

EMERGENCY STUDENT LOAN CONSOLIDATION ACT OF
1997

OCTOBER 21, 1997.—Committed to the Committee of the Whole House on the State
of the Union and ordered to be printed

Mr. GOODLING, from the Committee on Education and the
Workforce, submitted the following

R E P O R T

[To accompany H.R. 2535]

[Including cost estimate of the Congressional Budget Office]

The Committee on Education and the Workforce, to whom was referred the bill (H.R. 2535) to amend the Higher Education Act of 1965 to allow the consolidation of student loans under the Federal Family Loan Program and the Direct Loan Program, having considered the same, report favorably thereon with an amendment and recommend that the bill as amended do pass.

The amendment is as follows:

Strike out all after the enacting clause and insert in lieu thereof the following:

SECTION 1. SHORT TITLE; REFERENCE.

(a) **SHORT TITLE.**—This Act may be cited as the “Emergency Student Loan Consolidation Act of 1997”.

(b) **REFERENCES.**—Except as otherwise expressly provided, whenever in this Act an amendment or repeal is expressed in terms of an amendment to, or repeal of, a section or other provision, the reference shall be considered to be made to a section or other provision of the Higher Education Act of 1965 (20 U.S.C. 1001 et seq.).

SEC. 2. LOAN CONSOLIDATION PROVISIONS.

(a) **DEFINITION OF LOANS ELIGIBLE FOR CONSOLIDATION.**—Section 428C(a)(4) (20 U.S.C. 1078-3(a)(4)) is amended—

(1) by redesignating subparagraphs (C) and (D) as subparagraphs (D) and (E), respectively; and

(2) by inserting after subparagraph (B) the following new subparagraph:

“(C) made under part D of this title, except that loans made under such part shall be eligible student loans only for consolidation loans for which the application is received by an eligible lender during the period beginning on the date of enactment of the Emergency Student Loan Consolidation Act of 1997 and ending on October 1, 1998;”.

(b) **TERMS OF CONSOLIDATION LOANS.**—Section 428C(b)(4)(C)(ii) is amended—

(1) in subclause (I), by inserting after “consolidation loan” the following: “for which the application is received by an eligible lender before the date of enactment of the Emergency Student Loan Consolidation Act of 1997, or on or after October 1, 1998,”;

(2) by striking “or” at the end of subclause (I);

(3) by inserting “or (II)” before the semicolon at the end of subclause (II);

(4) by redesignating subclause (II) as subclause (III); and

(5) by inserting after subclause (I) the following new subclause:

“(II) by the Secretary, in the case of a consolidation loan for which the application is received by an eligible lender on or after the date of enactment of the Emergency Student Loan Consolidation Act of 1997 and before October 1, 1998, except that the Secretary shall pay such interest only on that portion of the loan that repays Federal Stafford Loans for which the student borrower received an interest subsidy under section 428 or Federal Direct Stafford Loans for which the borrower received an interest subsidy under section 455; or”.

(c) **INTEREST RATE.**—Section 428C(c)(1) is amended—

(1) in the first sentence of subparagraph (A), by striking “(B) or (C)” and inserting “(B), (C), or (D)”; and

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

“(D) A consolidation loan for which the application is received by an eligible lender on or after the date of enactment of the Emergency Student Loan Consolidation Act of 1997 and before October 1, 1998, shall bear interest at an annual rate on the unpaid principal balance of the loan that is equal to the rate specified in section 427A(f).”.

(d) **AMENDMENTS EFFECTIVE FOR PENDING APPLICANTS.**—The consolidation loans authorized by the amendments made by this section shall be available notwithstanding any pending application by a student for a consolidation loan under part D of title IV of the Higher Education Act of 1965, upon withdrawal of such application by the student at any time prior to receipt of such a consolidation loan.

SEC. 3. ADMINISTRATIVE EXPENSE REDUCTIONS.

Section 458(a)(1) (20 U.S.C. 1087h(a)(1)) is amended by striking “\$532,000,000” and inserting “\$507,000,000”.

SEC. 4. TREATMENT OF TAX BENEFITS.

(a) **FAMILY CONTRIBUTION FOR DEPENDENT STUDENTS.**—

(1) **PARENTS’ AVAILABLE INCOME.**—Section 475(c)(1) is amended—

(A) by striking “and” at the end of subparagraph (D);

(B) by striking the period at the end of subparagraph (E) and inserting “; and”; and

(C) by adding at the end the following new subparagraph:

“(F) the amount of any tax credit taken by the parents under section 25A of the Internal Revenue Code of 1986.”.

