall not exceed the fair market value of the reserves of the guaranty agency, minus any necessary liquidation or other administrative costs."; and

(8) in subparagraph (K) (as redesignated by paragraph (5)), by striking out "system, together" through the end thereof and inserting in lieu thereof the following: "system and the progress of the transition from the loan programs under this part to the direct student loan programs under part D of this title.".

ADMINISTRATIVE COST ALLOWANCE

SEC. 536. Section 428(f)(1) of the Act is amended--

(1) in subparagraph (B)--

(A) in the first sentence, by striking out "The" and inserting in lieu thereof "Until full implementation of the Federal Direct Student Loan program under part D of this title, the"; and

(B) by striking out the period at the end of the first sentence and inserting in lieu thereof a comma and "plus an additional amount per fiscal year, as specified in subparagraph (D), for each outstanding loan that was made in accordance with section 428, 428A, 428B, or 428H and is held by such guaranty agency at the end of such fiscal year."; and

(2) by adding at the end thereof the following new subparagraph:

"(D) The amount to be paid pursuant to subparagraph (B) per outstanding loan shall be--

"(i) zero for fiscal years 1994 and 1995;

"(ii) $2.00 per outstanding loan for fiscal year 1996; and

"(iii) $4.00 per outstanding loan for fiscal years 1997 and 1998.".

CONSOLIDATION LOANS

SEC. 537. Section 428C of the Act is amended--

(1) by amending subsection (a)(3)(A) to read as follows:

"(A) For the purpose of this section, the term "eligible borrower" means a borrower who, at the time of application for a consolidation loan is in repayment status, or in a grace period preceding repayment, or is a delinquent or defaulted borrower who will reenter repayment through loan consolidation.";

(2) in subsection (b)--

(A) in paragraph (1)--

(i) in subparagraph (A)(ii), by inserting "with income-sensitive repayment terms" immediately following "obtain a consolidation loan";

(ii) by redesignating subparagraph (E) as subparagraph (F); and

(iii) by inserting immediately following subparagraph (D) the following new subparagraph:

"(E) that the lender shall offer an income-sensitive repayment schedule, established by the lender in accordance with the regulations of the Secretary, to the borrower of any consolidation loan made by the lender on or after July 1, 1994; and";

(B) in paragraph (4), by amending subparagraph (C) to read as follows:

"(C)(i) provides that periodic installments of principal need not be paid, but interest shall accrue and be paid in accordance with clause (ii), during any period for which the borrower would be eligible for a deferral under section 428(b)(1)(M), and that any such period shall not be included in determining the repayment period pursuant to subsection (c)(2) of this section; and "(ii) provides that interest shall accrue and be paid--

"(I) by the Secretary, in the case of a consolidation loan that consolidated only Federal Stafford Loans for which the student borrower received an interest subsidy under section 428; or

"(II) by the borrower, or capitalized, in the case of a consolidation loan other than one described in subclause (II);"; and

(C) by adding at the end thereof the following new paragraph:

"(5) In the event that a borrower is unable to obtain a consolidation loan with income-sensitive repayment terms from a lender described in subsection (a)(1), the Secretary is authorized to offer the borrower a direct consolidation loan with income contingent repayment terms under part D of this title."; and

(3) in subsection (c)--

(A) in paragraph (1), by amending subparagraphs (B) and (C) to read as follows:

"(B) A consolidation loan made before July 1, 1994 shall bear interest at an annual rate on the unpaid principal balance of the loan that is equal to the greater of--

"(i) the weighted average of the interest rates on the loans consolidated, rounded to the nearest whole percent; or

"(ii) 9 percent.

"(C) A consolidation loan made on or after July 1, 1994 shall bear interest at an annual rate on the unpaid principal balance of the loan that is equal to the weighted average of the interest rates on the loans consolidated, rounded upward to the nearest whole percent.";

(B) in paragraph (2)--

(i) in subparagraph (A)--

(I) in the matter preceding clause (i), by striking out "income sensitive repayment schedules. Such repayment terms" and inserting in lieu thereof "income sensitive repayment schedules, established by the lender in accordance with the regulations of the Secretary. Except as required by such income sensitive repayment schedules, or by income contingent repayment terms offered by the Secretary pursuant to subsection (b)(5), such repayment terms"

(II) by redesignating clauses (i), (ii), (iii), (iv), and (v) as clauses (ii), (iii), (iv), (v), and (vi), respectively; and

(III) by inserting immediately preceding clause (ii) (as redesignated by subclause (II)) the following new clause:

"(i) is less than $7,500, then such consolidation loan shall be repaid in not more than 10 years;";

(ii) by striking out subsection (B); and

(iii) by redesignating subparagraph (C) as subparagraph (B); and

(C) in paragraph (3)(A), by inserting immediately following the subparagraph designation the following: "except as required by an income sensitive repayment schedule offered by the lender in accordance with the regulations of the Secretary, or by income contingent repayment terms offered by the Secretary pursuant to subsection (b)(5),".

STUDENT LOAN MARKETING ASSOCIATION

SEC. 538. Section 439 of the Act is further amended by adding at the end thereof the following new subsection:

"(s) TRANSITION STUDY AND ACTIVITIES.--(1) The Secretaries of Education and the Treasury, in consultation with the Association, shall prepare a study that examines alternatives that would allow, upon full implementation of the Federal Direct Student Loan program under part D of this title, for the transition of the Association from a Government-Sponsored Enterprise to a private corporation. The goal of the study shall be to provide for an orderly transition of the Association from a Government-Sponsored Enterprise to a private corporation when the

Federal Direct Student Loan program is fully implemented. Such study shall--

"(A) consider how best to meet the needs of students and taxpayers;

"(B) reflect the need for the Association to maintain liquidity and perform other functions for the Federal Family Education Loan program during the transition from such program to the Federal Direct Student Loan program under part D of this title, including additional duties as specified by the Secretary of Education or the Secretary of the Treasury;

"(C) consider any appropriate changes to part D of title VII, relating to the College Construction Loan Association;

"(D) be completed within six months of the enactment of this provision; and

"(E) be considered by the Secretaries of Education and the Treasury in developing any legislative proposals concerning any changes to the status of the Association as a Government-Sponsored Enterprise or its duties under the Federal Family Education Loan program.

"(2) The Secretaries of Education and the Treasury are directed to work with the Association to ensure that any changes in the Association's status, operations, or purposes are carried out efficiently and effectively.

AUTHORITY TO USE OPTICALLY IMAGED DOCUMENTS

SEC. 539. (a) Section 484A of the Act is amended--

(1) in the heading, by adding a semicolon and "OPTICALLY IMAGED DOCUMENTS" after "LIMITATIONS"; and

(2) by adding at the end thereof the following new subsection:

"(c)(1) IN GENERAL.--It is the purpose of this subsection to--

"(A) allow the Secretary to use optical imaging technology to store and retrieve documents and records, including promissory notes and repayment agreements, required for the administration of the programs authorized under part D of this title, or for the administration of loans made under part B of this title that have been assigned to the Secretary;

"(B) permit the Secretary to destroy originals of such documents and records, including promissory notes and repayment agreements, after they have been optically imaged, thereby achieving significant savings in storage and retrieval costs; and

"(C) ensure that the Secretary may introduce as evidence in any proceeding with respect to the programs or loans described in subparagraph (A) optically imaged documents and records, including promissory notes and repayment agreements.

"(2) Notwithstanding any other provision of Federal or

State law, an optically imaged copy of any document or record, including a promissory note or repayment agreement, may be introduced as evidence in any proceeding with respect to the programs or loans described in paragraph (1)(A) in any Federal or State court, or other tribunal, and such optically imaged copy shall be admissible in any court or tribunal of the United States or any State as if it were the original document or record and have the same force and effect as the original.

"(3) Nothing in this subsection shall be interpreted to preclude the admissibility of a duplicate of a document or record required for the administration of the programs or loans described in paragraph (1)(A) made by a technology other than optical imaging consistent with the Federal Rules of Evidence and section 1732 of title 28 of the United States Code, or applicable State law.

"(4) Nothing in this subsection shall be interpreted to preclude the admissibility of an optically imaged copy of any document or record in a proceeding outside the scope of this subsection consistent with the Federal Rules of Evidence and section 1732 of title 28 of the United States Code, or applicable State law.".

(b) Section 432 of the Act is amended by adding at the end thereof the following new subsection:

"(q) OPTICALLY IMAGED DOCUMENTS.--Records maintained in accordance with section 484A(c) may be used in any proceeding, as permitted by section 484A(c), with respect to a loan that was made under this part and has been assigned to the Secretary.".

(c) Section 487 of the Act is amended by adding at the end thereof the following new subsection:

"(f) USE OF OPTICALLY IMAGED DOCUMENTS.--In any proceeding with respect to a program or activity under part D of this title, or with respect to a loan made under part B of this title that has been assigned to the Secretary, records maintained in accordance with section 484A may be used as provided in that section.".

PART D--AMENDMENTS TO OTHER LAWS

DISCLOSURE OF TAX RETURN INFORMATION

SEC. 541. (a) Section 6103(a)(3) of the Internal Revenue Code of 1986 (26 U.S.C. 6103(a)(3); relating to confidentiality and disclosure of returns and return information; hereinafter referred to as "the Code") is amended by striking out "(l)(12)" and inserting in lieu thereof "(l)(10), (12), or (13)".

(b) Section 6103(l) of the Code is amended--

(1) in paragraph (10)(B), by striking out "officers and employees of an agency receiving return information under subparagraph (A) shall use such information" and inserting in lieu thereof "return information disclosed under subparagraph (A) may be used by officers and employees of an agency, and by officers, employees, and agents of the Department of Education,"; and

(2) at the end thereof, by adding a new paragraph to read as follows:

"(13) DISCLOSURE OF RETURN INFORMATION TO CARRY OUT INCOME CONTINGENT REPAYMENT OF STUDENT LOANS.--

"(A) IN GENERAL.--The Secretary may, upon written request from the Secretary of Education disclose to officers and employees of the Department of Education return information with respect to a taxpayer who has received a Federal loan under a student loan program and whose loan repayment amounts are based in whole or in part on the taxpayer's income. Such return information shall be limited to--

"(i) taxpayer identity information with respect to such taxpayer;

"(ii) whether such taxpayer filed a joint return; and

"(iii) the adjusted gross income of such taxpayer, as indicated by the taxpayer's most recently available return information.

"(B) RESTRICTION ON USE OF DISCLOSED INFORMATION.--Return information disclosed under subparagraph (A) may be used by officers, employees, and agents of the Department of Education only for the purposes of, and to the extent necessary in, establishing an appropriate income contingent repayment level under a student loan program.

"(C) DEFINITIONS.--For purposes of this paragraph, the term "student loan program" means the program authorized under part D of title IV of the Higher Education Act of 1965 and includes loans under parts B and E of title IV the Higher Education Act of 1965 that are in default and have been assigned to the Department of Education.

(c) Section 6103(m)(4) of the Code is amended--

(1) in the heading, by inserting "OWE AN OVERPAYMENT ON FEDERAL PELL GRANTS OR" immediately after "INDIVIDUALS WHO";

(1) in subparagraph (A)--

(A) by redesignating clauses (i) and (ii) as subclauses (I) and (II); and

(B) by striking out "of any taxpayer who" and inserting in lieu thereof "of any taxpayer--

"(i) who owes an overpayment of a grant awarded to that taxpayer under subpart 1 of part A of title IV of the Higher Education Act of 1965, or

"(ii) who"

(2) in subparagraph (B)--

(A) in clause (i), by striking out "under part B" and inserting in lieu thereof "under part B or D"; and

(B) in clause (ii), by striking out "under part E" and inserting in lieu thereof "under subpart 1 of part A, part D, or E";

(d) Section 6103(p) of the Code is amended--

(1) in paragraph (3)(A), by striking out "(11), or (12), (m)" and inserting in lieu thereof "(11), (12), or (13), (m)";

(2) in paragraph (4)--

(A) in the matter preceding subparagraph (A), by striking out "(10), or (11)," and inserting in lieu thereof "(10), (11), or (13),";

(B) in subparagraph (F)(ii), by striking out "(11), or (12)," and inserting in lieu thereof "(11), (12), or (13),"; and

(C) in the flush left material after subparagraph (F), by striking out "under subsection (l)(12)(B)" and inserting in lieu thereof "under paragraph (10), (12)(B), or (13) of subsection (l)".

(e) Section 7213(a)(2) of the Code is amended by striking out "(10) or (12)" and inserting in lieu thereof "(10), (12), or (13),".

AMENDMENT TO THE BALANCED BUDGET
AND EMERGENCY DEFICIT CONTROL ACT OF 1985

SEC. 452. Section 255(g)(1)(A) of the Balanced Budget and Emergency Deficit Control Act of 1985 (P.L. 99-177) is amended by inserting immediately after "Federal Deposit Insurance Corporation, Savings Association Insurance Fund;" the following: "Federal Direct Student Loan program (91-0243-0-1-502)".

PART E--EFFECTIVE DATES

SEC. 551. (a) Except as otherwise provided in this section, the amendments made by this title shall be effective upon enactment.

(b) The amendments made by section 533 of this Act shall be effective for loans made in accordance with section 428 for periods of instruction beginning on or after July 1, 1993, or made on or after July 1, 1993 in the case of loans made in accordance with section 428A, 428B, or 428C of the Act.

(c) The amendments made by section 536 of this Act shall be effective on October 1, 1994.

(d) The amendments made by section 537 of this Act (other than the amendment made by section 537(2)(C)) shall be effective for loans made in accordance with section 428C of the Act or after July 1, 1994 [OR 1993]?.

APR 23 1993 **DRAFT**

TITLE V--FEDERAL DIRECT STUDENT LOAN PROGRAM AND INCOME CONTINGENT REPAYMENT OF STUDENT LOANS

Section-by-Section Analysis

PART A--NAME OF TITLE

<u>Section 501</u>. Section 501 of the bill states that title V of this Act may be cited as the "Federal Direct Student Loan Program Amendments of 1993."

