

109TH CONGRESS
2D SESSION

S. 3593

To amend the Higher Education Act of 1965 to provide additional support to students.

IN THE SENATE OF THE UNITED STATES

JUNE 28, 2006

Mr. KENNEDY (for himself, Mr. DODD, Ms. MIKULSKI, Mr. SCHUMER, Mr. HARKIN, Mrs. CLINTON, and Mr. LIEBERMAN) introduced the following bill; which was read twice and referred to the Committee on Finance

A BILL

To amend the Higher Education Act of 1965 to provide additional support to students.

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

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “Student Debt Relief
5 Act of 2006”.

6 **SEC. 2. INCREASE IN FEDERAL PELL GRANTS.**

7 (a) IN GENERAL.—Section 401(b)(2)(A) of the High-
8 er Education Act of 1965 (20 U.S.C. 1070a(b)(2)(A)) is
9 amended by striking clauses (i) through (v) and inserting
10 the following:

- 1 “(i) \$5,100 for academic year 2007–2008;
 2 “(ii) \$5,400 for academic year 2008–2009;
 3 “(iii) \$5,700 for academic year 2009–2010;
 4 “(iv) \$6,000 for academic year 2010–2011; and
 5 “(v) \$6,300 for academic year 2011–2012.”.

6 (b) ADDITIONAL FUNDS.—For an academic year, in
 7 the case in which discretionary amounts appropriated to
 8 carry out the Federal Pell Grant program under subpart
 9 1 of part A of title IV of the Higher Education Act of
 10 1965 (20 U.S.C. 1070a et seq.) for such academic year
 11 are sufficient to fund a maximum Federal Pell Grant
 12 award of \$4,050, then there are authorized to be appro-
 13 priated, and there are appropriated, additional amounts
 14 to carry out the amendment made by subsection (a) as
 15 follows:

- 16 (1) For academic year 2007–2008,
 17 \$4,310,000,000.
 18 (2) For academic year 2008–2009,
 19 \$5,563,000,000.
 20 (3) For academic year 2009–2010,
 21 \$6,982,000,000.
 22 (4) For academic year 2010–2011,
 23 \$8,398,000,000.
 24 (5) For academic year 2011–2012,
 25 \$9,831,000,000.

1 **SEC. 3. STUDENT AID REWARD PROGRAM.**

2 Part G of title IV of the Higher Education Act of
3 1965 (20 U.S.C. 1088 et seq.) is amended by inserting
4 after section 489 the following:

5 **“SEC. 489A. STUDENT AID REWARD PROGRAM.**

6 “(a) PROGRAM AUTHORIZED.—The Secretary shall
7 carry out a Student Aid Reward Program to encourage
8 institutions of higher education to participate in the stu-
9 dent loan program under this title that is most cost-effec-
10 tive for taxpayers.

11 “(b) PROGRAM REQUIREMENTS.—In carrying out the
12 Student Aid Reward Program, the Secretary shall—

13 “(1) provide to each institution of higher edu-
14 cation participating in the student loan program
15 under this title that is most cost-effective for tax-
16 payers, a Student Aid Reward Payment, in an
17 amount determined in accordance with subsection
18 (c), to encourage the institution to participate in
19 that student loan program;

20 “(2) require each institution of higher edu-
21 cation receiving a payment under this section to pro-
22 vide student loans under such student loan program
23 for a period of 5 years after the date the first pay-
24 ment is made under this section;

25 “(3) where appropriate, require that funds paid
26 to institutions of higher education under this section

1 be used to award students a supplement to such stu-
2 dents' Federal Pell Grants under subpart 1 of part
3 A;

4 “(4) permit such funds to also be used to award
5 need-based grants to lower- and middle-income grad-
6 uate students; and

7 “(5) encourage all institutions of higher edu-
8 cation to participate in the Student Aid Reward Pro-
9 gram under this section.

10 “(c) AMOUNT.—The amount of a Student Aid Re-
11 ward Payment under this section shall be not less than
12 50 percent of the savings to the Federal Government gen-
13 erated by the institution of higher education's participa-
14 tion in the student loan program under this title that is
15 most cost-effective for taxpayers instead of the institu-
16 tion's participation in the student loan program that is
17 not most cost-effective for taxpayers.

18 “(d) TRIGGER TO ENSURE COST NEUTRALITY.—

19 “(1) LIMIT TO ENSURE COST NEUTRALITY.—
20 Notwithstanding subsection (c), the Secretary shall
21 not distribute Student Aid Reward Payments under
22 the Student Aid Reward Program that, in the aggre-
23 gate, exceed the Federal savings resulting from the
24 implementation of the Student Aid Reward Pro-
25 gram.