(2) **STUDENT CONTRIBUTION FROM AVAILABLE INCOME.**—Section 475(g)(2) is amended—

(A) by striking “and” at the end of subparagraph (C);

(B) by striking the period at the end of subparagraph (D) and inserting “; and”; and

(C) by inserting after subparagraph (D) the following new subparagraph:

“(E) the amount of any tax credit taken by the student under section 25A of the Internal Revenue Code of 1986.”.

(b) **FAMILY CONTRIBUTION FOR INDEPENDENT STUDENTS WITHOUT DEPENDENTS OTHER THAN A SPOUSE.**—Section 476(b)(1)(A) (20 U.S.C. 1087pp(b)(1)(A)) is amended—

(1) by striking “and” at the end of clause (iv); and

(2) by inserting after clause (v) the following new clause:

“(vi) the amount of any tax credit taken under section 25A of the Internal Revenue Code of 1986; and”.

(c) **FAMILY CONTRIBUTION FOR INDEPENDENT STUDENTS WITH DEPENDENTS OTHER THAN A SPOUSE.**—Section 477(b)(1) (20 U.S.C. 1087qq(b)(1)) is amended—

(1) by striking “and” at the end of subparagraph (D);

(2) by striking the period at the end of subparagraph (E) and inserting “; and”; and

(3) by adding at the end the following new subparagraph:

“(F) the amount of any tax credit taken under section 25A of the Internal Revenue Code of 1986.”.

(d) **TOTAL INCOME.**—Section 480(a)(2) (20 U.S.C. 1087vv(a)(2)) is amended—

(1) by striking “individual, and” and inserting “individual,”; and

(2) by inserting “and no portion of any tax credit taken under section 25A of the Internal Revenue Code of 1986,” before “shall be included”.

(e) OTHER FINANCIAL ASSISTANCE.—Section 480(j) is amended by adding at the end the following new paragraph:

“(4) Notwithstanding paragraph (1), a tax credit taken under section 25A of the Internal Revenue Code of 1986 shall not be treated as estimated financial assistance for purposes of section 471(3).”.

PURPOSE

The purpose of H.R. 2535, “The Emergency Student Loan Consolidation Act of 1997”, is to amend The Higher Education Act of 1965 to allow the immediate consolidation of loans made under the Federal Family Education Loan Program and the William D. Ford Federal Direct Student Loan Program, and to make certain technical corrections to Part F of Title IV of the Higher Education Act of 1965.

COMMITTEE ACTION

On September 18, 1997, The Subcommittee on Postsecondary Education, Training and Life-Long Learning held a hearing on the Shutdown of the Consolidation Loan Process in the William D. Ford Direct Student Loan Program. On September 24, 1997, Representatives McKeon, Goodling, and Boehner introduced H.R. 2535, “The Emergency Student Loan Consolidation Act of 1997.” On October 1, 1997, the Committee on Education and the Workforce assembled to consider H.R. 2535. The Committee adopted the bill as amended by a recorded vote of 43–0.

BACKGROUND AND NEED FOR LEGISLATION/COMMITTEE VIEWS

We are very disappointed that the Department suspended the Direct Loan Consolidation Program, which initially left more than 84,000 students without the ability to consolidate their student loans. Without consolidation, these students would incur not only additional interest costs but also considerable difficulty in meeting their current loan payments. These students may also be unable to secure other credit such as a mortgage, and they may default on their student loans if the Committee does not act now.

This legislation will provide these students an alternative solution for consolidating their student loans. We support expansion of loan consolidation in the Federal Family Education Loan (FFEL) Program because it provides an additional option to students who choose to consolidate their loans. To the extent practicable, we believe that expansion should be on the same terms as provided in the Direct Loan Consolidation Program in order to ensure that students will not have to bear additional costs simply because they choose to consolidate their loans within the FFEL program. The Committee believes that immediate enactment of H.R. 2535 will help these students.

The Committee notes the comments of an individual student affected by the direct loan consolidation. At a hearing before the Subcommittee on Postsecondary Education, Training and Life-Long Learning, Ms. Angela Jamison said: “The staff at the (direct loan) consolidation center has alternatively ignored us, given us incorrect information, or even lied to us. One of the worst things that hap-

pened was that we were almost unable to close on our home," due to the loan consolidation problem at the Department. A process that was supposed to have taken her eight to twelve weeks has taken her and her husband more than eight months.