PART B--AMENDMENTS TO FEDERAL DIRECT LOAN DEMONSTRATION PROGRAM

In general, part B of title V of the bill would provide for sweeping, borrower-oriented changes in the current student loan program under parts B and D of title IV of the Higher Education Act. These changes are founded on two basic principles: first, the Federal government should simplify the process by which a student and his or her parents can get loans for the student's postsecondary education; and second, any student wanting to serve in programs that will benefit the Nation should be encouraged to do so through flexible and affordable repayment of debt from education loans.

The provisions set forth in part B of title V of the bill reflect these two principles. The first principle generates reforms to the "front end" of the current system, that is, to provisions under which a student and his or her parent can get a loan to defray part of the cost of higher education. Under the Federal Direct Student Loan Program proposed under this portion of the bill, a variety of student loans, including loans for parents of students, could be obtained directly from the student's institution of higher education, without application to an outside lender and the complex apparatus of loan guarantees and reinsurance. Qualified institutions approved by the Secretary of Education would originate an education loan for the student or the student's parents. A student at an institution that did not yet qualify (or did not wish) to originate education loans would be able to obtain his or her loans directly as well, through an institution or other organization that would act as an "alternative" originator for the student.

The second principle generates reforms that, for the most part, focus on the "back end" of the system, that is, repayment of loans by student borrowers or their parents. In this area, the proposed Federal Direct Student Loan Program would provide for a variety of flexible repayment plans from which borrowers may choose the one best suited to their individual needs. All borrowers in the proposed program would be able to choose from these repayment plans, including repayment plans based on income. Borrowers who have guaranteed student loans in the current system will also be offered an income-based repayment plan.

The following is a description, analyzed by section number of the bill, of the details of the proposed Federal Direct Student Loan Program (FDSLP).

Section 521. Section 521 of the bill would amend the heading for part D of title IV of the Higher Education Act of 1965 (20 U.S.C. 1001 *et seq.*; hereinafter in this title referred to as "the Act") to read "FEDERAL DIRECT STUDENT LOAN PROGRAM."

Section 522. Section 522 of the bill would amend the program and payment authority in section 451 of the Act to reflect the replacement of the current Federal direct loan demonstration program with a new "phased-in" FDSLP that would, when fully implemented, provide the Federal lending mechanism through which students and their parents would be able to receive loans to pay for postsecondary education. Under the FDSLP, the Secretary would be required to make available such sums as may be necessary for loans to all eligible students in attendance at participating institutions of higher education (IHEs) selected by the Secretary (and the eligible parents of these students) to enable these students to pursue their courses of study there during the period beginning July 1, 1994 and ending on June 30, 1998. Loans under the FDSLP would be made by participating IHEs that also have agreements with the Secretary to originate FDSLP loans, or by alternative originators designated by the Secretary to make FDSLP loans for students in attendance at participating IHEs (and the eligible parents of these students).

Proposed section 451 of the Act would set forth the purposes of the FDSLP. Consistent with the underlying principles of this title of the bill, these purposes would include: (1) simplifying the delivery of student loans to borrowers and eliminating borrower confusion; (2) providing borrowers a variety of repayment options, including an income contingent repayment option, so that they have flexibility in managing their student loan repayment obligations and so that these obligations do not foreclose community service-oriented career choices for borrowers; (3) replacing, through an orderly transition, the Federal Family Education Loan (FFEL) program under part B of title IV of the Act with the FDSLP; (4) avoiding the unnecessary cost to taxpayers and borrowers and the administrative complexity associated with the FFEL program through the use of a direct student loan program; and (5) creating a more streamlined student loan program that can be managed more effectively at the Federal level.

Section 523. Section 523 of the bill would replace the payment rules for the demonstration program in section 452 of the Act with funding provisions applicable to loan origination under the FDSLP. This section of the bill would require the Secretary to provide funds for student or parent loans under the FDSLP directly to an IHE with an origination agreement under proposed section 454(b) of the Act, or through an alternative originator designated by the Secretary, on the basis of the need and eligibility of students (and their parents) for FDSLP loans at each participating IHE.

Section 523 of the bill would also require the Secretary to pay fees to a IHE originating loans under the new program. Payment levels would be established by the Secretary and would assist in meeting the cost of loan origination at the IHE. These fees would be on a per-borrower, per-year basis and would be subject to a sliding scale that decreases the amount of payments as the number of borrowers increases. The Secretary would also be authorized to pay fees to alternative originators of FDSLP loans for their loan origination services; these fees would be established in accordance with the terms of the contract between the Secretary and the alternative originator.

It is expected that, on average, these payments to IHEs that originate FDSLP loans would be approximately $10 per borrower, per year. It is also expected that payments for alternative origination of FDSLP loans, which would, except in unusual circumstances, be procured through a competitive bid process, would be slightly higher.

Finally, section 523 of the bill would provide that no IHE would be deemed to have a right to participate in the FDSLP, to originate FDSLP loans, or to perform any FDSLP program function. However, this provision could not be construed so as to limit the entitlement of an eligible student who is attending a participating IHE (or the eligible parent of that student) to borrow under the FDSLP. Such students and parents, for example, could receive an FDSLP loan through the alternative origination process.

Section 524. Section 524 of the bill would amend section 453 of the Act, which currently governs selection of IHEs for the direct loan demonstration program. This section of the bill would focus on selection requirements for the phase-in portion of the FDSLP, prior to full implementation of the program.

The phase-in provisions in this section, as well as other parts of title V of the bill, are based on the expectation that by the end of fiscal year 1997 all new Federal student loans will be made using Federal capital under the FDSLP. The shift from the FFEL program to the FDSLP is expected to begin in fiscal year

1994, with Federal direct loans representing 4 percent of Federal student loan volume by the end of that year. By the end of fiscal year 1995, 25 percent of Federal student loan volume would be comprised of Federal direct loans; by the end of fiscal year 1996, this proportion would increase to 60 percent.

Proposed section 453(a) of the Act would require the Secretary to enter into agreements with IHEs to participate in the FDSLP, as well as supplementary agreements with IHEs to originate loans in the proposed program, for academic years beginning on or after July 1, 1994. This proposed section would also require the Secretary to provide alternative origination services, through one or more contracts under proposed section 456 of the Act or such other arrangements as the Secretary may provide, for students attending an IHE that is participating in the FDSLP but not originating FDSLP loans. In order to ensure an expeditious and orderly transition from the current loan programs under the FFEL program to the FDSLP, the Secretary would be required, in the exercise of his or her discretion, to determine the number of IHEs with which there would be participation and origination agreements for any academic year. Agreements for the first year of the program would, to the extent feasible, be entered into not later than January 1, 1994.

Further, proposed section 453(a) of the Act would provide that the requirements of the Cash Management Improvement Act of 1990 (P.L. 101-453), which is designed to facilitate coordination between Federal and State governments on the use of Federal funds, shall apply to the FDSLP only to the extent specified in a schedule established by the Secretaries of Education and the Treasury, but not later than July 1, 1997. Without this temporary exemption, State institutions would be subjected to additional requirements in implementing the Cash Management Improvement Act, which takes effect on July 1, 1994, at the same time that these institutions are part of the phase-in process under the FDSLP.

Proposed section 453(b) of the Act would set forth the criteria to be used by the Secretary in selecting IHEs to participate in the new program and to originate FDSLP loans. Each IHE desiring to participate in the FDSLP would be required to submit an application to the Secretary containing such information and assurances as the Secretary may require. In order to include a variety of participants prior to full implementation of the FDSLP, the Secretary would select IHEs to participate in the first phase of the proposed program from among eligible institutional applicants by categorizing them according to their anticipated loan volume, the length of their academic programs, and organizational control (public, private, non-profit, or proprietary institutions). The Secretary would then select participants that are reasonably representative of institutions in these respective categories and would select additional IHEs as needed to carry out the purposes of the FDSLP.

Further, proposed section 453(b) of the Act would authorize the Secretary to enter into a supplemental agreement with a participating IHE, or a consortium of IHEs, that desires to originate FDSLP loans and satisfies additional criteria. For academic year 1994-1995, the Secretary would be authorized to approve an IHE to originate FDSLP loans only if the IHE: (1) made loans under the Federal Perkins Loan program in academic year 1993-1994 and did not exceed the applicable maximum default rate under section 462(g) of the Act for the most recent fiscal year for which data are available; (2) is not on the reimbursement system of payment under the Federal Pell Grant program, the Federal Supplemental Educational Opportunity Grant program, the Federal Work-Study programs, or the Federal Perkins Loan program; (3) is not overdue on program or financial reports and audits required under title IV of the Act; (4) is not subject to an emergency action, or a limitation, suspension, or termination under section 428(b)(1)(T), 432(h), or 487(c) of the Act; (5) has not, in the Secretary's opinion, had significant deficiencies identified by the State postsecondary review entity under subpart 1 of part H of title IV of the Act; and (6) has not, in the opinion of the Secretary, had severe program deficiencies for any of the programs under title IV of the Act, including those deficiencies demonstrated by audits and program reviews conducted during the five calendar years prior to the IHE's application to originate FDSLP loans.

In addition to these criteria, for academic year 1994-1995, the Secretary would be authorized to approve an IHE to originate FDSLP loans only if the IHE provides an assurance that it has no delinquent outstanding debts to the United States, unless these debts are currently being repaid under or in accordance with a repayment arrangement satisfactory to the Secretary, or the Secretary, in his or her discretion, determines that the assurance need not be given because the existence or amount of these debts has not been finally determined by the cognizant Federal agency.

Proposed section 453(b) of the Act would also provide that, for academic year 1995-1996 and subsequent academic years, the Secretary would be required to publish regulations governing the selection of IHEs to originate FDSLP loans.

Finally, section 524 of the bill would remove those provisions of section 453 of the Act that are applicable to a demonstration program and would add an authority for eligible IHEs to apply to originate FDSLP loans as consortia, subject to requirements prescribed by the Secretary. All the IHEs in the consortia would be required to meet the eligibility requirements for participation in the FDSLP. However, only those IHEs in a consortium that would accept the responsibilities and liabilities associated with originating FDSLP loans would be required to meet the origination requirements. The consortia provision would facilitate direct lending options for borrowers by encouraging an institution that is eligible to participate in the FDSLP but is unwilling or unable to originate FDSLP loans to use the origination services of another member of the consortium.

Section 525. Section 525 of the bill would amend the demonstration program participation agreement provisions under section 454 of the Act to provide for implementation of the FDSLP.

The participation agreement under proposed section 454(a) of the Act would provide for the establishment and maintenance of the FDSLP at the IHE under which the IHE would: (1) identify eligible students who seek student financial assistance in accordance with section 484 of the Act; (2) estimate the need of each such student (as required by need analysis provisions of part F of title IV of the Act); (3) set forth a schedule for disbursal of the proceeds of the FDSLP in installments, consistent with the requirements of section 428G of the Act; (4) in estimating a student's need and eligibility, provide a statement that certifies the eligibility of a student to receive a FDSLP loan not in excess of the applicable maximum amount; (5) provide, if the IHE is not a FDSLP loan originator, timely and accurate information to the Secretary as needed for alternative origination services for student and parent borrowers; and (6) provide timely and accurate information concerning the status of student and parent borrowers to the Secretary for servicing or collecting FDSLP loans. The IHE requirement to provide information on the status of student borrowers would be limited to the period of time that the student borrowers were in attendance at the IHE and would concern any changes of address of which the IHE were aware for those students after they had left the IHE.

The establishment and maintenance portion of the agreement would also would authorize the IHE, in exceptional circumstances specified by the Secretary, to refuse to certify a statement that permits a student to receive a FDSLP loan or to certify a loan amount that is less than the student's determination of need, if the reason for this action is documented and provided to the student. Finally, this portion of the agreement would provide that, for an academic year for which an IHE has determined a student's need (under part F of title IV of the Act), a Federal Direct Supplemental Loans for Students loan (with terms similar to those under section 428A of the Act), or a Federal Direct PLUS loan (with terms similar to those under section 428B of the Act), or a loan obtained under a State-sponsored or private loan program, may be used to offset the expected family contribution of the student for that year. This provision, which is similar to a provision in the FFEL program, is designed to aid middle income borrowers by allowing them to borrow the remaining amount of their expected family contribution to a student's education costs that had not been covered by other Federal assistance.

Under the participation agreement set forth in proposed section 454(a) of the Act, the IHE would also: (1) provide assurances that it will comply with the requirements specified by the Secretary relating to FDSLP loan information; (2) provide that it accepts responsibility and financial liability stemming from its failure to perform its functions pursuant to the agreement; (3) provide that its students and their parents will not be eligible to participate in the FFEL program for the period during which the IHE participates in the FDSLP; (4) provide for the implementation of a quality assurance program, to ensure that the IHE is complying with program requirements and meeting program objectives; (5) not charge fees of any kind, however described, to student or parent borrowers for origination activities or for providing any other information needed for receiving a FDSLP loan; and (6) include other provisions that may be necessary to protect the interests of the United States and to promote the purposes of the FDSLP.

Section 525 of the bill would also set forth, in proposed section 454(b) of the Act, requirements for origination agreements under the FDSLP. An origination agreement would supplement the participation agreement and include provisions with respect to the origination of loans by the IHE that are similar to provisions described in that agreement. In addition, the origination agreement would provide that the IHE will originate loans to eligible students and parents in accordance with FDSLP provisions and that the note or evidence of obligation on the loan would be the property of the Secretary.

Most of the agreement requirements under this section of the bill provide for activities and liabilities with which IHEs participating in the FFEL program are already familiar. For example, it is expected that the FDSLP participation agreement would be similar to the current FFEL program participation agreement, which includes a provision that the institution agrees that it is responsible for accounting, with appropriate documentation, for all the title IV, HEA program funds it receives and for returning to the Secretary any funds for which it cannot properly account.