1 “(2) FEDERAL SAVINGS.—In calculating Fed-
2 eral savings, as used in paragraph (1), the Secretary
3 shall determine Federal savings on loans made to
4 students at institutions of higher education that par-
5 ticipate in the student loan program under this title
6 that is most cost-effective for taxpayers and that, on
7 the date of enactment of this section, participated in
8 the student loan program that is not most cost-effec-
9 tive for taxpayers, resulting from the difference of—

10 “(A) the Federal cost of loan volume made
11 under the student loan program under this title
12 that is most cost-effective for taxpayers; and

13 “(B) the Federal cost of an equivalent type
14 and amount of loan volume made, insured, or
15 guaranteed under the student loan program
16 under this title that is not most cost-effective
17 for taxpayers.

18 “(3) DISTRIBUTION RULES.—If the Federal
19 savings determined under paragraph (2) is not suffi-
20 cient to distribute full Student Aid Reward Pay-
21 ments under the Student Aid Reward Program, the
22 Secretary shall—

23 “(A) first make Student Aid Reward Pay-
24 ments to those institutions of higher education
25 that participated in the student loan program

1 under this title that is not most cost-effective
2 for taxpayers on the date of enactment of this
3 section; and

4 “(B) with any remaining Federal savings
5 after making Student Aid Reward Payments
6 under subparagraph (A), make Student Aid Re-
7 ward Payments to the institutions of higher
8 education eligible for a Student Aid Reward
9 Payment and not described in subparagraph
10 (A) on a pro-rata basis.

11 “(4) DISTRIBUTION TO STUDENTS.—Any insti-
12 tution of higher education that receives a Student
13 Aid Reward Payment under this section—

14 “(A) shall distribute, where appropriate,
15 part or all of such payment among the students
16 of such institution who are Federal Pell Grant
17 recipients by awarding such students a supple-
18 mental grant; and

19 “(B) may distribute part of such payment
20 as a supplemental grant to graduate students in
21 financial need.

22 “(5) ESTIMATES, ADJUSTMENTS, AND CARRY
23 OVER.—

24 “(A) ESTIMATES AND ADJUSTMENTS.—
25 The Secretary shall make Student Aid Reward

1 Payments to institutions of higher education on
2 the basis of estimates, using the best data avail-
3 able at the beginning of an academic or fiscal
4 year. If the Secretary determines thereafter
5 that loan program costs for that academic or
6 fiscal year were different than such estimate,
7 the Secretary shall adjust by reducing or in-
8 creasing subsequent Student Aid Reward Pay-
9 ments rewards paid to such institutions of high-
10 er education to reflect such difference.

11 “(B) CARRY OVER.—Any institution of
12 higher education that receives a reduced Stu-
13 dent Aid Reward Payment under paragraph
14 (3)(B), shall remain eligible for the unpaid por-
15 tion of such institution’s financial reward pay-
16 ment, as well as any additional financial reward
17 payments for which the institution is otherwise
18 eligible, in subsequent academic or fiscal years.

19 “(e) DEFINITION.—In this section:

20 “(1) STUDENT LOAN PROGRAM UNDER THIS
21 TITLE THAT IS MOST COST-EFFECTIVE FOR TAX-
22 PAYERS.—The term ‘student loan program under
23 this title that is most cost-effective for taxpayers’
24 means the loan program under part B or D of this
25 title that has the lowest overall cost to the Federal

1 Government (including administrative costs) for the
2 loans authorized by such parts.

3 “(2) STUDENT LOAN PROGRAM UNDER THIS
4 TITLE THAT IS NOT MOST COST-EFFECTIVE FOR
5 TAXPAYERS.—The term ‘student loan program
6 under this title that is not most cost-effective for
7 taxpayers’ means the loan program under part B or
8 D of this title that does not have the lowest overall
9 cost to the Federal Government (including adminis-
10 trative costs) for the loans authorized by such
11 parts.”.

12 **SEC. 4. REDUCTION IN INTEREST RATES.**

13 (a) FFEL.—Section 427A(l) of the Higher Edu-
14 cation Act of 1965 (20 U.S.C. 1077a(l)) is amended—

15 (1) in paragraph (1)—

16 (A) by striking “or 428C” and inserting “,
17 428C, or 428H”;

18 (B) by striking “6.8 percent” and inserting
19 “3.4 percent”; and

20 (C) by adding at the end the following:

21 “Notwithstanding subsection (h), with respect
22 to any loan under section 428H for which the
23 first disbursement is made on or after July 1,
24 2006, the applicable rate of interest shall be 6.8

1 percent on the unpaid principal balance of the
2 loan.”; and

3 (2) in paragraph (2), by striking “8.5 percent”
4 and inserting “4.25 percent”.