Two months after the Department shut down the system and stopped accepting applications, the Department still faces a backlog of 32,223 loan applications. While we applaud the progress the Department has made in approving consolidation for almost 22,000 students since the program was suspended, we remain deeply concerned that almost 30,000 students have either withdrawn or have had their applications deactivated. Nearly 60 percent of the backlog that the Department has eliminated in the last two months has come from rejections and withdrawals, not from consolidation of loans. Clearly, these results are unacceptable. We are hopeful that the Department will promptly approve loans for the 30,000 students with currently pending loan consolidation applications. The Committee will continue to closely monitor the Department's actions in processing the current backlog of applications.

In reporting this legislation, the Committee included a provision authored by Mr. Andrews, that students who currently have loan consolidation applications pending in the Direct Loan Program should have the ability to withdraw those applications at any time and seek loan consolidation within the FFEL program. This provision was included in order to ensure that student borrowers have the final say in selecting their consolidation loan provider.

The fact that students have found themselves in this consolidation processing dilemma is in stark contrast to the Department's perception of itself as the "Microsoft" and "Citibank" of higher education as senior members of the Department of Education have been quoted as saying. In a recent hearing before the Subcommittee on Postsecondary Education, Training, and Life-Long Learning, David Longanecker, the Assistant Secretary for Postsecondary Education stated, "the Direct Loan Program provides a simpler, more automated, and more accountable system to borrowers * * * students have witnessed the development of a level of customer service not previously experienced in financial aid delivery."

Perhaps that is the view from Washington, DC. The view from the frontlines seems much different. At least one student, Ms. Angela Jamison, who testified at a subsequent hearing described the Department's customer service as "beset by chronic mistakes which range from incompetence to malfeasance."

The Department has stated three major problems which have caused a huge backlog of consolidation loans:

Inherent complexity of student loan consolidation.

Higher volume than anticipated.

Transition from one contractor to another.

The Committee concurs that there is inherent complexity in the student loan program, and with the United States Department of Education charged with running a financial program larger than Citibank it is tremendously difficult. The majority of the Committee's Membership have repeatedly pointed this out since direct lending first came under consideration, and it has been the Committee's greatest concern with the Federal Government taking on such a huge task. However, the Committee notes that the private

sector faces many of the same such problems. Many private lending institutions' expertise in financial services and systems allow them to process loan consolidations in a timely fashion. The Committee hopes to give the Department the tools they need to address these concerns as we work in the Higher Education Act to update and modernize the Department's management of the financial aid system.

In addition, the Committee believes that the Department's excuse of "higher volume" rings hollow. From the inception of the direct loan program, the Department has been actively promoting the benefits of direct loan consolidation at the expense of the taxpayer. It should have anticipated high volume and been able to handle such volume, or it should have refrained from the marketing blitz that was conducted. The fact that this crisis has been allowed to happen is totally contradictory to the language of the Higher Education Act which states, "The Secretary shall not offer such loans if, in the Secretary's judgment, the Department of Education does not have the necessary origination and servicing arrangements in place for such loans." It is obvious from the testimony received at the Subcommittee hearing that the necessary origination and servicing arrangements are not in place. They have not been in place for more than eight months. What is not clear is how the Department reached the conclusion required by the Act that the necessary origination and servicing arrangements were in place prior to the Department's marketing of the program.

Finally, the transition from one contractor to another is a poor excuse. At the time of the transfer one year ago, the new contractor should have been required to prove its ability to manage the consolidation program before ever receiving the monetary benefits of a Federal contract.

The Emergency Student Loan Consolidation Act will open the loan market and allow the private sector to consolidate loans for direct loan borrowers. This should alleviate the backlog and bring much needed competition to the consolidation loan market. Students will no longer need to wait months as is the case under the current system. The Committee expects the Department to fix the problems it is having in the loan consolidation program, but recent college graduates need help now.

Currently, the Higher Education Act of 1965 prohibits direct student loan borrowers from consolidating their direct student loans into FFEL loans through private lenders and servicers. Even if borrowers could consolidate their direct loans into the FFEL program, few would because in most cases they would pay a higher interest rate, and would lose their deferment benefits on any subsidized loans which were consolidated.