Loan origination through IHEs under the FDSLP contemplates the use of standard agreements that would build on the basic participation agreements. Loan origination activities under the FDSLP for IHEs are likely to be simpler than an IHE's loan activities under the current Federal Perkins Loan program.

Finally, proposed section 454(c) of the Act would require the Secretary to prescribe procedures by which IHEs may withdraw or be terminated from the FDSLP.

Section 526. Section 526 of the bill would amend section 456 of the Act to provide certain new terms and conditions for the FDSLP. In general, these terms are designed to provide borrowers with an assortment of loan repayment options while maintaining an orderly transition from the guaranteed loan system.

Proposed section 456(a) of the Act would provide that, unless otherwise specified, loans made to borrowers under the FDSLP would have the same terms, conditions, and benefits as loans made to borrowers for Federal Stafford Loans (under section 428 of the Act), Federal Supplemental Loans for Students (under section 428A of the Act), Federal PLUS Loans (under section 428B of the Act), and Unsubsidized Stafford Loans for Middle Income Borrowers (under section 428H of the Act). The FDSLP loans would be known respectively as Federal Direct Stafford Loans, Federal Direct Supplemental Loans for Students, Federal Direct PLUS Loans, and Federal Direct Unsubsidized Stafford Loans. Each of these direct loans would have, unless otherwise specified, the terms, conditions, and benefits of its corresponding guaranteed loan.

Under the FDSLP, the Secretary would also have the authority to consolidate loans, as provided elsewhere in this bill. Loans made under either the FFEL program or the FDSLP would be consolidated into a Federal Direct Consolidation Loan, which would have terms and conditions similar to those for Federal Consolidation Loans under section 428C of the Act.

Proposed section 456(b) of the Act would provide that section 427A(a) of the Act, which provides that a student loan borrower receives any subsequent student loans at the same interest rate as the first student loan borrowed, would not apply to FDSLP loans. Interest rates under the FDSLP would be calculated on a 12-month period beginning July 1 and ending June 30, to be determined for the loan program as a whole on the preceding June 1, using financial instruments auctioned at the final auction held prior to that June 1.

For Federal Direct Stafford Loans and Federal Direct Unsubsidized Stafford Loans made before July 1, 1997, the interest rate would be equal to the bond equivalent rate of 91-day Treasury bills plus 3.1 percent, with a cap at 9 percent. Federal Direct Supplemental Loans for Students made prior to July 1, 1997, would have an interest rate equal to the bond equivalent rate of 52-week Treasury bills plus 3.1 percent, with a cap at 11 percent. Federal Direct PLUS Loans made before

July 1, 1997, would have an interest rate equal to the bond equivalent rate of 52-week Treasury bills plus 3.1 percent, with a cap at 10 percent.

The interest rate for loans made under these programs on or after July 1, 1997, would be the bond equivalent rate of the security with a comparable maturity (using the national average for each type of FDSLP loan), as shown in the table "Interest Rates for Credit Reform" in the Economic Bulletin Board published by the Department of Commerce, plus a certain percentage. For Federal Direct Supplemental Loans for Students and Federal PLUS Loans, this would be 1.5 percent. For Federal Direct Stafford Loans and Federal Direct Unsubsidized Stafford Loans, this would be 1 percent.

These interest rate provisions, for loans made both before and after July 1, 1997, are less complex than those for the current FFEL program. In addition, it is expected that the provision setting interest rates for loans made on or after July 1, 1997, will result in an interest rate that would be lower, by approximately one-half of one percentage point, for all new FDSLP loans, thus generating savings for both student and parent borrowers under the new program.

Proposed section 456(c) of the Act would provide that the Secretary may charge the borrower of a FDSLP loan a fee not to exceed 6.5 percent of the principal amount of the loan. Currently, approximately 6.5 percent of the principal amount of a the loan is the national average for student loan fees of this type. It is expected that the Secretary will evaluate this fee on an annual basis and will reduce the fee when appropriate, in order to achieve additional savings for borrowers.

Proposed section 456(d) of the Act would require the Secretary to offer a variety of plans for repayment of FDSLP loans. Under these provisions, the eligible student or parent borrower would be able to choose from four different types of repayment plans the type of plan that best addresses the borrower's needs. These repayment plans would be: (1) a standard repayment plan, with a fixed annual repayment amount paid over a fixed period of time; (2) an extended repayment plan, with a fixed annual repayment amount paid over an extended period of time, provided that the borrower annually repays a minimum amount determined by the Secretary; (3) a graduated repayment plan, with annual repayment amounts established at two or more graduated levels paid over a fixed or extended period of time (provided that any of the borrower's scheduled payments are not less than 50 percent, nor more than 150 percent, of what the amortized payment on the amount owed would be if the loan were repaid under the standard repayment plan); and (4) an income contingent repayment plan, with varying annual repayment amounts based on the income of the borrower, paid over an extended period of time, not to exceed a maximum length of time determined by the Secretary.

Since, unless otherwise noted in the bill, the terms and conditions of FDSLP loans would be the same as those under the FFEL program, the standard repayment plan for a FDSLP loan would contain several repayment features that are the same are a comparable loan under the FFEL program. For example, a fixed repayment period under the FDSLP would equal 10 years (excluding deferments or forbearances) as in the FFEL program. The extended repayment plan is intended to accommodate borrowers who prefer to make payments that are unchanged over a repayment period of moderate length, for example, 15 years. The graduated repayment plan is designed to ensure that borrowers may increase their payments while their income rises but are not faced with a "balloon" payment at the end of their loan period that they would be unable to afford. The graduated repayment plan could extend over a moderately lengthy period as well.

The income contingent repayment plan is intended to accommodate borrowers whose income after graduation from an IHE is low, and thus would be attractive to borrowers who plan to enter community service. Because the individual payments under an income contingent repayment plan could be quite small borrowers would have an option to have a very lengthy repayment period, for example, 25 years.

In addition, proposed section 456(d) of the Act would provide that if a borrower of a FDSLP loan does not select a repayment plan, the Secretary may provide the borrower with the standard repayment plan, graduated repayment plan, or extended repayment plan. The borrower of a FDSLP loan may also change his or her selection of a repayment plan, or the Secretary's selection of a plan for the borrower, as the case may be, under terms and conditions established by the Secretary. Further, the Secretary would be authorized to provide an alternative repayment plan to a borrower of a FDSLP who demonstrates to the satisfaction of the Secretary that the terms and conditions of the four other types of repayment plans are not adequate to accommodate the borrower's exceptional circumstances. The Secretary would also be authorized to require a borrower who has defaulted on a FDSLP loan to pay reasonable collection costs associated with that loan and to repay the loan under an income contingent repayment plan.

Proposed section 456(d) of the Act would authorize the Secretary to obtain such information as is reasonably necessary regarding the income of a borrower (and the borrower's spouse, if applicable) of a FDSLP loan that is, or may be, subject to an income contingent repayment plan for the purpose of determining the amount of the borrower's annual repayment obligation. The

Secretary would be required to establish procedures to effectively implement an income contingent repayment plan, including procedures for determining the borrower's repayment obligation.

Further, proposed section 456(d) of the Act would authorize the Secretary to obtain income information from the borrower, or the borrower and his or her spouse, if applicable, if the FDSLP were subject to an income contingent repayment plan. The Secretary would be required to establish procedures for determining the borrower's repayment obligation under this plan, and any other procedures necessary to implement an income contingent repayment plan.

The income contingent repayment schedule for a FDSLP loan would be based on the adjusted gross income (as defined in section 62 of the Internal Revenue Code) of the borrower, or, if the borrower is married and files income tax information jointly with his or her spouse, on the adjusted gross income of both partners. According to the Department of the Treasury, it is unlikely, given the financial disincentives for married couples to file separate return, that a married borrower with little or no income would file separately in order to take advantage of a more favorable repayment schedule on his or her FDSLP loan. A borrower who chooses or is required to repay a FDSLP loan through an income contingent repayment plan and whose return information does not reasonably reflect his or her current income, or for whom tax return information is unavailable, would be required to provide to the Secretary other documentation of income, which may be used to determine an appropriate repayment schedule.

The income contingent repayment schedule for a FDSLP loan that entered repayment before July 1, 1995, would require payments that do not exceed 10 percent of the adjusted gross income of the borrower (and the borrower's spouse, if applicable), or, for a borrower who provides alternative documentation of income, payments that do not exceed 10 percent of the appropriate portion of the applicable annual income as determined by the Secretary. For FDSLP loans that enter repayment on or after July 1, 1995, income contingent repayment schedules would be established by the Secretary through regulations.

Finally, proposed section 456(d) of the Act would require that the balance due on an income contingent FDSLP loan equal the unpaid principal amount of the loan, as well as any accrued interest and any fees, such as late charges. The Secretary may limit by regulation the amount of interest that may be capitalized on the loan and the timing of that capitalization. Further, the Secretary would be required to establish procedures under which the borrower of a FDSLP loan who will be using the income contingent repayment plan will be notified of the terms and conditions of the repayment plan, including notification that: (1) the Internal Revenue Service will disclose to the Secretary the most recent available information concerning the borrower's income; and (2) if a borrower considers that special circumstances, such as loss of employment by the borrower or his or her spouse, would warrant an adjustment in the borrower's loan repayment level, the borrower may contact the Secretary, who shall determine whether such adjustment is appropriate, in accordance with established criteria.

Proposed section 456(e) of the Act would provide that a borrower of a FDSLP loan who is eligible for a deferment, may refrain from paying periodic installments of principal. Borrowers under the FDSLP would be entitled to the same deferment terms as new borrowers (after July 1, 1993) under the FFEL program. Interest would not accrue for the borrower in the case of a Federal Direct Stafford Loan or a Federal Direct Consolidation Loan that consolidated only Federal Direct Stafford Loans or a combination of Federal Direct Stafford Loans and Federal Stafford Loans for which the borrower received an interest subsidy under section 428 of the Act. Interest would accrue and be capitalized or paid by the borrower in the case of a Federal Direct Supplemental Loan for Students loan, a Federal Direct PLUS Loan, a Federal Direct Unsubsidized Stafford Loan, or a Federal Direct Consolidation Loan that consolidated one or more loans that were not Federal Direct Stafford Loans or Federal Stafford Loans.

A borrower would be eligible for a deferment during any period in which the borrower was pursuing at least a half-time course of study at an eligible IHE, or pursuing a course of study under a graduate fellowship program approved by the Secretary, or a rehabilitation training program, approved by the Secretary, for individuals with disabilities. The borrower would also be eligible for a deferment during a period of not more than three years during which time the borrower (1) is seeking and unable to find full-time employment, or (2) has experienced or will experience an economic hardship, as determined by the Secretary in accordance with regulations for section 435(o) of the Act. However, a borrower would not be eligible for a deferment, or for a FDSLP loan other than a Federal Direct PLUS Loan or a Federal Direct Consolidation Loan, while serving a medical internship or residency program.

Proposed section 456(f) of the Act would provide that a borrower of a FDSLP loan would be eligible for forbearance if the borrower were willing but unable to make scheduled payments on the loan. Forbearance would mean permitting the temporary cessation of loan payments, allowing an extension of time for making these payments, or temporarily accepting smaller payments than previously scheduled.

A borrower of an FDSLP loan who is also serving in a qualified National Service position would be eligible for forbearance, which, in this case, would mean temporary cessation of payments unless the borrower chose otherwise. Any interest that would accrue during the period of the borrower's service would be required to be paid by the National Service Trust. The length of the forbearance for a National Service borrower would be required to be equal to the length of time remaining in the period of the borrower's service if the borrower is not eligible to receive a deferment, or the length of time remaining after the borrower has exhausted his or her eligibility for the deferment.

Proposed section 456(g) of the Act would provide that a borrower of a FDSLP loan may consolidate the loan with loans described in subsections (a)(4) and (d)(1)(C) of section 428C of the Act under terms and conditions established by the Secretary. These loans are the Federal Stafford Loans (subsidized and unsubsidized), Federal Supplemental Loans for Students loans, Federal Perkins Loans, and loans made under title VII, part C-II, of the Public Health Service Act. These Federal Direct Consolidation Loans would include a variety of repayment plans.

Proposed section 456(h) of the bill would require the Secretary, notwithstanding any other provision of State or Federal law, to specify in regulations (except as authorized under proposed section 459(a)) which acts or omissions of an IHE may be asserted by a borrower as a defense to repayment of a loan made under the FDSLP, except that in no event would a borrower recover an amount from the Secretary in an action arising from or relating to a FDSLP loan that would be more than the amount the borrower had repaid on the loan.

Proposed section 456(i) of the Act would provide that records maintained in accordance with section 484A(c) of the Act may be used in any proceeding, as permitted by section 484A(c) of the Act, with respect to a FDSLP loan. This would allow for the use of optically imaged documents in any proceedings involving FDSLP loans.

Finally, proposed section 456(j) of the bill would provide that, notwithstanding any other provision of law, a FDSLP loan is not dischargeable in bankruptcy.

Section 527. Section 527 of the bill would amend the loan collection and procurement contract authority in section 457 of the Act to reflect the expansion of the demonstration program into the FDSLP. Thus, this section of the bill would allow the Secretary to provide, through one or more contracts, for:
(1) the alternative origination of loans to students attending IHEs with FDSLP participation agreements (or to the parents of these students), if these IHEs do not have origination

agreements; (2) the servicing and collection of FDSLP loans; (3) the establishment and operation of one or more data systems for the maintenance of records on FDSLP loans; (4) services to assist in the orderly transition from the FFEL program to the FDSLP; and (5) such other aspects of the FDSLP as the Secretary determines are necessary to ensure its successful operation.