5 (b) **DIRECT LOANS.**—Section 455(b)(7) of the High-
6 er Education Act of 1965 (20 U.S.C. 1087e(b)(7)) is
7 amended—

8 (1) in subparagraph (A)—

9 (A) by striking “and Federal Direct Un-
10 subsidized Stafford Loans”;

11 (B) by striking “6.8 percent” and inserting
12 “3.4 percent”; and

13 (C) by adding at the end the following:

14 “Notwithstanding the preceding paragraphs of
15 this subsection, for Federal Direct Unsub-
16 sidized Stafford Loans for which the first dis-
17 bursement is made on or after July 1, 2006,
18 the applicable rate of interest shall be 6.8 per-
19 cent on the unpaid principal balance of the
20 loan.”; and

21 (2) in subparagraph (B), by striking “7.9 per-
22 cent” and inserting “4.25 percent”.

23 **SEC. 5. IN-SCHOOL CONSOLIDATION.**

24 Section 428(b)(7)(A) of the Higher Education Act of
25 1965 (20 U.S.C. 1078(b)(7)(A)) is amended by striking

1 “shall begin” and all that follows through the period and
 2 inserting “shall begin—

3 “(i) the day after 6 months after the date
 4 the student ceases to carry at least one-half the
 5 normal full-time academic workload (as deter-
 6 mined by the institution); or

7 “(ii) on an earlier date if the borrower re-
 8 quests and is granted a repayment schedule
 9 that provides for repayment to commence at an
 10 earlier date.”.

11 **SEC. 6. CONSOLIDATION LOAN CHANGES.**

12 Section 428C(a)(3) of the Higher Education Act of
 13 1965 (20 U.S.C. 1078–3(a)(3)) is amended to read as fol-
 14 lows:

15 “(3) DEFINITION OF ELIGIBLE BORROWER.—

16 For the purpose of this section, the term ‘eligible
 17 borrower’ means a borrower who—

18 “(A) is not subject to a judgment secured
 19 through litigation with respect to a loan under
 20 this title or to an order for wage garnishment
 21 under section 488A; and

22 “(B) at the time of application for a con-
 23 solidation loan—

24 “(i) is in repayment status as deter-
 25 mined under section 428(b)(7)(A);

1 “(ii) is in a grace period preceding re-
2 payment; or

3 “(iii) is a defaulted borrower who has
4 made arrangements to repay the obligation
5 on the defaulted loans satisfactory to the
6 holders of the defaulted loans.”.

7 **SEC. 7. REDUCTION OF DIRECT LOAN ORIGINATION FEES.**

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

10 (1) in paragraph (1)—

11 (A) by striking “4.0 percent” and inserting
12 “3.0 percent”; and

13 (B) by striking “shall” and inserting “is
14 authorized to”; and

15 (2) in paragraph (2)—

16 (A) in subparagraph (A), by striking “‘3.0
17 percent’ for ‘4.0 percent’” and inserting “‘2.0
18 percent’ for ‘3.0 percent’”;

19 (B) in subparagraph (B), by striking “‘2.5
20 percent’ for ‘4.0 percent’” and inserting “‘1.5
21 percent’ for ‘3.0 percent’”;

22 (C) in subparagraph (C), by striking “‘2.0
23 percent’ for ‘4.0 percent’” and inserting “‘1.0
24 percent’ for ‘3.0 percent’”;

1 (D) in subparagraph (D), by striking “‘1.5
2 percent’ for ‘4.0 percent’” and inserting “‘0.5
3 percent’ for ‘3.0 percent’”; and

4 (E) in subparagraph (E), by striking “‘1.0
5 percent’ for ‘4.0 percent’” and inserting “‘0.0
6 percent’ for ‘3.0 percent’”.

7 **SEC. 8. ELIMINATION OF EXCEPTIONAL PERFORMER STA-**
8 **TUS FOR LENDERS.**

9 (a) REPEAL.—Section 428I of the Higher Education
10 Act of 1965 (20 U.S.C. 1078-9) is repealed.

11 (b) CONFORMING AMENDMENTS.—Part A of title IV
12 of the Higher Education Act of 1965 (20 U.S.C.1070 et
13 seq.) is amended—

14 (1) in section 428(e)(1)—

15 (A) by striking subparagraph (D); and

16 (B) by redesignating subparagraphs (E)
17 through (H) as subparagraphs (D) and (G), re-
18 spectively; and

19 (2) in section 438(b)(5), by striking the matter
20 following subparagraph (B).

21 **SEC. 9. SCHOOLS AS LENDERS.**

22 Section 435(d) of the Higher Education Act of 1965
23 (20 U.S.C. 1085(d)) is amended—

24 (1) in paragraph (2)(C), by inserting “Federal
25 or” after “not to supplant,”; and

1 (2) by adding at the end the following:

2 “(7) ELIGIBLE LENDER TRUSTEE USE BY ELI-
3 GIBLE INSTITUTION.—In the case of an eligible in-
4 stitution that uses an eligible lender trustee for the
5 purpose of qualifying as an eligible lender under
6 paragraph (2), such eligible lender trustee shall be
7 subject to the requirements of paragraphs (2)
8 through (5).”.