Upon enactment, this legislation will immediately change these provisions to allow borrowers to consolidate direct student loans into FFEL consolidation loans. The interest rate for all new consolidation loans will be the equivalent of the 91-day Treasury Bill rate plus 3.1 percent (the same as in the Direct Loan Program). In addition, borrowers who consolidate subsidized loans, whether in the Direct Loan Program or the FFEL Program will not lose their deferment benefits. During periods of deferment, the Secretary will pay the interest on the loans which were eligible for an interest

subsidy prior to the consolidation and the borrower will only be responsible for the interest on the loans included in the consolidation loan which were not eligible for an interest subsidy under Section 428 or Section 455 of the Higher Education Act.

This is emergency legislation, so these changes will only remain in effect until September 30, 1998. The cost of this legislation will be paid for by reducing the mandatory administrative funds for Section 458 of the Higher Education Act by \$25 million, which is less than 5% of the Department's Section 458 allocation. The Committee notes that even with this reduction, the cap on administrative funds will remain \$16 million higher than current year expenditures.

The Committee expects the full cooperation of the Secretary with the lending community to ensure that consolidation loans are made in a timely manner. The Committee notes that in the past the Department has been slow to approve necessary forms, and that in fact a common consolidation form has been pending approval for two years. Necessary approvals are to be made in days, rather than months or years. The Committee is also concerned that during this emergency, private lenders will come to the aid of students, only to have the Department conduct another direct consolidation loan marketing blitz to these same students once the application backlog has cleared.

During consideration of H.R. 2535, the Committee also unanimously supported an amendment offered by Mr. Kildee of Michigan and Mr. Clay of Missouri. This amendment makes technical corrections to the need analysis provisions of the Higher Education Act of 1965 to conform them to changes made earlier this year to the tax code which provide students and parents with tax relief for higher education. This provision will ensure that students who receive a tax credit under the HOPE Scholarship Program and are also eligible to receive a Pell Grant will not be penalized and have their Pell Grant reduced by the amount of their HOPE Scholarship tax credit. Without this amendment, some 69,000 students would lose an estimated \$125 million annually in student aid they would qualify for and need to help pay for their college education. Without this language, the Committee is concerned that such treatment could inadvertently disadvantage lower and middle income students and parents, and runs contrary to the goals and purposes of the Higher Education Act.

The Committee anticipated making this correction as part of the reauthorization of the Higher Education Act next year. However, as with the emergency student loan consolidation provisions in this legislation, this amendment is time sensitive. By adopting this change to the need analysis formula now, the Department can begin the process of revising the student aid application forms and processes well in advance of the 1999 academic year so that students and families will not encounter delays in the processing of their aid applications.

The Committee urges the quick enactment of this important legislation.

SUMMARY

The purpose of H.R. 2535, The Emergency Student Loan Consolidation Act of 1997, is to amend The Higher Education Act of 1965 to allow the immediate consolidation of loans made under the Federal Family Education Loan Program and the William D. Ford Federal Direct Student Loan Program, and to make certain technical corrections to Part F of Title IV of the Higher Education Act of 1965.

SECTION-BY-SECTION ANALYSIS

H.R. 2535, the Emergency Student Loan Consolidation Act of 1997, as reported by the Committee on Education and the Workforce on October 1, 1997.

Section 1 contains the short title and reference(s) of the bill.

Section 1(a) cites the short title of the bill as the "Emergency Student Loan Consolidation Act of 1997".

Section 1(b) contains the reference to the Higher Education Act of 1965.

Section 2 contains the loan consolidation provisions.

Section 2(a) contains the definition of loans eligible for consolidation.

Section 2(a)(1) amends Section 428(C)(a)(4) to redesignate subparagraphs (C) and (D) as subparagraphs (D) and (E).

Section 2(a)(2) amends Section 428C(a)(4) to add a new subparagraph to include direct loans as eligible student loans for purposes of consolidation only.

Section 2(b) contains the terms of consolidation loans.

Section 2(b)(1) amends Section 428C(b)(4)(C)(ii) to maintain current law provisions for all consolidation loans for applications received before the date of enactment and on or after October 1, 1998.

Section 2(b)(2) amends Section 428C(b)(4)(C)(ii) to strike the "or" at the end of subclause (I).

Section 2(b)(3) amends Section 428C(b)(4)(C)(ii) by inserting "or (II)" before the semicolon at the end of subclause (II).

Section 2(b)(4) amends Section 428C(b)(4)(C) (ii) by redesignating subclause (II) as subclause (III).