This section of the bill would also provide that, notwithstanding statutory requirements for full and open competition found in 41 U.S.C. 253, the Secretary would be authorized, until July 1, 1998, to award contracts for these services on a sole source basis without regard to the procedural requirements of the Federal Acquisition Regulation, in order to ensure the successful implementation of the FDSLP and the orderly transition from the FFEL program to the FDSLP. After July 1, 1998, all requirements for full and open competition regarding a contract for these services would be applicable. This provision of the bill would give the Secretary the administrative flexibility appropriate under the expected transition schedule prior to full implementation of the FDSLP.

Section 528. Section 528 of the bill would amend the reporting requirements in section 458 of the Act. This section of the bill would retain the requirement in current law that the Secretary transmit to the Congress, not later than July 1, 1993 and each July 1 for the five succeeding years, an annual report on the status of the program under part D of title IV of the Act. Since this would no longer be a demonstration program, other provisions relating to interim reports, control groups, and treatment of costs would be removed.

Proposed section 458(b) of the Act would require additional evaluations of the FDSLP. This provision would authorize the Secretary to use a portion of funding for the FDSLP for research on, or demonstration or evaluation of, any aspects of the administration of the FDSLP, including flexible repayment options that the Secretary determines are necessary to effectively implement the program.

Proposed section 458(c) of the Act would require the Secretaries of Education and the Treasury to develop a plan for providing FDSLP loan repayment options through the Internal Revenue Service and to evaluate the feasibility of providing FDSLP repayment options through the Internal Revenue Service and by means of other wage withholding mechanisms. The repayment options plan and the results of the evaluation would be required to be sent to the President by June 30, 1994.

Section 529. Section 529 of the bill would amend section 459 of the Act regarding the Secretary's promulgation of regulations. In accordance with the expected transition schedule from the FFEL program to the FDSLP noted above and the need to develop mechanisms for direct lending and income contingent repayment of student loans as expeditiously as possible, this section of the bill would require the Secretary to publish in the Federal Register whatever standards, criteria, and procedures, consistent with the provisions of this proposed part, the Secretary determines are reasonable and necessary for the successful implementation of the first year of the FDSLP.

This section of the bill would also provide that the master calendar provisions under section 482 of the Act and rulemaking requirements under section 431 of the General Education Provisions Act would not apply with regard to publication of these first-year, but only these first-year, standards, criteria, and procedures. Finally, section 529 of the bill would make conforming amendments to other provisions concerning Secretarial activities under section 459 of the Act, and would remove the requirement that the Secretary award procurement contracts not later than February 1, 1994, since this requirement is incompatible with the proposed expansion and transition to the FDSLP.

Section 530. Section 530 of the bill would repeal section 455 of the Act, which concerns institutional withdrawal and termination procedures for the demonstration program that would no longer be applicable, and would make conforming redesignations of section numbers within part D of title IV of the Act. The redesignation would create the following statutory structure for the FDSLP:

PART D--FEDERAL DIRECT STUDENT LOAN PROGRAM

Sec. 451.	Purpose; Program Authorization.
Sec. 452.	Funds for Origination of Direct Student Loans.
Sec. 453.	Selection by the Secretary.
Sec. 454.	Agreements with Institutions.
Sec. 455.	Terms and Conditions of Loans.
Sec. 456.	Contracts.
Sec. 457.	Reports.
Sec. 458.	Regulatory Activities by the Secretary.
Sec. 459.	Funds for Administrative Expenses.

Section 530A. Section 530A of the bill would amend the expenditure authority (which would be redesignated as proposed section 459 of the Act) to provide for the expanded program proposed by this bill. This section of the bill would provide that the following funds would be available to the Secretary to be obligated for administrative costs of the FDSLP and administrative costs of the transition from the FFEL program to the FDSLP: not to exceed $127,000,000 in fiscal year 1994; $367,000,000 in fiscal year 1995; $619,000,000 in fiscal year 1996; $632,000,000 in fiscal year 1997; and $770,000,000 in fiscal year 1998. [NUMBERS MAY CHANGE]

Section 530A of the bill would also provide that, if in any fiscal year, the Secretary determines that additional funds for administrative expenses are needed as a result of the transition from the loan programs under the FFEL program to the FDSLP, or the expansion of the FDSLP, the Secretary would be authorized to use funds available under this proposed section of the Act for a subsequent fiscal year for these expenses. The Secretary would also be authorized to carry over funds to any subsequent fiscal year.

PART C--CONFORMING AMENDMENTS TO THE HIGHER EDUCATION ACT OF 1965

In general, this portion of the bill would amend the current law in conformity with the proposed transition to a fully implemented FDSLP while avoiding disruptive changes to current program operations. Several provisions in the current FFEL program that are particularly beneficial to student borrowers have been retained, for example, the requirement in section 428(b)(1)(E)(i) of the Act that lenders offer borrowers an income sensitive repayment plan. While there are several differences between the income-based repayment plans under the FDSLP and the FFEL program, notably in the length of repayment and the mechanism for disclosing and verifying income, the bill would provide all borrowers the option to repay their loans based on their income, regardless of whether the loan were made under the FDSLP or the FFEL program.

This portion of the bill has also been drafted to preserve access to FFEL loans during the transition period, provide predictability to current financial markets, and help guaranty agencies carry out their responsibilities. It is expected that, while all new Federal student loans will be made under the FDSLP by the end of fiscal year 1997, guaranty agencies and other institutions participating in the FFEL program will be servicing, tracking, and reporting on a diminishing number of their outstanding loans for many years to come.

The particular amendments to the FFEL program are as follows, analyzed by section number of the bill.

<u>Section 531</u>. Section 531 of the bill would make several changes to the FFEL program in order to, as noted in section 531(a) of the bill, preserve access to student and parent loans under the FFEL program as needed during the transition from that program to the FDSLP.

Section 531(b) of the bill would add to the lender-of-last-resort provision in section 428(j) of the Act a new authority for the Secretary, in order to ensure availability of loan capital during the transition from the FFEL program to the FDSLP, to provide a guaranty agency with additional advance funds in

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Section 532. Section 532 of the bill clarifies the Act to reflect the longstanding view that the guaranty agency's assets are dedicated to the loan programs and may not to be used for unauthorized purposes. This authority would allow the Secretary to ensure that program assets are used to operate the loan program in the most efficient way possible, consistent with an orderly transition to the FDSLP.

Thus, this section of the bill would add to the guaranty agency reserves provisions in section 422 of the Act a clarification that, notwithstanding any other provision of law, the reserve funds of the guaranty agencies, and any assets purchased with these reserve funds, regardless of who holds or controls the reserves or assets, are the property of the United States, to be used in the operation of the FFEL program or the FDSLP. These reserves would be required to be maintained by each guaranty agency to pay program expenses and contingent liabilities, as authorized by the Secretary. However, the Secretary would also be authorized to direct a guaranty agency to: (1) return to the Secretary all or a portion of its reserve fund that the Secretary determines is not needed to pay for the agency's program expenses and contingent liabilities; and (2) require the return to the Secretary or the guaranty agency of any funds or assets held by, or under the control of, any other entity.

This section of the bill would also provide that, in order to ensure preservation of a guaranty agency's funds and assets, any contract that concerns to the administration of any guaranty agency's reserve funds or the administration of any assets purchased or acquired with the agency's reserve funds and that is entered into or extended by the guaranty agency after the effective date of this provision of the bill is required to include a provision that the contract is terminable by the Secretary. This termination provision could be implemented upon 30 days notice to the contracting parties if the Secretary determined that the contract included an impermissible transfer of reserve funds or assets, or was otherwise inconsistent with the terms or purposes of section 422 of the Act.

Section 533. Section 533 of the bill would amend the terms of loans under the FFEL program, in section 428 of the Act, to require that an insurance program agreement provide for income contingent repayment following a borrower's default. This section of the bill would also authorize the Secretary to require any borrower who has defaulted on a loan made under the FFEL program and assigned to the Secretary to repay that loan under an income contingent repayment plan, the terms and conditions of which would be established by the Secretary and would be similar to the income contingent repayment plan established for purposes of the FDSLP.

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Section 533 of the bill would also add a forbearance requirement to the agreement provision in section 428 of the Act. Under these provisions, a lender, upon written request, would be required to grant forbearance to a borrower who is serving in a National Service position. The forbearance would be required to be renewable at 12-month intervals, agreed to in writing by the parties to the loan with the approval of the insurer, and on terms that are otherwise consistent with the Secretary's regulations. The forbearance would also be required to equal the length of time remaining in the period of National Service if the borrower is not eligible to receive a deferment, or the length of time remaining after the borrower has exhausted his or her eligibility for the deferment. Sections 428(b)(1)(V)(iii) and 428(b)(1)(V)(iv) of the Act would apply, so that, for example, forbearance would be considered a temporary cessation of payments unless the borrower selected a different form of forbearance, no administrative fee could be charged for forbearance services, and no adverse credit information could be reported. Any interest that would accrue during the period of service would be paid by the National Service Trust.

Section 534. Section 534 of the bill would amend section 428(c)(8) of the Act, concerning assignment of loans from guaranty agencies to the Secretary when it is in the Federal interest to do so. This section of the bill would remove provisions that would no longer be applicable, given the proposed expansion of the direct lending program. It would also add a provision that an orderly transition from the FFEL program to the FDSLP shall be deemed to be in the Federal financial interest, and a requirement that a guaranty agency promptly assign loans to the Secretary, if deemed by the Secretary to be necessary to protect the Federal financial interest, upon the Secretary's request.

Section 535. Section 535 of the bill would make changes to section 428(c)(10) of the Act, regarding guaranty agency reserves, in conformance with the transition to the FDSLP. Section 535(1) of the bill would no longer require the Secretary to require a guaranty agency that has low reserves or is financially or administratively impaired to submit a management plan to the Secretary before the Secretary takes other steps concerning that agency. The Secretary would require a management plan only as appropriate, consistent with the transitional nature of the FFEL program. Similarly, section 535(2) of the bill would allow modification of a guaranty agency's management plan in conformity with the transition to the FDSLP.

Section 535(3) of the bill would give the Secretary increased flexibility to terminate a guaranty agency's agreement by allowing the Secretary to terminate the agreement if the Secretary determines that termination is necessary to protect the

Federal financial interest, to ensure the continued availability of loans to student or parent borrowers, or to ensure an orderly transition from the FFEL program to the FDSLP.

Section 535(4) of the bill would expand the Secretary's authorized functions when a guaranty agency's agreement is terminated. The Secretary would be authorized to provide the guaranty agency with additional advance funds in accordance with section 422(c)(7) of the Act, with such restrictions on the use of such funds as is determined appropriate by the Secretary, in order to meet the immediate cash needs of the guaranty agency, ensure the uninterrupted payment of claims, or ensure that the guaranty agency would will make loans as the lender of last resort. This section of the bill would also authorize the Secretary to use all funds and assets of the guaranty agency to assist in the activities undertaken in accordance with termination of the guaranty agency agreement and to take appropriate action to require the return to the guaranty agency or the Secretary of any funds or assets provided by the guaranty agency, under contract or otherwise, to any person or organization. Finally, this section of the bill would authorize the Secretary to take whatever other action is necessary to ensure an orderly transition from the FFEL program to the FDSLP.

Section 535(5) of the bill would remove subparagraph (G) of section 428(c)(10) of the Act, which currently prevents the Secretary from terminating the agreement of any guaranty agency that is backed by the full faith and credit of the State where that agency is the primary guarantor. This provision in current law would impede efforts to "wind down" the FFEL program.

Section 535(6) of the bill would make conforming amendments to the structure of section 428(c)(10) of the Act.

Section 535(7) of the bill would provide additional authorities needed by the Secretary to ensure an orderly termination of the FFEL program. If the Secretary has terminated or is seeking to terminate a guaranty agency's agreement, or has assumed a guaranty agency's functions, this section of the bill would provide that, notwithstanding any other provision of law: (1) the guaranty agency may not file for bankruptcy; (2) no State court may issue an order affecting the Secretary's actions with respect to that guaranty agency; and (3) no provision of State law shall apply to the actions of the Secretary in terminating the operations of the guaranty agency.

This section of the bill would also provide that, if the Secretary has terminated or is seeking to terminate a guaranty agency's agreement, or has assumed a guaranty agency's functions, and notwithstanding any other provision of law, any contract that concerns to the administration of any guaranty agency's reserve funds or the administration of any assets purchased or acquired with the agency's reserve funds and that is entered into or extended by the guaranty agency after the effective date of this provision of the bill is required to include a provision that the contract is terminable by the Secretary. This termination provision could be implemented upon 30 days notice to the contracting parties if the Secretary determined that the contract included an impermissible transfer of reserve funds or assets, or was otherwise inconsistent with the terms or purposes of section 428 of the Act. Finally, notwithstanding any other provision of law, the Secretary's liability for any outstanding liabilities of a guaranty agency, the functions of which the Secretary has assumed, would not exceed the fair market value of the reserves of the guaranty agency, minus any necessary liquidation or other administrative costs.

Section 535(8) of the bill would make a conforming amendment to a reporting requirement, consistent with the transition to the FDSLP.

Section 536. Section 536 of the bill would revise section 428(f)(1)(B) of the Act concerning payments based on insurance program agreements, to would ensure that guaranty agencies continue to receive an adequate administrative cost allowance while they maintain their outstanding loan volume during the latter portion of the transition period. This section of the bill would require that, until full implementation of the FDSLP, an additional payment per fiscal year would be given guaranty agencies, supplementing the amount authorized in current law (1 percent of the total principal amount of the FFEL program loans upon which insurance was issued during a fiscal year by a guaranty agency). This payment would be made for each outstanding Federal Stafford Loan, Federal Supplemental Loans for Students loan, Federal PLUS Loan, or Unsubsidized Stafford Loans for Middle-Income Borrowers loan held by a guaranty agency at the end of the relevant fiscal year. The amount of this additional payment per outstanding loan would be $2 for fiscal year 1996 and $4 for fiscal years 1997 and 1996. No additional payment would be authorized for fiscal years 1994 and 1995, when FFEL program loan volumes would still be relatively high.