9 **SEC. 10. ADMINISTRATIVE ACCOUNT FOR DIRECT LOAN**
10 **PROGRAM.**

11 Section 458 of the Higher Education Act of 1965 (20
12 U.S.C. 1087h) is amended—

13 (1) in subsection (a)—

14 (A) by striking paragraphs (2) and (3) and
15 inserting the following:

16 “(2) MANDATORY FUNDS FOR FISCAL YEARS
17 2007 THROUGH 2011.—Each fiscal year there shall be
18 available to the Secretary, from funds not otherwise
19 appropriated, funds to be obligated for—

20 “(A) administrative costs under this part
21 and part B, including the costs of the direct
22 student loan programs under this part; and

23 “(B) account maintenance fees payable to
24 guaranty agencies under part B and calculated
25 in accordance with subsection (b),

1 not to exceed (from such funds not otherwise appro-
 2 priated) \$904,000,000 in fiscal year 2007,
 3 \$943,000,000 in fiscal year 2008, \$983,000,000 in
 4 fiscal year 2009, \$1,023,000,000 in fiscal year 2010,
 5 \$1,064,000,000 in fiscal year 2011, and
 6 \$1,106,000,000 in fiscal year 2012.”;

7 (B) by redesignating paragraphs (4) and
 8 (5) as paragraphs (3) and (4), respectively; and

9 (C) in paragraph (3) (as redesignated in
 10 subparagraph (B)), by striking “paragraph (3)”
 11 and inserting “paragraph (2)”; and

12 (2) in subsection (b), by striking “(a)(3)” and
 13 inserting “(a)(2)”.

14 **SEC. 11. INCOME CONTINGENT REPAYMENT FOR PUBLIC**
 15 **SECTOR EMPLOYEES.**

16 Section 455(e) of the Higher Education Act of 1965
 17 (20 U.S.C. 1087e(e)) is amended by adding at the end
 18 the following:

19 “(7) REPAYMENT PLAN FOR PUBLIC SECTOR
 20 EMPLOYEES.—

21 “(A) IN GENERAL.—The Secretary shall
 22 forgive the balance due on any loan made under
 23 this part or section 428C(b)(5) for a bor-
 24 rower—

1 “(i) who has made 120 payments on
2 such loan pursuant to income contingent
3 repayment; and

4 “(ii) who is employed, and was em-
5 ployed for the 10-year period in which the
6 borrower made the 120 payments de-
7 scribed in clause (i), in a public sector job.

8 “(B) PUBLIC SECTOR JOB.—In this para-
9 graph, the term ‘public sector job’ means a full-
10 time job in emergency management, govern-
11 ment, public safety, law enforcement, public
12 health, education (including early childhood
13 education), or public interest legal services (in-
14 cluding prosecution or public defense).

15 “(8) RETURN TO STANDARD REPAYMENT.—A
16 borrower who is repaying a loan made under this
17 part pursuant to income contingent repayment may
18 choose, at any time, to terminate repayment pursu-
19 ant to income contingent repayment and repay such
20 loan under the standard repayment plan.”.

21 **SEC. 12. DEFINITIONS OF PARTIAL FINANCIAL HARDSHIP**
22 **AND ECONOMIC HARDSHIP.**

23 (a) PARTIAL FINANCIAL HARDSHIP.—Section 435 of
24 the Higher Education Act of 1965 (20 U.S.C. 1085) is
25 amended by inserting after subsection (m) the following:

1 “(n) PARTIAL FINANCIAL HARDSHIP.—For purposes
2 of this part and part E, the term ‘partial financial hard-
3 ship’ means the amount by which the borrower’s annual
4 Federal educational debt burden exceeds 15 percent of the
5 difference between—

6 “(1) the borrower’s adjusted gross income; and

7 “(2) the poverty line applicable to the bor-
8 rower’s family size as determined under section
9 673(2) of the Community Services Block Grant
10 Act.”.

11 (b) ECONOMIC HARDSHIP.—Section 435(o) of the
12 Higher Education Act of 1965 (20 U.S.C. 1085(o)) is
13 amended—

14 (1) in paragraph (1)—

15 (A) in subparagraph (A)(ii), by striking
16 “100 percent of the poverty line for a family of
17 2” and inserting “150 percent of the poverty
18 line applicable to the borrower’s family size”;

19 (B) by striking subparagraph (B); and

20 (C) by redesignating subparagraph (C) as
21 subparagraph (B); and

22 (2) in paragraph (2), by striking “(1)(C)” and
23 inserting “(1)(B)”.