Section 2(b)(5) amends Section 428C(b)(4)(C)(ii) by adding a new subclause retaining interest subsidy benefits for students on all subsidized loans with respect to applications received on or after the date of enactment and on or before October 1, 1998.

Section 2(c) amends Section 428C(c)(1) by adding a new subparagraph requiring the annual interest rate on the unpaid principal balance of all consolidation loans be equal to the rate specified in Section 427A(f) with respect to applications received on or after the date of enactment and before October 1, 1998.

Section 2(d) allows students whose consolidation loan application is pending with the Department of Education to withdraw their application and reapply for a consolidation loan under FFEL.

Section 3 amends Section 458(a)(1) by striking \$532,000,000 and inserting \$507,000,000.

Section 4 contains the provisions for the treatment of tax benefits for the purposes of determining financial need.

Section 4(a) contains the provisions relating to the family contribution for dependent students.

Section 4(a)(1) contains the provisions relating to parents' available income.

Section 4(a)(1)(A) amends Section 475(c)(1) by striking "and" at the end of subparagraph (D).

Section 4(a)(1)(B) amends Section 475(c)(1) by striking the period at the end of subparagraph (E) and inserting "and".

Section 4(a)(1)(C) amends Section 475(c)(1) by adding a new subparagraph (F) to exclude the amount of any tax credit claimed under section 25A of the Internal Revenue Code of 1986 by parents from the calculation of available parental income.

Section 4(a)(2) contains the provisions relating to the student contribution from available income.

Section 4(a)(2)(A) amends Section 475(g)(2) by striking "and" at the end of subparagraph (C).

Section 4(a)(2)(B) amends Section 475(g)(2) by striking the period at the end of subparagraph (D).

Section 4(a)(2)(C) amends Section 475(g)(2) by adding a new subparagraph (E) to exclude the amount of any tax credit claimed under section 25A of the Internal Revenue Code of 1986 by the student from the calculation of available student income.

Section 4(b) contains the provisions relating to the family contribution for independent students without dependents other than a spouse.

Section 4(b)(1) amends Section 476(b)(1)(A) by striking "and" at the end of clause (iv).

Section 4(b)(2) amends Section 476(b)(1)(A) by adding a new clause (vi) to exclude the amount of any tax credit claimed under section 25A of the Internal Revenue Code of 1986 from the calculation of available family income for independent students without dependents.

Section 4(c) contains the provisions relating to family contribution for independent student with dependents other than a spouse.

Section 4(c)(1) amends Section 477(b)(1) by striking "and" at the end of subparagraph (D).

Section 4(c)(2) amends Section 477(b)(1) by striking the period at the end of subparagraph (E) and inserting "; and".

Section 4(c)(3) amends Section 477(b)(1) by adding a new subparagraph (F) to exclude the amount of any tax credit claimed under section 25A of the Internal Revenue Code of 1986 from the calculation of available family income for independent students with dependents.

Section 4(d) contains the provisions relating to definition of total income.

Section 4(d)(1) amends Section 480(a)(2) by striking "individual, and" and inserting "individual,".

Section 4(d)(2) amends Section 480(a)(2) by adding a new sentence to exclude the amount of any tax credit taken under Section 25A of the Internal Revenue Code of 1986 from the computation of expected family contribution for programs funded under this Act.

Section 4(e) amends Section 480(j) by adding a new paragraph (4) to exclude the amount of any tax credit taken under section 25A

of the Internal Revenue Code of 1986 from being counted as estimated financial assistance.

EXPLANATION OF AMENDMENT

The Amendment in the Nature of a Substitute is explained in this report.

OVERSIGHT FINDINGS OF THE COMMITTEE

In compliance with clause 2(1)(3)(A) of rule XI of the Rules of the House of Representatives and clause 2(b)(1) of rule X of the Rules of the House of Representatives, the Committee's oversight findings and recommendations are reflected in the body of this report.

GOVERNMENT REFORM AND OVERSIGHT

With respect to the requirement of clause 2(1)(3)(D) of rule XI of the Rules of the House of Representatives, the Committee has received no report of oversight findings and recommendations from the Committee on Government Reform and Oversight on the subject of H.R. 2535.