Section 537. Section 537 of the bill would amend the provisions for the Federal consolidation loan program under section 428C of the Act, in order to facilitate the expansion of the FDSLP. Section 537(1) of the bill would define "eligible borrower" for the loan consolidation program in the FDSLP to mean a borrower who, at the time of application for a consolidation loan, is in repayment status, or in a grace period preceding repayment, or is a delinquent or defaulted borrower who will reenter repayment through loan consolidation.

Section 537(2) of the bill would amend the terms of the consolidation loan agreement to require a lender to offer income-sensitive repayment terms for a consolidation loan made on or after July 1, 1994. In the event that a borrower is unable to obtain a consolidation loan with income-sensitive repayment terms from the holders of the outstanding loans of that borrower (that are selected for consolidation) or any other lender, including Sallie Mae, this section of the bill would authorize the Secretary to offer the borrower a direct consolidation loan with income contingent repayment terms under the FDSLP.

This section of the bill would make a technical amendment to the deferment provisions of consolidated loans under the FFEL program, in order to make this provision administratively feasible. As with the proposal for loans consolidated into the FDSLP, interest would accrue and be capitalized or be paid by the borrower on loans that where interest is not federally subsidized; interest would accrue and be paid by the Secretary on loans where interest is federally subsidized.

Section 537(3) of the bill would provide that a consolidation loan made before July 1, 1993, would bear interest at an annual rate on the unpaid principal balance of the loan that is equal to the greater of (1) the weighted average of the interest rates on the loans consolidated, rounded to the nearest whole percent; or (2) 9 percent. A consolidation loan made on or after July 1, 1993, would bear interest at an annual rate on the unpaid principal balance of the loan that is equal to the weighted average of the interest rates on the loans consolidated, rounded to the nearest whole percent.

Section 537(3) of the bill would make additional changes to the Federal consolidation loan program consistent with offering income-based repayment options to borrowers. During the transition from the FFEL program to the FDSLP, lenders under the FFEL program would be required to offer income sensitive repayment on a consolidated loan, while the Secretary would offer income contingent repayment on a loan assigned to the Secretary.

Section 538. Section 538 of the bill would add a provision to section 439 of the Act, concerning Sallie Mae. This provision would require the Secretaries of Education and the Treasury, in consultation with Sallie Mae, to prepare a study that examines alternatives that would allow, upon full implementation of the FDSLP, for the transition of Sallie Mae from a government-sponsored enterprise to a private corporation.

The study would be required to be completed within six months of the enactment of title V of this bill and to be considered by the Secretaries of Education and the Treasury in developing relevant legislative proposals. In addition, the study would consider how best to meet the needs of students and taxpayers, as well as appropriate changes to part D of title VII of the Act relating to the College Construction Loan Association. The study would also be required to reflect the need for Sallie Mae to maintain liquidity and perform other functions for the FFEL program during the transition from that program to the FDSLP, including additional duties as specified by the two Secretaries.

Finally, this section of the bill would direct the Secretaries of Education and the Treasury to work with Sallie Mae to ensure that any changes in Sallie Mae's status, operations, or purposes are carried out efficiently and effectively.

Section 539. Section 539(a) of the bill would amend section 484A of the Act to provide for the use of optically imaged documents in certain proceedings. This section of the bill would describe the purpose of this proposed provision, which would be to: (1) allow the Secretary to use optical imaging technology to store and retrieve documents and records, including promissory notes and repayment agreements, required for the administration of the FDSLP, or for the administration of loans made under the FFEL program that have been assigned to the Secretary; (2) permit the Secretary to destroy originals of these documents and records, including promissory notes and repayment agreements, after they have been optically imaged, thereby achieving significant savings in storage and retrieval costs; and (3) ensure that the Secretary may introduce as evidence in any proceeding with respect to these programs or loans optically imaged documents and records, including promissory notes and repayment agreements.

This section of the bill would also provide that, notwithstanding any other provision of Federal or State law, an optically imaged copy of any document or record, including a promissory note or repayment agreement, may be introduced as evidence in any proceeding with respect to these programs or loans in any Federal or State court, or other tribunal, and this optically imaged copy would be admissible in any court or tribunal of the United States or any State as if it were the original document or record and have the same force and effect as the original. However, this provision would not preclude the admissibility of a duplicate of a document or record required for the administration of these programs or loans made by a technology other than optical imaging. Further, this provision would not preclude the admissibility of an optically imaged copy of any document or record in a proceeding outside the scope of section 484A(c) of the Act.

Section 539(b) of the bill would amend section 432 of the Act to provide that records maintained in accordance with section 484A(c) of the Act may be used in any proceeding, as permitted by section 484A(c) of the Act, with respect to a loan that was made under the FFEL program and assigned to the Secretary. This would allow the Department to use optically imaged documents as evidentiary material in certain proceedings with respect to these loans. This authority would be consistent with the authority proposed for allowing as evidentiary material in certain proceedings optically imaged documents with respect to FDSLP loans.

Section 539(c) of the bill would amend section 487 of the Act, concerning program participation agreements, to provide that optically imaged documents may be used in any proceeding with respect to a FDSLP or a FFEL program loan that has been assigned to the Secretary, as provided in section 484A of the Act, in accordance with applicable provisions of the Federal Rules of Evidence and 28 U.S.C. 1732.

PART D--AMENDMENTS TO OTHER LAWS

Section 541. Section 541 of the bill would amend provisions of the Internal Revenue Code of 1986 (IRC) that concern confidentiality and disclosure of tax returns and return information. The amendments made by this section of the bill would facilitate the use of an income contingent repayment plan under the FDSLP, which, in turn, would allow students to pursue community service-oriented employment. These amendments would also clarify a disclosure provision under the Department's tax refund offset authority and improve debt collection overpayments under the Federal Pell Grant program.

Section 541(a) of the bill would amend section 6103(a)(3) of the IRC, which sets forth the general rule that tax return information is confidential and specifies those individuals who, although they may receive such information under exceptions to this general rule, may not further disclose the information. This section of the bill would add to that list any person who has access to returns or return information under proposed authority to receive information to carry out an income contingent repayment plan under the FDSLP.

Section 541(b)(1) of the bill would amend the tax refund offset authority in section 6103(l)(10) of the IRC to clarify that agents of the Department may receive certain taxpayer information. This information, which does not include income information, is the same as that now disclosed to the Department under the current tax refund offset program.

Section 541(b)(2) of the bill would add to section 6103(l) of the IRC, which provides for disclosure of returns and return information for purposes other than tax administration, a new provision (section 6103(l)(13)) that would authorize the Secretary of the Treasury to, upon written request from the

Secretary of Education, disclose to officers and employees agents of the Department return information with respect to a taxpayer who has received a Federal loan under a student loan program and whose loan repayment amounts are based in whole or in part on the taxpayer's income. This return information would be limited to taxpayer identity information with respect to such taxpayer, information about whether the taxpayer filed a joint return, and the most recent available information concerning the taxpayer's adjusted gross income.

Section 541(b)(2) of the bill would also provide that any officers, employees, and agents of the Department receiving return information shall use the information only for the purposes of, and to the extent necessary in, establishing an appropriate income contingent repayment level for the FDSLP and for FFEL program loans or Federal Perkins loans that have been assigned to the Secretary.

Section 541(c) of the bill would amend section 6103(m)(4) of the IRC, which authorizes disclosure of the mailing address of a taxpayer who has defaulted on a student loan administered by the Department. This section of the bill would add to the current list of programs for which mailing addresses could be disclosed the debt collection program for overpayments under the current Federal Pell Grant program (since collection efforts have been seriously hampered without this information) and the new FDSLP. This section of the bill would also make conforming amendments to this authority. However, these amendments would not alter the strict limits on the use of this information now in current law.

Section 541(d) of the bill would amend section 6103(p) of the IRC, concerning recordkeeping requirements and safeguards. This section of the bill would provide that the Secretary of the Treasury would not be required to maintain a record or accounting of requests for inspection or disclosure or returns and return information, or of returns and return information inspected or disclosed, under the income contingent repayment disclosure authority proposed for section 6103(l)(13) of the IRC. This is in keeping with other disclosure authorities under section 6103 of the IRC. Further, section 541(d) would require the Department to undertake the same safeguards for the income contingent repayment disclosure authority and for receipt of mailing addresses as are required by other Federal agencies that similar information under section 6103 of the IRC.

Finally, section 541(e) of the bill would amend section 7213(a)(2) of the IRC, concerning criminal sanctions. This section of the bill would provide that unauthorized disclosure of tax return information by agents of the Department of Education would be a felony punishable by a fine of not more than five thousand dollars, or imprisonment of not more than five years, or both, together with the costs of prosecution. This sanction is consistent with sanctions for disclosures of other tax return information under the IRC.

Section 452. Section 452 of the bill would add the FDSLP to the list of programs and activities exempt from budget reduction under section 255(g)(1)(A) of the Balanced Budget and Emergency Deficit Control Act of 1985 (2 U.S.C. 905(g)(1)(A)).

PART E--EFFECTIVE DATES

Section 551. Section 551 of the bill would set out the effective dates for the amendments made by title V of this bill.

Give copy to Debby Lucas
page 6 especially

4/5 done

4/2 1:00 p.m.

F.
Finance
(Student
Loans)

To: Joe Stiglitz

. Materials for Direct Loan meeting at 6 p.m.

. At the meeting, there will be handouts:

- Budget table (CBO scoring)
- Income contingent repayment examples.

Barry White

File

STUDENT LOAN REFORM

April 2, 1993

NOTE: This paper reflects the current status of decisions by the Secretary and Deputy Secretary of Education. Each issue that is still outstanding with OMB is highlighted and a separate issue paper laying out and analyzing the options is attached. These issues include whether to substitute federal contractors for the federal/state partnership outlined here, whether to pay loan originators, and several design aspects of income contingency.

OBJECTIVES

To reform and simplify student loans through direct federal lending and the elimination of many middlemen in the current system. To provide all borrowers with flexible repayment options, including income-based repayments, so that student debt will not prevent them from taking lower paying service jobs.

A second initiative next year will build upon these changes in students loans to streamline and simplify all student aid programs.

IMPLEMENTATION OF DIRECT LOANS

o **Goal and Timing**

By the end of FY 1997, use federal capital for all student loans. Begin direct lending in FY 1994.

-- The planned phase-in path would have 4 percent of volume in direct lending by the end of FY 1994, 25 percent the second year, 60 percent the third year, and full implementation by the end of FY 1997. (This path would not be specified in statute.)

o **Loan Originators**

Some institutions will originate loans themselves; others will use the services of alternative originators. Criteria measuring the financial and administrative capability of institutions to originate loans well will be used to determine which institutions can originate themselves and which should use alternative originators.

-- In the beginning, we would rely heavily on experienced direct lenders in the Perkins program in order to pick institutions that can originate loans well. In addition, we will select other institutions that will use alternative origination services.

-- After the first year, we will develop more detailed criteria that measure administrative and financial capacity for participation as an originator.

100,000 100,000 100,000 100,000

10,000 10,000 money

Both 10%

$\boxed{20,000}$ $\boxed{+10,000}$ 0 100,000

+

$\boxed{10,000}$ $\boxed{10,000}$

20,000%

o **Alternative Originators**

Some institutions will not wish to originate loans themselves; others will not have the administrative and financial capacity. Alternative originators could include the state agencies, private lenders, Sallie Mae, and other organizations if they are willing to do so for a fixed fee.

-- Initially, alternative origination services would be provided through a federal contractor, or through a state that is ready to perform these services immediately.

-- At full implementation, the state agencies would be responsible for this activity. They could do it themselves or they could contract with private organizations.

o **Payments for Loan Originators**

Pay institutions or alternative originators a small fee--about $10 to $15 per borrower--for loan origination.

-- Paying institutions and the alternative originators a small fee would generate more support for direct lending and would reduce arguments that we are saving money by shifting costs to the institutions. This origination fee would increase federal costs only slightly.

-- The payment should be small because the additional costs are small and the benefits to institutions of direct lending are substantial. The fee should be based on the number of borrowers and should decline for larger numbers of borrowers to adjust for economies of scale.

NOTE: An attachment presents the pros and cons of whether to pay loan originators and, if so, how much.

o **Student Interest Rate**

Some of the savings from direct lending will be used to lower interest rates for students. At full implementation, we would lower student interest rates by about one-half of a percentage point.

-- All other terms for borrowers--including loan limits, eligibility rules for loan subsidies, and number of loan programs--would remain the same during the phase-in period. Such changes would be included in a future initiative addressing all student aid programs.

o **Relationship to the Perkins Program**

Because we are moving to large scale direct lending we no longer need to add new capital to the Perkins program. Whether to try and recapture the Perkins revolving accounts ($5 billion in outstanding loans, most of which came from federal capital contributions) is not addressed here, although it could be included in the next proposal to streamline all student aid programs.

FEDERAL STATE PARTNERSHIP

o **Partnership**

When fully implemented, the program will represent a true federal/state partnership, with each state that wishes to enter into the partnership negotiating an agreement with the Secretary of Education to establish a genuine state loan agency (SLA). In some states the current guarantee agency may be designated as the new SLA.

This new agency will operate as the state's alternative loan originator for institutions that do not act as loan originators, train participating institutions' personnel, monitor participating institutions (at a minimum for compliance with loan origination rules; eventually this could be extended to monitoring for all student aid programs) and service loans from the point of origination through normal repayment (see below for income contingent repayments and the role of the IRS). These agencies will receive fees for the services they provide. They will also be able to contract with private entities to provide these services under state supervision.

-- State agencies will take over these responsibilities in two stages. First they will provide the alternate origination, training, and institutional monitoring functions. The second phase, which will begin when the state can demonstrate capacity to move forward, will include the loan servicing function.