1 **SEC. 13. DEFERRALS.**

2 (a) FISL.—Section 427(a)(2)(C) of the Higher Edu-
3 cation Act of 1965 (20 U.S.C. 1077(a)(2)(C)) is amended
4 to read as follows:

5 “(C) provides that—

6 “(i) periodic installments of principal
7 need not be paid, but interest shall accrue
8 and be paid, during any period—

9 “(I) during which the borrower—

10 “(aa) is pursuing at least a
11 half-time course of study as de-
12 termined by an eligible institu-
13 tion; or

14 “(bb) is pursuing a course
15 of study pursuant to a graduate
16 fellowship program approved by
17 the Secretary, or pursuant to a
18 rehabilitation training program
19 for individuals with disabilities
20 approved by the Secretary,

21 except that no borrower shall be eligi-
22 ble for a deferment under this clause,
23 or a loan made under this part (other
24 than a loan made under section 428B
25 or 428C), while serving in a medical
26 internship or residency program;

1 “(II) not in excess of 3 years
2 during which the borrower is seeking
3 and unable to find full-time employ-
4 ment; or

5 “(III) during which the borrower
6 has, or will have, an economic hard-
7 ship described in section 435(o), as
8 determined by the lender in accord-
9 ance with regulations prescribed by
10 the Secretary under such section; and

11 “(ii) during any period during which a
12 borrower has, or will have, a partial finan-
13 cial hardship defined in section 435(n), as
14 determined by the lender in accordance
15 with regulations prescribed by the Sec-
16 retary under such section, the borrower—

17 “(I) need only pay the portion of
18 the periodic installments of principal
19 and interest that exceeds the bor-
20 rower’s partial financial hardship for
21 such period; and

22 “(II) may defer the remaining
23 amount of principal and interest
24 (which interest shall continue to ac-
25 cruer) for such period,

1 and provides that any such period shall not be
2 included in determining the 10-year period de-
3 scribed in subparagraph (B);”.

4 (b) INTEREST SUBSIDIES.—Section 428(b)(1)(M) of
5 the Higher Education Act of 1965 (20 U.S.C.
6 1078(b)(1)(M)) is amended to read as follows:

7 “(M) provides that—

8 “(i) periodic installments of principal
9 need not be paid, but interest shall accrue
10 and be paid by the Secretary, during any
11 period—

12 “(I) during which the borrower—

13 “(aa) is pursuing at least a
14 half-time course of study as de-
15 termined by an eligible institu-
16 tion, except that no borrower,
17 notwithstanding the provisions of
18 the promissory note, shall be re-
19 quired to borrow an additional
20 loan under this title in order to
21 be eligible to receive a deferment
22 under this clause; or

23 “(bb) is pursuing a course
24 of study pursuant to a graduate
25 fellowship program approved by

1 the Secretary, or pursuant to a
2 rehabilitation training program
3 for disabled individuals approved
4 by the Secretary,
5 except that no borrower shall be eligi-
6 ble for a deferment under this clause,
7 or loan made under this part (other
8 than a loan made under 428B or
9 428C), while serving in a medical in-
10 ternship or residency program;

11 “(II) not in excess of 3 years
12 during which the borrower is seeking
13 and unable to find full-time employ-
14 ment, except that no borrower who
15 provides evidence of eligibility for un-
16 employment benefits shall be required
17 to provide additional paperwork for a
18 deferment under this clause;

19 “(III) not in excess of 3 years
20 during which the borrower—

21 “(aa) is serving on active
22 duty during a war or other mili-
23 tary operation or national emer-
24 gency; or

1 “(bb) is performing quali-
2 fying National Guard duty dur-
3 ing a war or other military oper-
4 ation or national emergency; or

5 “(IV) during which the borrower
6 has, or will have, an economic hard-
7 ship described in section 435(o), as
8 determined by the lender in accord-
9 ance with regulations prescribed by
10 the Secretary under such section; and

11 “(ii) during any period during which a
12 borrower has, or will have, a partial finan-
13 cial hardship defined in section 435(n), as
14 determined by the lender in accordance
15 with regulations prescribed by the Sec-
16 retary under such section, a portion of the
17 periodic installments of principal and inter-
18 est need not be paid as follows:

19 “(I) the Secretary shall first pay
20 the portion of the periodic install-
21 ments of interest due that does not
22 exceed the borrower’s partial financial
23 hardship for such period, and any
24 amount of interest due in excess of
25 the borrower’s partial financial hard-

1 ship for such period shall be paid by
2 the borrower; and

3 “(II) the borrower shall pay the
4 periodic installments of principal due
5 for such period, reduced by the dif-
6 ference between the partial financial
7 hardship and the amount of interest
8 paid under subclause (I);”.