NOTE: An attachment compares using the state/federal partnership to provide origination, monitoring, and servicing with using private contractors to perform origination and servicing through competitive bids with the federal government.

o **Risk Sharing**

In association with the fees provided to SLAs for the services they provide, these entities will also receive incentive payments for exceptional performance and financial sanctions for inadequate performance. Sanctions include liability for loan capital wrongly delivered.

o **Data System**

To work effectively, the various SLAs will need to be able to share data from all loan originators throughout the nation. Therefore, it will be imperative that the Department develop a national student loan data system. Such a system has been under development since 1989 and must be expanded to perform all the functions needed for the SLAs to carry out their responsibilities in direct loans.

INCOME CONTINGENT REPAYMENTS

In order to meet the President's goal of permitting high debt borrowers to take lower paying jobs in community service as soon as possible, ED will implement through regulations the current law provisions for graduated and income sensitive repayment in the current system. The bill will then include further modifications to those authorities to further enhance them and to provide true income contingency.

o **Repayment Options**

Borrowers would be able to choose among a range of flexible repayment options, including fixed repayments, graduated repayments, and income contingent payments depending on their level of debt and income. Borrowers could also switch among repayment options as their incomes changed.

o **Defaulters**

The Secretary could require defaulters to repay through income contingency to help ensure that they pay what they can, with the amount varying according to the level of income.

o **Design of Income Contingent System**

The design of the system addresses the appropriate income measure, the percentage of income, capitalization of interest, and length of repayment.

Income Measure. Family income is the best measure of ability to pay because it includes all sources of income for the family, not just earnings. We recommend setting aside a portion of income and assessing loan payments based on the remaining "discretionary" income.

10%

Percentage of Income. Use a straightforward system that requires borrowers to repay an appropriate percentage of discretionary income. At any given income level, borrowers with more debt would repay for a longer period of time.

-- The rate would be set at up to 10 percent of discretionary income for most borrowers. The legislation will state that the Secretary will set the specific rates.

Capitalization of Interest and Length of Repayment. Interest will accrue and be capitalized so that borrowers whose incomes grow in future years will repay when their incomes are sufficient. Borrowers with persistently low incomes will never fully repay.

NOTE: These issues are discussed further in an attached paper.

o **Conversion**

Converting guaranteed loans into direct loans would allow us to offer income contingent repayment options to current borrowers. It would also allow students who have both direct and guaranteed loans to consolidate them. The bill will seek the needed authority to do this. For costing purposes, we need to explore further OMB's credit reform scoring rules for this option particularly for those loans made before 1992.

o **Role of the IRS**

Income contingent repayments will be phased in through a two step process. The Department of Treasury agrees with this approach.

-- The first phase will use information from the IRS on borrowers' incomes to determine loan payments. Loans would be collected by state agencies or by servicers under contract to the federal government. The legislation will amend the current disclosure provisions to allow IRS to provide this information to ED or its designated servicers.

-- The bill will specify that the Secretaries of Education and Treasury will develop within a year a plan for full implementation of student loan collections, including the appropriate role for IRS. This would allow sufficient time to address all the issues and concerns regarding how such a system would be structured and how much it would cost.

EASING THE TRANSITION FROM GUARANTEED STUDENT LOANS

o **Ensure Loan Capital Availability**

Once it is apparent that the current guaranteed student loan program is being replaced entirely by the new direct student loan program, it is quite possible that some of the current lenders, perhaps even a large share of these lenders, may quit participating in the current program. If this were to occur, it would create a substantial problem with the availability of loan capital.

-- Therefore, the Department of Education must begin immediately to develop a way of assuring adequate loan capital in the event that private capital dries up. The importance of building this capacity cannot be overstated.

o **Address Guarantee Agency Solvency**

As the volume of loans in the guaranteed student loan program begins to decline, it is almost certain that some current state and non-profit guarantee agencies will become financially insolvent, because they lack adequate reserves to finance their existing contingent liabilities.

-- Adopt a new administrative cost allowance that funds agencies on the basis of total outstanding balances, rather than solely on the basis of new annual loan volume, and prepare a plan for dealing with the loan portfolios of guarantee agencies that become insolvent. (For example, when the last guarantee agency become insolvent its portfolio was parceled out to other guarantee agencies).

o **Sallie Mae**

Although no recommendation is provided at this time on the future of Sallie Mae, the Departments of Education and Treasury will develop the policy options for later discussion. This should be included in the legislation, although it might present jurisdictional issues in terms of Committee responsibilities in Congress.

] privatize

PAYMENTS FOR ORIGINATING LOANS

The Direct Loan Demonstration program in current law does not compensate institutions for origination of loans. The benefits of reduced complexity from dealing with only one source of capital and rules, plus the benefit of student loan access for the school, were presumed to outweigh any need for reimbursement.

Loan origination involves the preparation of the promissory note, its transmission to the Federal government or its contractor, and counselling of borrowers regarding their rights and responsibilities, all functions formerly done by lenders.

The variations in institutional capacity to originate loans and uncertainty about their willingness to do so without financial compensation lead to options for Federal payments.

Common aspects

All options below assume the establishment of Federal standards of administrative capacity to originate loans. Institutions not meeting those standards would not be permitted to originate loans. Depending on the option chosen, schools would buy the service from, or have it done for them by, the alternative originators ED will be setting up.

ED believes that its estimates of administrative costs are flexible enough to cover the costs of any of the options.

Options

1. Pay no institutions as in current law for the direct loan demonstration program.

2. Pay all institutions that originate loans themselves, and pay for alternative origination for other schools. Pay a standard price based on a schedule that recognizes declining marginal costs for larger portfolios.

3. Establish a tiered system. (a) No payments to schools that have good capacity (and relieve them of some regulatory burden in return); (b) share costs with good schools that are financially weak (some HBCUs, community colleges and others that meet weakness standards); (c) require schools with questionable capacity to buy loan origination services from ED-approved entity (could be a local bank); some of the category "b" schools might opt for category "c," rather than take any responsibility for loan origination.

Arguments for payment

- o Banks are paid for origination in the current system; schools should be as well, as option 2 provides.

- o There is controversy among institutions about whether the new loan origination role will result in less or more administrative burden. Paying for loan origination could encourage some institutions that are now reluctant to participate to be more willing.

  - -- Based on data from the Minnesota Guaranty Agency, ED believes a $10 or $15 payment per borrower (6 to 7 million loans) should cover costs. [Note that the Consumer Bankers Association claims the cost is $35; the schools last year argued for $20.]

  - -- Paying institutions and the alternative originators a small fee would generate more support for direct lending and would reduce arguments that we are saving money by shifting costs to the institutions.

  - -- It is, however, unlikely that any reasonable payment will be large enough to enable some institutions to build capacity if none now exists, or to persuade some institutions that are firmly opposed to direct loans to originate loans.

- o Option 1 recognizes that the benefits to schools envisioned in current law are real and substantial.

- o Option 3, the tiered system, meets the political issue (stressed by the authorizing committee staff) raised by HBCUs, and other weak schools.

- o Deciding now for full Option 2 adds costs, although ED believes these costs are relatively small and would not increase the current estimates.

PROGRAM INTERMEDIARIES: STATES OR CONTRACTORS

In direct lending, functions now performed by lenders and guaranty agencies must be performed by intermediaries (direct Federal administration is too staff intensive to be a serious option). Functions include:

- o Loan origination for schools that are incapable or unwilling to originate, or who should not be allowed to originate.
- o Loan servicing, from origination through normal repayment (see Issues on income contingency and IRS role for special aspects of repayment).
- o Monitoring school performance as originators.

OPTIONS:

1. Federal/State partnership, as proposed by Education.
2. Federal contractors, as envisioned in the current Direct Loan Demonstration authority and the House bill for full direct lending in last year's reauthorization.
3. Test both approaches during the first two years, without committing to either until evidence is in. [ED does envision a mix of States and contractors for some period of time while States develop capacity, but would set the goal now of a State-run system.]

Common aspects:

- o Options 1 and 2 each require a major new investment of Federal oversight staff and executive direction, although ED believes that monitoring the States is less staff intensive than monitoring contractors. (It is also clear that maintaining the guarantee system would require some, though not as many, new managers and staff.)
- o ED believes that costs need not differ significantly between Options 1 and 2, within the current estimates.

Discussion:

- o States should be willing to create effective systems; they have a major stake in the education of their citizens and have licensed to operate, or themselves operate the schools.
- o Under the 1992 Higher Education Act amendments, and resources now requested (1993: $5 million; 1994: $25 million), States are already expected to perform eligibility and compliance reviews of problem schools.

- o State staff could be geographically closer to schools than staff of a smaller number of contractors. Most students are in State or local government institutions. States should be able to have more frequent contact with schools and more influence on public institutions.

- o Some States have some of the capability in place.

- o The State approach may encourage opponents of direct lending to claim that one of the simplification arguments, elimination of (state) guaranty agencies, is nullified.

- o Proponents of contractors will argue that successful oversight of 50 States (even with consortia allowed and even assuming good performance-based agreements are reached with States) will be more difficult to achieve than successful oversight of a smaller number of contracts with enforceable performance provisions.

  For example, one can terminate or sanction a contractor that does not perform, in accord with contract terms, and replace it with another. Declaring a State incapable of performance or enforcing sanctions against it, is always difficult politically, regardless of the terms of State agreements.

- o Given the President's determination not to impose "unfunded mandates" on States, State claims for cost coverage may exceed the cost the Department can expect to negotiate in a competitive bid environment with contractors.

- o The higher education community bitterly resisted the 1992 amendments that created the new State performance monitoring role. They see it as an encroachment on their independence from State government. None resisted more bitterly than the State institutions. Schools can be expected to fight a new State role, although a narrowly drawn role addressing only the loan servicing functions may be less controversial.

INCOME CONTINGENT REPAYMENTS

Flexible repayments, including income contingent repayments, will give borrowers the opportunity to choose lower paying jobs regardless of the level of debt incurred while in college. The Higher Education Amendments of 1992 provide some additional flexibility in repayments, including graduated and income sensitive repayments.

We can fulfill the President's commitment to offer these options to students in three steps:

- First, the Department will develop regulations to implement the additional repayment options included in the 1992 reauthorization.

- The second step is to provide to the Secretary the authority to offer income contingent repayments to some borrowers using information from the IRS on borrowers' incomes.

- The third step is to determine the role of the IRS in collecting student loans when direct loans and income contingency are fully implemented. We will develop this role through a joint plan prepared by the Secretaries of Education and Treasury during the next year.

Two important issues in designing the specific income contingent repayment plan are capitalization and maximum length of repayment. These variables determine the total amount that students will repay, particularly for borrowers with low incomes.

<u>Capitalization and Length of Repayment</u>: Should interest accrue and be added to the principal when payments are insufficient to cover the interest, and how long should repayment continue.

- The proponents of capitalization argue that borrowers who earn money later in life, or who have more fluctuations in income, should not pay less than borrowers with steadier incomes.

- Capitalizing interest will add significantly to total outstanding debt for borrowers with low incomes over an extended period of time. This can be unfair to the poor at some point. Borrowers with persistently low incomes will never fully repay.

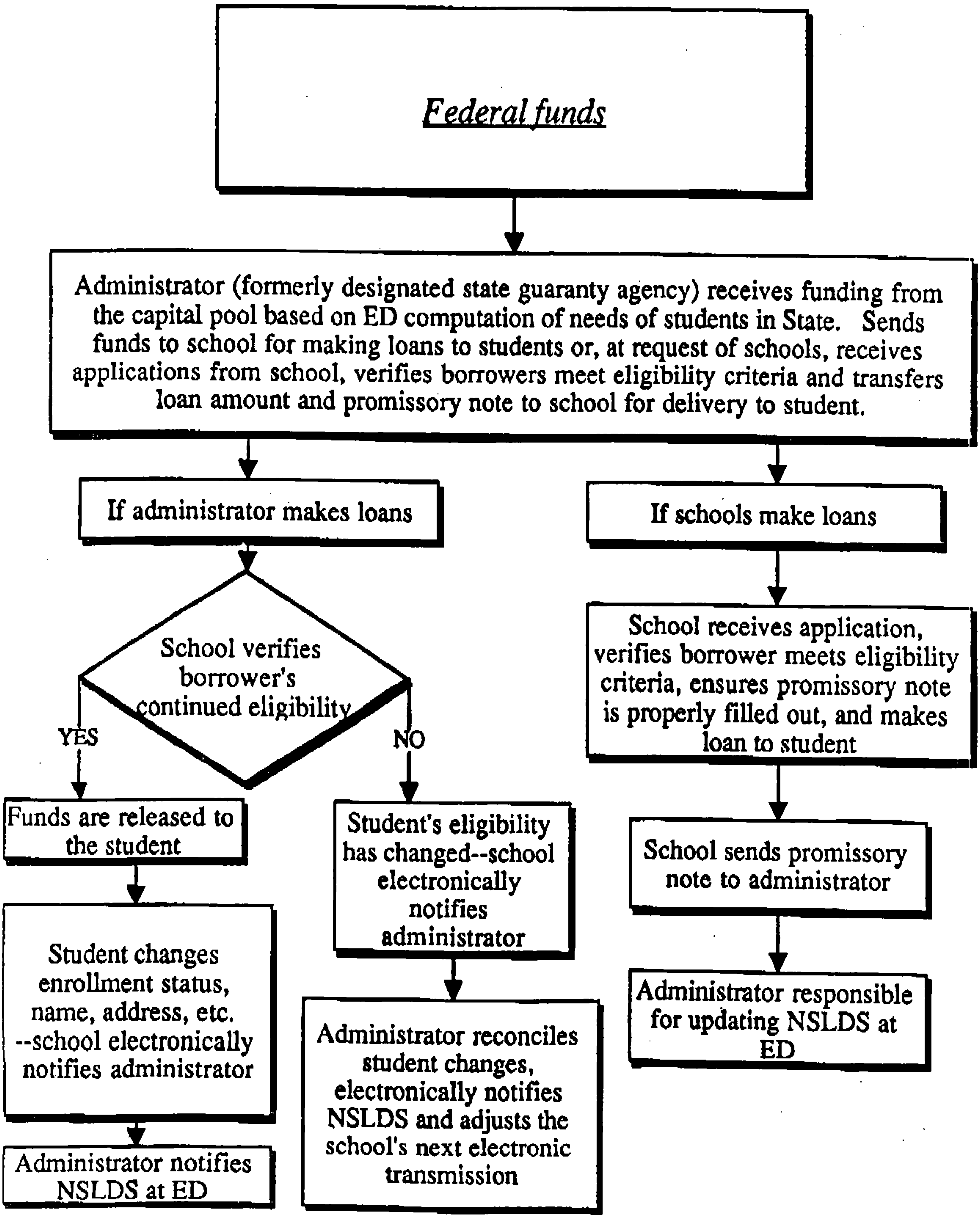
- Politically, the notion of a poor person with a $2,500 loan "owing" many times that may be untenable.