9 (c) DIRECT LOANS.—Section 455(f) of the Higher
10 Education Act of 1965 (20 U.S.C. 1087e(f)) is amended—

11 (1) in paragraph (2)(D), by striking “not in ex-
12 cess of 3 years”; and

13 (2) by adding at the end the following:

14 “(5) PARTIAL FINANCIAL HARDSHIP
15 DEFERMENT.—During any period during which a
16 borrower has, or will have, a partial financial hard-
17 ship defined in section 435(n), as determined by the
18 Secretary in accordance with regulations prescribed
19 under such section, a portion of the periodic install-
20 ments of principal and interest need not be paid as
21 follows:

22 “(A) In the case of a Federal Direct Staf-
23 ford Loan, a Federal Direct Consolidation Loan
24 that consolidated only Federal Direct Stafford
25 Loans, or a combination of such loans and Fed-

1 eral Stafford Loans for which the student bor-
2 rower received an interest subsidy under section
3 428—

4 “(i) the amount of interest for such
5 period that does not exceed the borrower’s
6 partial financial hardship shall not accrue,
7 and any amount of interest due in excess
8 of the borrower’s partial financial hardship
9 shall be capitalized or be paid by the bor-
10 rower; and

11 “(ii) the borrower shall pay the peri-
12 odic installments of principal due for such
13 period, reduced by the difference between
14 the partial financial hardship and the
15 amount of interest paid under clause (i).

16 “(B) In the case of a Federal Direct
17 PLUS Loan, a Federal Direct Unsubsidized
18 Stafford Loan, or a Federal Direct Consolida-
19 tion Loan not described in subparagraph (A)—

20 “(i) the amount of interest and prin-
21 cipal that equals the borrower’s partial fi-
22 nancial hardship for such period need not
23 be paid but may be deferred or capitalized
24 by the borrower; and

1 “(ii) any amount of interest or prin-
2 cipal due in excess of the borrower’s par-
3 tial financial hardship for such period shall
4 be paid by the borrower.”.

5 (d) PERKINS.—Section 464(c) of the Higher Edu-
6 cation Act of 1965 (20 U.S.C. 1087dd(c)) is amended—

7 (1) by striking paragraph (2)(A)(iv) and insert-
8 ing the following:

9 “(iv) during which the borrower has, or will
10 have, an economic hardship described in section
11 435(o), as determined by the lender in accordance
12 with regulations prescribed by the Secretary under
13 such section; or”; and

14 (2) by adding at the end the following:

15 “(8) PARTIAL FINANCIAL HARDSHIP DEFERMENT.—
16 During any period during which a borrower has, or will
17 have, a partial financial hardship defined in section
18 435(n), as determined by the lender in accordance with
19 regulations prescribed by the Secretary under such sec-
20 tion, a portion of the periodic installments of principal and
21 interest need not be paid as follows:

22 “(A) the Secretary shall first pay the periodic
23 installments of interest due for such period that does
24 not exceed the borrower’s partial financial hardship,
25 and any amount of interest due in excess of the bor-

1 rower’s partial financial hardship shall be paid by
2 the borrower; and

3 “(B) the borrower shall pay the periodic install-
4 ments of principal due reduced by the difference be-
5 tween the partial financial hardship and the amount
6 of interest paid under subparagraph (A).”.

7 **SEC. 14. MAXIMUM REPAYMENT PERIOD.**

8 Section 455(e) of the Higher Education Act of 1965
9 (20 U.S.C. 1087e(e)) is amended by adding at the end
10 the following:

11 “(7) MAXIMUM REPAYMENT PERIOD.—In calcu-
12 lating the extended period of time for which an in-
13 come contingent repayment plan under this sub-
14 section may be in effect for a borrower, the Sec-
15 retary shall include all time periods during which a
16 borrower of loans under part B, part D, or part E—

17 “(A) is not in default on any loan that is
18 included in the income contingent repayment
19 plan; and

20 “(B)(i) qualifies for economic hardship de-
21 scribed in section 435(o);

22 “(ii) has a partial financial hardship de-
23 fined in section 435(n);

1 “(iii) makes payments under a standard
2 repayment plan described in section
3 428(b)(9)(A)(i) or 455(d)(1)(A), or

4 “(iv) makes payments under an extended
5 repayment plan described in section
6 428(b)(9)(A)(iv) or 455(d)(1)(C).”.

7 **SEC. 15. INCREASE IN CONSOLIDATION LOAN LENDER**
8 **FEES.**

9 (a) **AMENDMENT.**—Paragraph (2) of section 438(d)
10 (20 U.S.C. 1087–1(d)) is amended to read as follows:

11 “(2) **AMOUNT OF LOAN FEES.**—

12 “(A) **IN GENERAL.**—Except as provided in
13 subparagraph (B), with respect to any loan
14 made under this part for which the first dis-
15 bursement was made on or after October 1,
16 1993, the amount of the loan fee that shall be
17 deducted under paragraph (1) shall be equal to
18 0.50 percent of the principal amount of the
19 loan.

20 “(B) **CONSOLIDATION LOANS.**—With re-
21 spect to any loan made under section 428C on
22 or after April 1, 2006, the amount of the loan
23 fee that shall be deducted under paragraph (1)
24 shall be equal to 1.0 percent of the principal
25 amount of the loan.”.