- Another possibility is require capitalization but to limit the amount to some multiple of the original balance. This prevents debts from increasing without any limits.

- Some income contingent plans write off the remaining loan balance after a set number of years, such as 20 or 30 years, or at retirement. Others have no time limit on repayment because borrowers' incomes may rise and they would be able to repay later.

- Limiting the number of years could be combined with capitalization to limit how much debt could increase for low-income borrowers.

ORGINATION PROCESS



COMPARISON OF VARIOUS INCOME-CONTINGENT REPAYMENT OPTIONS

1. 20 year maximum repayment, interest not capitalized
2. 40 year maximum repayment, interest not capitalized
3. 20 year maximum repayment, interest capitalized
4. 40 year maximum repayment, interest capitalized

Income--> Debt		$8,000 NPV	$15,000 NPV	$25,000 NPV	$35,000 NPV	$50,000 NPV
$2,500	1.	$2,214	$2,411	$2,433	$2,483	$2,489
	2.	$2,211	$2,411	$2,433	$2,483	$2,489
	3.	$2,309	$2,411	$2,433	$2,483	$2,489
	4.	$2,334	$2,411	$2,433	$2,483	$2,489
$5,000	1.	$2,309	$4,796	$4,856	$4,884	$4,850
	2.	$3,465	$4,796	$4,856	$4,884	$4,850
	3.	$2,309	$4,796	$4,856	$4,884	$4,850
	4.	$4,513	$4,796	$4,856	$4,884	$4,850
$10,000	1.	$2,309	$9,449	$9,594	$9,667	$9,682
	2.	$4,711	$9,449	$9,594	$9,667	$9,632
	3.	$2,309	$9,449	$9,594	$9,667	$9,632
	4.	$4,711	$9,449	$9,594	$9,667	$9,632
$15,000	1.	$2,309	$12,726	$14,297	$14,423	$14,496
	2.	$4,711	$13,793	$14,297	$14,423	$14,496
	3.	$2,309	$12,726	$14,297	$14,423	$14,496
	4.	$4,711	$14,005	$14,297	$14,423	$14,496
$25,000	1.	$2,309	$12,726	$23,552	$23,785	$23,962
	2.	$4,711	$18,864	$23,552	$23,785	$23,962
	3.	$2,309	$12,726	$23,552	$23,785	$23,962
	4.	$4,711	$21,391	$23,552	$23,785	$23,962

Notes: Interest charged to borrower 6.11% (2.5 % above 1994 91-day T-Bill)
Discount rate 6.68% (1994 10 year T-Bill)
HHS 1993 poverty income ($7,000) for single person indexed for inflation (3%)
Annual salary growth of 4%.

Example: Low-income student who never repays anything--student interest rate of 6 percent with capitalization:

- Debt is slightly more than 3 times original debt at 20 years

- Debt is almost 6 times original debt at 30 years

- Debt is more than 10 times original debt at 40 years

  $ 2,500 - Original debt
  $ 7,500 - Debt in 20 years
  $15,000 - Debt in 30 years
  $25,000 - Debt in 40 years

(Outlays: $ in millions: CBO Scoring)

	1994	1995	1996	1997	1998	94-98
CBO Baseline.....	2,675	2,825	2,945	3,019	3,103	14,566
Direct loan phase-up.......	23	139	371	426	609	1,568
GSL phase-down...	104	228	248	206	161	947
Subsidies........	-9	-265	-1,104	-2,301	-3,101	-6,780
Net cost......	2,793	2,927	2,460	1,350	772	10,301
Net change....	118	102	-485	-1,669	-2,331	-4,265

NOTE: All funds are scored mandatory.

4/2/93

File —

Student Loan

Com 6
Women
F
Finance
(Student
Loans)

UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF POSTSECONDARY EDUCATION

FACSIMILE TRANSMISSION

DATE: March 30, 1993

NUMBER OF PAGES: 7 to follow

TO: Joe Stiglitz

FROM:

Maureen A. McLaughlin
Acting Assistant Secretary
for Postsecondary Education
Department of Education
Room: 4082 Building ROB-3
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Telephone# 202-708-5547
Fax# 202-708-9814

MESSAGE: Please review and give me a call with any comments.

SW

UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF POSTSECONDARY EDUCATION

March 30, 1993

NOTE TO SECRETARY RILEY AND DEPUTY SECRETARY KUNIN

Attached is a summary of the main outstanding issues that we need to resolve in order to develop the rest of the student loan reform initiative. We have briefly described each issue and our recommendation. Department staff helped to develop these recommendations. They have provided, in a very short time, valuable input on how to structure the proposed system.

We look forward to discussing these recommendations with you. Please let us know if you need further information.

David A. Longanecker

Maureen A. McLaughlin

Attachment

cc:
Mike Smith
Terry Peterson

400 MARYLAND AVE., S.W. WASHINGTON, D.C. 20202

OUTSTANDING ISSUES IN STUDENT LOAN REFORM

March 30, 1993

IMPLEMENTATION OF DIRECT LOANS

- **Phase-in Period**

  The original phase-in period assumed 500 institutions in each of the first two years, 3000 in the third year, and full implementation in FY 1997. An alternative phase-in period would start more quickly with full implementation by the end of FY 1997.

  Recommendation: The second phase-in strategy would work well with the new approach of developing strict criteria for loan originators and relying heavily in the beginning on experienced direct lenders in the Perkins program. This phase-in would have 4 percent of volume in direct lending by the end of FY 1994, 25 percent the second year, 60 percent the third year, and full implementation by the end of FY 1997.

- **Criteria to Determine Loan Originator**

  Criteria measuring the financial and administrative capability of institutions to originate loans well will be used to determine which institutions can originate themselves and which should use an alternative originator.

  Recommendation: In the first phase we will rely heavily on experience in the existing direct loan program, Perkins loans, to pick institutions that can originate loans themselves. Other institutions will be able to use alternative origination services. Institutions will be selected randomly among qualified applicants in the early years according to institutional type and control and level of current lending in the guaranteed student loan program.

  The second phase will develop more detailed criteria that measure administrative and financial capacity for participation as an originator.

- **Alternative Originators**

  Alternative originators could include the state agencies, private lenders, Sallie Mae and other organizations if they are willing to do so for a fixed fee.

  Recommendation: Initially, alternative origination services would be provided through a federal contractor, or through a state that is ready to perform these services immediately. At full implementation, the state agencies would be responsible for this activity. They could do it themselves or they could contract with private organizations.

Cost
Quality control
disqualificat

6106

Ed. Dept. Y003

- **Student Borrower Terms**

  The proposal could consolidate loan programs, change loan limits, alter eligibility criteria, and change student interest rates. On the other hand, these changes could be postponed and included in a future initiative addressing all student aid programs.

  Budgetary savings

  Recommendation: Lowering the student interest rate at full implementation by about one-half of a percentage point would give some of the savings from direct loans back to the students. Other changes in loan limits and eligibility rules ? would be included in your next initiative as part of the movement to a student aid maximum and changes in financing proprietary schools.

- **Fees to Loan Originators**

  Institutions performing loan origination could be paid a small fee or they could be required to pay any costs themselves.

  Recommendation: Pay institutions a small fee--about $10--that would decline for larger numbers of loans. This would adjust for declining marginal costs of origination. Paying the institutions and the alternative originators a small fee would generate more support for direct lending and would reduce arguments that we are saving money by shifting costs to the institutions. This origination fee would increase federal costs only slightly.

  Institution benefit

- **Other Programs**

  How to treat the revolving accounts in the Perkins loan program is an outstanding issue. We could recapture the federal portion or we could allow institutions to keep all or part of the revolving accounts.

  Recommendation: Include this issue as part of your next proposal to address all student aid programs. In the meantime, eliminate any future federal capital contributions to the Perkins program.

FEDERAL STATE PARTNERSHIP

- **Federal/State Partnership**

  When fully implemented, the program will represent a true federal/state partnership, with each state that wishes to enter into the partnership negotiating an agreement with the Secretary of Education to establish a genuine state loan agency (SLA). In some states the current guarantee agency may be designated as the new SLA. This new agency will operate as the state's alternate loan originator for institutions that do not act as loan originators, train participating institutions' personnel, monitor participating institutions, and service loans from the point of origination through normal repayment. These agencies will receive fees for the services they provide.

Recommendation: Endorse the federal/state partnership concept, with implementation developed in two stages. Stage 1 will include states providing the alternate origination, training, and institutional monitoring functions. Stage 2, which will begin when the state can demonstrate capacity to move forward, will include the loan servicing function.

- **Federal/State Risk Sharing**

  In association with the fees provided to SLAs for the services they provide, these entities will also receive incentive payments for exceptional performance and financial sanctions for inadequate performance.

  Recommendation: Endorse the concept of providing appropriate financial incentives and sanctions to the SLAs.

- **Federal/State Data System**

  To work effectively, the various SLAs will need to be able to share data from all loan originators throughout the nation. Therefore, it will be imperative that the Department develop a national student loan data system.

  what issues

  Recommendation: Have the Department of Education develop the national student loan data system.

- **The Federal/State Partnership and Private Vendors**

  Both the federal government and the states may choose to contract for specific services with private vendors. For all practical purposes, however, the federal/state partnership will eliminate the financial incentive for the current array of lenders in the guaranteed student loan program, including SALLIE MAE, to remain active vendors in the new program.

  Collection Agencies?

  Recommendation: Allow the federal government and states to contract for services with private vendors, recognizing that this will likely eliminate participation of most of the lenders and non-profit agencies involved in the current loan program.

INCOME CONTINGENT REPAYMENTS

- **Income Measure**

  Income contingent repayments could be based on a variety of income measures including borrower earnings, total family income before exemptions and deductions, and adjusted gross income (after exemptions and deductions).

No

Recommendation: Family income is the best measure of ability to pay because it includes all sources of income for the family, not just earnings. We also recommend setting aside a portion of income and assessing loan payments based on the remaining "discretionary" income. Our preference is to use total family income before tax exemptions and deductions, with an offset equal to the poverty line adjusted by family size. The specific income measure will depend, however, on the data that IRS can provide to us. We are currently exploring this issue with IRS.

- **Percentage of Income**

A wide variety of repayment schedules could be employed that meet the general description of income contingent. Some would vary the percentage of income that is repaid, some would charge a percentage of income per $1000 borrowed, and others would charge a fixed percentage of income until the loan is repaid.

Recommendation: Adopt a straightforward system that requires borrowers to repay between 5 and 10 percent of discretionary income. The legislation would state that the Secretary will set the specific rate within this range.

- **Capitalization of Interest**

The issue here is whether interest should accrue and be added to the principal when payments are insufficient to cover the interest. The proponents of capitalization argue that borrowers who earn money later in life should not pay less than borrowers with steadier incomes. Opponents, on the other hand, argue that this is unfair to the poor.

Recommendation: We recommend that interest accrue and be capitalized so that borrowers whose incomes grow in future years will repay when their incomes are sufficient. For borrowers with persistently low incomes, interest accrual will be irrelevant because their incomes will never be sufficient to fully repay.

- **Length of Repayment**

Some income contingent plans write off the remaining loan balance after a set number of years, such as 20 or 30 years. Others argue that there should not be a limit on the length of time that borrowers repay because their incomes may increase later in life.

Recommendation: Do not set a limit on the length of time for repayment. Remaining debt would be written off at death.

- **Defaulters**

  Some options require defaulters to repay through income contingency. This would help to ensure that defaulters pay what they can, with the amount varying according to the level of income.

  Recommendation: Require defaulters to repay through income contingency.

- **Conversion**

  Converting guaranteed loans into direct loans would allow us to offer income contingent repayment options to current borrowers. It would also allow students who have both direct and guaranteed loans to consolidate them.

  ?

  Recommendation: Buy some student loans and offer those students income contingent repayments. We need to explore further OMB's credit reform scoring rules for this option, particularly for those loans made before 1992.

- **Collector**

  Should the IRS be involved in the collection of student loans and, if so, for which borrowers? The IRS could be involved in a variety of ways: sharing information on income with loan servicers, collecting all student loans, or collecting income contingent loans.

  Phase in Two adminstr app.

  Recommendation: The first phase of income contingent collections is to use IRS information on income for income contingent collections. Loans would be collected by state agencies or by servicers under contract to the federal government. At the same time the Secretaries of Education and Treasury will develop a plan for full implementation of loan collections, including the appropriate role for IRS. This would allow sufficient time to address all the issues and concerns regarding how such a system would be structured and how much it would cost.

EASING THE TRANSITION FROM GUARANTEED STUDENT LOANS

- **Loan Capital Availability**

  Once it is apparent that the current guaranteed student loan program is being replaced entirely by the new direct student loan program, it is quite possible that some of the current lenders, perhaps even a large share of these lenders, may quit participating in the current program. If this were to occur, it would create a substantial problem with the availability of loan capital. Therefore, the Department of Education must begin immediately to develop a way of assuring adequate loan capital in the event that private capital dries up.

Recommendation: Within the Department, begin immediately to develop a way to ensure adequate availability of capital for guaranteed student loans until the direct student loan program is fully operational.

- **Guarantee Agency Solvency**

As the volume of loans in the guaranteed student loan program begins to decline, it is almost certain that some current state and non-profit guarantee agencies will become financially insolvent, because they lack adequate reserves to finance their existing contingent liabilities.

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Recommendation: Adopt a new administrative cost allowance that funds agencies on the basis of total outstanding balances, rather than solely on the basis of new annual loan volume, and prepare a plan for absorbing the loan portfolios of guarantee agencies that become insolvent.

- **SALLIE MAE:**

For all practical purposes, creation of the direct student loan program, particularly one that involves an intentional federal/state partnership, eliminates the need for the secondary market activities currently provided by the Student Loan Marketing Association (SALLIE MAE). Without its past reason for being, SALLIE MAE could evolve in various ways. It could become an entirely private entity by repaying the $5 billion debt to the federal treasury and pursue activities other than student loans. It could repay its $5 billion debt, continue to service a diminishing guaranteed student loan portfolio, and eventually simply go out of existence. Or, it could be absorbed back into the federal government and become the administrator of the direct student loan program.

Recommendation: No recommendation is provided at this time on what should become of SALLIE MAE.

?

Big [con] entitlement programs

Social security

||

Student loans

Finance

(Student loans)

March 9, 1993

Note to Belle Sawhill

Through: Barry White BW
Barbara Selfridge BS

From: Patricia A. Smith PS

Subject: Income-Contingent Repayment Cost Estimates -- INFORMATION YOU REQUESTED

ED's preliminary staff view of the impact of income contingent repayment under direct lending is that it need not cause any cost increase over estimates now in the system for the policy of phased-in direct loans. This view is based on analysis of only student loan debt and family income, not a more complete family financial profile, because that is the data available. It is not clear at this point that adequate data exists to make rational assumptions on who would select income contingent repayment. Further, these cost estimates are based on programmatic assumptions that have not been discussed with policy officers.

I'm dubious that net effects (not counting DL) are a zero cost a

May be semantic issue here about whether to attribute DL savings associated with income-cont or DL to IC.

The staff view about costs is the result of these actions and assumptions:

1. ED has recently contracted with Mathtech, Inc. to build a model to estimate the cost of income contingent repayment. A preliminary version has been used to estimate the cost of income contingent repayment assuming existing borrower interest rates, borrowers repaying at 5% of income, all unpaid interest capitalized, write-off after 25 years, and all borrowers repaying on income contingent terms. The model estimates the cost of income contingent repayment at $3 billion, which is approximately the current cost of defaults in the Federal Family Education Loan Program. The output of this model, which was built on a cash basis, has been used by ED to modify its cash flow inputs to the OMB credit model. ED assumed that approximately 25% of borrowers (including those who now default) would repay on an income contingent basis. ED's preliminary analysis to date is that under the assumptions used in the contractor's model, there would be no net increase in program costs.

Which 25%? What incomes assumed? Adverse selection issue.

- The model will be modified to allow different assumptions, including estimates under which the interest of some groups of borrowers would not be capitalized, and which provide input more comparable to that used by the OMB credit model.

2. Default rates would be unchanged from the guaranteed programs, but eventual collections of defaults would be greater due to income contingent repayment schedules.

- o Guarantee agencies (GAs) now get almost a year under the law to try to collect before ED can consider taking the loan into its own collections systems. Traditionally, ED does not ever take any but the many years old defaults. GAs keep 30% of collections, regardless of actual costs.

  In the guaranteed system, an average of 58% of defaulted loan principal returns to ED.

- o IRS offset plus income contingency applied to all defaulters early on would yield the increased collections.

3. Borrowers who cannot pay enough to meet interest, or who are paying nothing, have interest capitalized and interest charged on the new amount. Capitalization would be a major source of revenues -- and a major burden on the poor.

4. Interest rates would be unchanged from the guaranteed programs. This is another major source of revenues.

Gov't makes money on student loan!

- o Current savings estimated for direct lending, without income contingent payback, presume borrowers repay at current statutory rates, which yield revenues higher than the federal cost of money plus administration for the SLS, PLUS and Unsubsidized Stafford programs. These programs expected to make up **almost 40 % of loan volume**. It is also true for the subsidized Stafford program during the repayment period. This is why Direct Lending saves so much money. These "negative subsidies" also occur in baseline in some years for certain programs.

FY 1998 Direct Loan estimates

	Regular Stafford	Unsubsidized Stafford	SLS	PLUS	TOTAL
Volume (billions)	$14	$3	$2	$4	$23
Subsidy (millions)	$1,050	-$392	-$598	-$171	-$111
Federal cost of money (%)	6.52	6.52	6.52	6.52	
Interest rate charged (%)	8.13	8.13	8.66	8.66	

- o Subsidies are not negative for subsidized Staffords, because the Federal government pays the borrower interest (or, in direct lending, interest on the cost of money) while the borrower is in school.

- o These rates are also used in estimating income contingent repayment for accruing interest, so negative subsidies (or profits) from all programs occur after the borrower leaves school. If a borrower takes 25 years to repay instead of 10, as under the current programs, then the Federal government just gets more interest.

more profits!

graduate payments

10% of men above poverty line

2000

#2,000

5,000 ~~650~~

10,000

$\boxed{25,000}$ $\boxed{65,000}$

$\boxed{15,000}$

100,000

~~3~~0,000

7,000

25,000

90

?

IRS

Had there been time before the White House declared the direct lending policy last month, interest rate policies for the February 17th document might have been used with alternatives for current rates that do not look so onerous for the poor.

- The considerable profits inherent in current rates will be hard to defend as other than cost offsets -- or implicit cross subsidization, albeit in this case, the working poor perhaps subsidizing the better off. Yes!

- ED is doing that analysis now, plus analysis of alternatives to capitalization of interest for the poor, but <u>more reasonable policies would likely reduce, and could eliminate, the savings in the budget</u>.

10 years
loan mean
2500
4000
Med.
6500
1/2
35%

Staffed
programs
Supported
Parts
Consolidat
Purchase
4

T 3,5 3,1%
Sallie Mae

guarantee loan
return name

4 years
Guarantee agency
Reinsurance → monitor

80% - 100%
default claims

30%

5%
9%

97%

1000
4

9%
6%

1.65 Bill
800 Bill

30,000
3/1,500
700
425

210 days

Cohort default rate 20%

Cross subsid. rate

IRS
cut off

7000
20%
7
700

10%
payments
graduated

Stretched

Comparison of Various Loan Repayment Options:

1. Income-contingent: 10% of income above poverty; no interest capitalization; 40 year maximum term
2. 10 year fixed amortization
3. 10 graduated repayment
4. 15 year fixed amortization

Income-->		$8,000		$15,000		$25,000		$35,000		$50,000	
Debt		NPV	Σ Pmts	NPV	Σ Pmts	NPV	Σ Pmts	NPV	Σ Pmts	NPV	Σ Pmts
$2,500	1.	$2898	$4603	$2542	$2769	$2512	$2643	$2541	$2637	$2511	$2544
	2.	2696	3324	2696	3324	2696	3324	2696	3324	2696	3324
	3.	2751	3512	2751	3512	2751	3512	2751	3512	2751	3512
	4.	2810	3790	2810	3790	2810	3790	2810	3790	2810	3790
$5,000	1.	$5243	$10851	$5268	$6154	$5095	$5507	$5062	$5359	$4990	$5220
	2.	5393	6647	5393	6647	5393	6647	5393	6647	5393	6647
	3.	5501	7024	5501	7024	5501	7024	5501	7024	5501	7024
	4.	5620	7579	5620	7579	5620	7579	5620	7579	5620	7579
$10,000	1.	$8331	$23240	$11336	$15477	$10473	$12045	$10254	$11282	$10109	$10836
	2.	10785	13295	10785	13295	10785	13295	10785	13295	10785	13295
	3.	11003	14048	11003	14048	11003	14048	11003	14048	11003	14048
	4.	11240	15159	11240	15159	11240	15159	11240	15159	11240	15159
$15,000	1.	$8331	$23240	$18216	$29732	$16175	$19891	$15665	$17944	$15360	$16875
	2.	16178	19942	16178	19942	16178	19942	16178	19942	16178	19942
	3.	16504	21071	16504	21071	16504	21071	16504	21071	16504	21071
	4.	16859	22738	16859	22738	16859	22738	16859	22738	16859	22738
$25,000	1.	$8331	$23240	$28539	$60961	$28946	$41442	$27207	$33997	$26189	$30323
	2.	26963	33236	26963	33236	26963	33236	26963	33236	26963	33236
	3.	27506	35119	27506	35119	27506	35119	27506	35119	27506	35119
	4.	28099	37897	28099	37897	28099	37897	28099	37897	28099	37897

Notes: ✓6% interest charged to borrower
4% federal discount rate
HHS 1993 poverty income for single person indexed to future inflation (3%)
4% annual salary growth

Comparison of Various Loan Repayment Options:

1. Income-contingent: 8% of income above poverty; no interest capitalization; 40 year maximum term
2. 10 year fixed amortization
3. 10 graduated repayment
4. 15 year fixed amortization

Income-->		$8,000		$15,000		$25,000		$35,000		$50,000	
Debt		NPV	Σ Pmts	NPV	Σ Pmts	NPV	Σ Pmts	NPV	Σ Pmts	NPV	Σ Pmts
$2,500	1.	$2845	$4891	$2559	$2833	$2529	$2676	$2491	$2602	$2528	$2597
	2.	2696	3324	2696	3324	2696	3324	2696	3324	2696	3324
	3.	2751	3512	2751	3512	2751	3512	2751	3512	2751	3512
	4.	2810	3790	2810	3790	2810	3790	2810	3790	2810	3790
$5,000	1.	$4961	$11317	$5358	$6493	$5118	$5621	$5044	$5395	$5031	$5300
	2.	5393	6647	5393	6647	5393	6647	5393	6647	5393	6647
	3.	5501	7024	5501	7024	5501	7024	5501	7024	5501	7024
	4.	5620	7579	5620	7579	5620	7579	5620	7579	5620	7579
$10,000	1.	$6664	$18592	$11811	$17622	$10622	$12629	$10345	$11611	$10122	$10966
	2.	10785	13295	10785	13295	10785	13295	10785	13295	10785	13295
	3.	11003	14048	11003	14048	11003	14048	11003	14048	11003	14048
	4.	11240	15159	11240	15159	11240	15159	11240	15159	11240	15159
$15,000	1.	$6664	$18592	$18100	$33139	$16618	$21576	$15874	$18765	$15493	$17353
	2.	16178	19942	16178	19942	16178	19942	16178	19942	16178	19942
	3.	16504	21071	16504	21071	16504	21071	16504	21071	16504	21071
	4.	16859	22738	16859	22738	16859	22738	16859	22738	16859	22738
$25,000	1.	$6664	$18592	$26663	$64550	$30293	$48332	$27977	$37118	$26603	$31871
	2.	26963	33236	26963	33236	26963	33236	26963	33236	26963	33236
	3.	27506	35119	27506	35119	27506	35119	27506	35119	27506	35119
	4.	28099	37897	28099	37897	28099	37897	28099	37897	28099	37897

Notes: 6% interest charged to borrower
4% federal discount rate
HHS 1993 poverty income for single person indexed to future inflation (3%)
4% annual salary growth

18,00

Comparison of Various Loan Repayment Options:

1. Income-contingent: 5% of income above poverty; interest capitalization; 20 year maximum term
2. 10 year fixed amortization
3. 10 graduated repayment
4. 15 year fixed amortization

Income-->		$8,000		$15,000		$25,000		$35,000		$50,000	
Debt		NPV	Σ Pmts	NPV	Σ Pmts	NPV	Σ Pmts	NPV	Σ Pmts	NPV	Σ Pmts
$2,500	1.	$1542	$2507	$2646	$3093	$2573	$2784	$2570	$2726	$2555	$2681
	2.	2696	3324	2696	3324	2696	3324	2696	3324	2696	3324
	3.	2751	3512	2751	3512	2751	3512	2751	3512	2751	3512
	4.	2810	3790	2810	3790	2810	3790	2810	3790	2810	3790
$5,000	1.	$1542	$2507	$5668	$7739	$5240	$6028	$5166	$5691	$5115	$5492
	2.	5393	6647	5393	6647	5393	6647	5393	6647	5393	6647
	3.	5501	7024	5501	7024	5501	7024	5501	7024	5501	7024
	4.	5620	7579	5620	7579	5620	7579	5620	7579	5620	7579
$10,000	1.	$1542	$2507	$8273	$12929	$11199	$14829	$10697	$12794	$10369	$11683
	2.	10785	13295	10785	13295	10785	13295	10785	13295	10785	13295
	3.	11003	14048	11003	14048	11003	14048	11003	14048	11003	14048
	4.	11240	15159	11240	15159	11240	15159	11240	15159	11240	15159
$15,000	1.	$1542	$2507	$8273	$12929	$17888	$27818	$16710	$21912	$16010	$19081
	2.	16178	19942	16178	19942	16178	19942	16178	19942	16178	19942
	3.	16504	21071	16504	21071	16504	21071	16504	21071	16504	21071
	4.	16859	22738	16859	22738	16859	22738	16859	22738	16859	22738
$25,000	1.	$1542	$2507	$8273	$12929	$17888	$27818	$28204	$37985	$26189	$30323
	2.	26963	33236	26963	33236	26963	33236	26963	33236	26963	33236
	3.	27506	35119	27506	35119	27506	35119	27506	35119	27506	35119
	4.	28099	37897	28099	37897	28099	37897	28099	37897	28099	37897

Notes: 6% interest charged to borrower
4% federal discount rate
HHS 1993 poverty income for single person indexed to future inflation (3%)
4% annual salary growth

discnt rate