1 (b) EFFECTIVE DATE.—The amendment made by
2 subsection (a) shall apply with respect to any loan made,
3 insured, or guaranteed under part B of title IV of the
4 Higher Education Act of 1965 (20 U.S.C. 1071 et seq.)
5 for which the first disbursement is made on or after April
6 1, 2006.

7 **SEC. 16. COLLEGE TUITION DEDUCTION AND CREDIT FOR**
8 **INTEREST ON HIGHER EDUCATION LOANS.**

9 (a) EXPANSION OF DEDUCTION FOR HIGHER EDU-
10 CATION EXPENSES.—

11 (1) AMOUNT OF DEDUCTION.—Subsection (b)
12 of section 222 of the Internal Revenue Code of 1986
13 (relating to deduction for qualified tuition and re-
14 lated expenses) is amended to read as follows:

15 “(b) LIMITATIONS.—

16 “(1) DOLLAR LIMITATIONS.—

17 “(A) IN GENERAL.—Except as provided in
18 paragraph (2), the amount allowed as a deduc-
19 tion under subsection (a) with respect to the
20 taxpayer for any taxable year shall not exceed
21 the applicable dollar limit.

22 “(B) APPLICABLE DOLLAR LIMIT.—The
23 applicable dollar limit for any taxable year shall
24 be determined as follows:

“Taxable year:	Applicable dollar amount:
2006	\$8,000
2007 and thereafter	\$12,000.

1 “(2) LIMITATION BASED ON MODIFIED AD-
2 JUSTED GROSS INCOME.—

3 “(A) IN GENERAL.—The amount which
4 would (but for this paragraph) be taken into ac-
5 count under subsection (a) shall be reduced
6 (but not below zero) by the amount determined
7 under subparagraph (B).

8 “(B) AMOUNT OF REDUCTION.—The
9 amount determined under this subparagraph
10 equals the amount which bears the same ratio
11 to the amount which would be so taken into ac-
12 count as—

13 “(i) the excess of—

14 “(I) the taxpayer’s modified ad-
15 justed gross income for such taxable
16 year, over

17 “(II) \$65,000 (\$130,000 in the
18 case of a joint return), bears to

19 “(ii) \$15,000 (\$30,000 in the case of
20 a joint return).

21 “(C) MODIFIED ADJUSTED GROSS IN-
22 COME.—For purposes of this paragraph, the
23 term ‘modified adjusted gross income’ means

1 the adjusted gross income of the taxpayer for
2 the taxable year determined—

3 “(i) without regard to this section and
4 sections 199, 911, 931, and 933, and

5 “(ii) after the application of sections
6 86, 135, 137, 219, 221, and 469.

7 For purposes of the sections referred to in
8 clause (ii), adjusted gross income shall be deter-
9 mined without regard to the deduction allowed
10 under this section.

11 “(D) INFLATION ADJUSTMENTS.—

12 “(i) IN GENERAL.—In the case of any
13 taxable year beginning in a calendar year
14 after 2006, both of the dollar amounts in
15 subparagraph (B)(i)(II) shall be increased
16 by an amount equal to—

17 “(I) such dollar amount, multi-
18 plied by

19 “(II) the cost-of-living adjust-
20 ment determined under section 1(f)(3)
21 for the calendar year in which the tax-
22 able year begins, by substituting ‘cal-
23 endar year 2005’ for ‘calendar year
24 1992’ in subparagraph (B) thereof.

1 “(ii) ROUNDING.—If any amount as
2 adjusted under clause (i) is not a multiple
3 of \$50, such amount shall be rounded to
4 the nearest multiple of \$50.”.

5 (2) QUALIFIED TUITION AND RELATED EX-
6 PENSES OF ELIGIBLE STUDENTS.—

7 (A) IN GENERAL.—Section 222(a) of the
8 Internal Revenue Code of 1986 (relating to al-
9 lowance of deduction) is amended by inserting
10 “of eligible students” after “expenses”.

11 (B) DEFINITION OF ELIGIBLE STUDENT.—
12 Section 222(d) of such Code (relating to defini-
13 tions and special rules) is amended by redesignig-
14 nating paragraphs (2) through (6) as para-
15 graphs (3) through (7), respectively, and by in-
16 serting after paragraph (1) the following new
17 paragraph:

18 “(2) ELIGIBLE STUDENT.—The term ‘eligible
19 student’ has the meaning given such term by section
20 25A(b)(3).”.

21 (3) DEDUCTION MADE PERMANENT.—Title IX
22 of the Economic Growth and Tax Relief Reconcili-
23 ation Act of 2001 (relating to sunset of provisions
24 of such Act) shall not apply to the amendments
25 made by section 431 of such Act.

1 (4) EFFECTIVE DATE.—The amendments made
2 by this subsection shall apply to payments made in
3 taxable years beginning after December 31, 2005.

4 (b) CREDIT FOR INTEREST ON HIGHER EDUCATION
5 LOANS.—

6 (1) IN GENERAL.—Subpart A of part IV of sub-
7 chapter A of chapter 1 of the Internal Revenue Code
8 of 1986 (relating to nonrefundable personal credits)
9 is amended by inserting after section 25D the fol-
10 lowing new section:

11 **“SEC. 25E. INTEREST ON HIGHER EDUCATION LOANS.**

12 “(a) ALLOWANCE OF CREDIT.—In the case of an in-
13 dividual, there shall be allowed as a credit against the tax
14 imposed by this chapter for the taxable year an amount
15 equal to the interest paid by the taxpayer during the tax-
16 able year on any qualified education loan.

17 “(b) MAXIMUM CREDIT.—

18 “(1) IN GENERAL.—Except as provided in para-
19 graph (2), the credit allowed by subsection (a) for
20 the taxable year shall not exceed \$1,500.

21 “(2) LIMITATION BASED ON MODIFIED AD-
22 JUSTED GROSS INCOME.—

23 “(A) IN GENERAL.—If the modified ad-
24 justed gross income of the taxpayer for the tax-
25 able year exceeds \$50,000 (\$100,000 in the

1 case of a joint return), the amount which would
2 (but for this paragraph) be allowable as a credit
3 under this section shall be reduced (but not
4 below zero) by the amount which bears the
5 same ratio to the amount which would be so al-
6 lowable as such excess bears to \$20,000
7 (\$40,000 in the case of a joint return).

8 “(B) MODIFIED ADJUSTED GROSS IN-
9 COME.—The term ‘modified adjusted gross in-
10 come’ means adjusted gross income determined
11 without regard to sections 199, 222, 911, 931,
12 and 933.

13 “(C) INFLATION ADJUSTMENT.—In the
14 case of any taxable year beginning after 2006,
15 the \$50,000 and \$100,000 amounts referred to
16 in subparagraph (A) shall be increased by an
17 amount equal to—

18 “(i) such dollar amount, multiplied by

19 “(ii) the cost-of-living adjustment de-
20 termined under section (1)(f)(3) for the
21 calendar year in which the taxable year be-
22 gins, by substituting ‘2005’ for ‘1992’.

23 “(D) ROUNDING.—If any amount as ad-
24 justed under subparagraph (C) is not a multiple

1 of \$50, such amount shall be rounded to the
2 nearest multiple of \$50.

3 “(c) DEPENDENTS NOT ELIGIBLE FOR CREDIT.—No
4 credit shall be allowed by this section to an individual for
5 the taxable year if a deduction under section 151 with re-
6 spect to such individual is allowed to another taxpayer for
7 the taxable year beginning in the calendar year in which
8 such individual’s taxable year begins.

9 “(d) LIMIT ON PERIOD CREDIT ALLOWED.—A credit
10 shall be allowed under this section only with respect to
11 interest paid on any qualified education loan during the
12 first 60 months (whether or not consecutive) in which in-
13 terest payments are required. For purposes of this para-
14 graph, any loan and all refinancings of such loan shall be
15 treated as 1 loan.

16 “(e) DEFINITIONS.—For purposes of this section—

17 “(1) QUALIFIED EDUCATION LOAN.—The term
18 ‘qualified education loan’ has the meaning given
19 such term by section 221(d)(1).

20 “(2) DEPENDENT.—The term ‘dependent’ has
21 the meaning given such term by section 152.

22 “(f) SPECIAL RULES.—

23 “(1) DENIAL OF DOUBLE BENEFIT.—No credit
24 shall be allowed under this section for any amount

1 taken into account for any deduction under any
2 other provision of this chapter.

3 “(2) MARRIED COUPLES MUST FILE JOINT RE-
4 TURN.—If the taxpayer is married at the close of
5 the taxable year, the credit shall be allowed under
6 subsection (a) only if the taxpayer and the tax-
7 payer’s spouse file a joint return for the taxable
8 year.

9 “(3) MARITAL STATUS.—Marital status shall be
10 determined in accordance with section 7703.”.

11 (2) CONFORMING AMENDMENT.—The table of
12 sections for subpart A of part IV of subchapter A
13 of chapter 1 of the Internal Revenue Code of 1986
14 is amended by inserting after the item relating to
15 section 25D the following new item:

“Sec. 25E. Interest on higher education loans.”.

16 (3) EFFECTIVE DATE.—The amendments made
17 by this section shall apply to any qualified education
18 loan (as defined in section 25E(e)(1) of the Internal
19 Revenue Code of 1986, as added by this section) in-
20 curred on, before, or after the date of the enactment
21 of this Act, but only with respect to any loan inter-
22 est payment due after December 31, 2005.

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