COMMITTEE ESTIMATE

Clause 7 of rule XIII of the Rules of the House of Representatives requires an estimate and a comparison by the Committee of the costs which would be incurred in carrying out H.R. 2535. However, clause 7(d) of that rule provides that this requirement does not apply when the Committee has included in its report a timely submitted cost estimate of the bill prepared by the Director of the Congressional Budget Office under section 403 of the Congressional Budget Act of 1974.

CONSTITUTIONAL AUTHORITY

The Higher Education Act and amendments thereto made by H.R. 2535, are Constitutional under the spending clause of the constitution, Article I section 8, clause 1.

APPLICATION OF LAW TO LEGISLATIVE BRANCH

Section 102(b)(3) of Public Law 104-1 requires a description of the application of this bill to the legislative branch. This bill provides funds loans to eligible recipients; the bill does not prohibit legislative branch employees from otherwise being eligible for such services.

UNFUNDED MANDATE STATEMENT

Section 423 of the Congressional Budget & Impoundment Control Act requires a statement of whether the provisions of the reported bill include unfunded mandates. The Committee received a letter regarding unfunded mandates from the Director of the Congressional Budget Office and as such the Committee agrees that the bill does not contain any unfunded mandates. See *infra*.

BUDGET AUTHORITY AND CONGRESSIONAL BUDGET OFFICE COST
ESTIMATE

With respect to the requirement of clause 2(1)(3)(B) of rule XI of the House of Representatives and section 308(a) of the Congressional Budget Act of 1974 and with respect to requirements of clause 2(1)(3)(C) of rule XI of the House of Representatives and section 403 of the Congressional Budget Act of 1974, the Committee has received the following cost estimate for H.R. 2535 from the Director of the Congressional Budget Office:

U.S. CONGRESS,
CONGRESSIONAL BUDGET OFFICE,
Washington, DC, October 7, 1997.

Hon. WILLIAM F. GOODLING,
*Chairman, Committee on Education and the Workforce,
House of Representatives, Washington, DC*

DEAR MR. CHAIRMAN: The Congressional Budget Office has prepared the enclosed cost estimate for H.R. 2535, the Emergency Student Loan Consolidation Act of 1997, as ordered reported from the House Committee on Education and the Workforce on October 1, 1997.

If you wish further details on this estimate, we will be pleased to provide them. The CBO staff contacts are Deborah Kalcevic for federal costs and Marc Nicole for state and local government impacts.

Sincerely,

JUNE E. O'NEILL, *Director.*

Enclosure.

H.R. 2535—Emergency Student Loan Consolidation Act of 1997

Summary: H.R. 2535 would amend the Higher Education Act of 1965 to make four changes. The bill would:

- give lenders authority until October 1, 1998, to allow student loan borrowers to include federal direct student loans in a federally guaranteed consolidated loan,
- temporarily change until October 1, 1998, the terms of federal guaranteed consolidated loans related to federal interest subsidies and loan interest rates,
- reduce the student loan administrative fund capped entitlement level in 1998 from \$532 million to \$507 million, and
- amend the student financial aid eligibility criteria to adjust the formulas for recent changes in the tax law.

CBO estimates the provisions of H.R. 2535 would increase federal outlays by \$12 million in 1998 but have a negligible budgetary impact over the 1998–2002 period.

H.R. 2535 contains no intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would not affect the budgets of state, local, or tribal governments. In addition, enactment of this bill would impose no private-sector mandates as defined under UMRA.

Estimated Cost to the Federal Government: The estimated budgetary impact of these proposals over the 1989–2002 period is shown

in the following table. The budgetary effects through 2007 are displayed in the section on pay-as-you-go considerations.

The budgetary impact of H.R. 2535 falls within budget function 500 (education, training, employment, and social services).

ESTIMATED BUDGETARY IMPACT OF H.R. 2535 AS ORDERED REPORTED FROM THE HOUSE
EDUCATION AND THE WORKFORCE COMMITTEE

[By fiscal year, in millions of dollars]

	1997	1998	1999	2000	2001	2002
CHANGES IN DIRECT SPENDING						
Student loan consolidations:						
Budget authority		25				
Estimated outlays		25				
Student loan administration:						
Estimated budget authority		-25				
Estimated outlays		-13	-8	-3	-1	
Total changes:						
Estimated budget authority		0				
Estimated outlays		12	-8	-3	-1	

Basis of estimate

Student loan consolidations

In the student loan programs, borrowers have the option of combining their debt from several different federal student loan programs into one loan, which usually has extended repayment terms. Guaranteed consolidated student loans are made by private lenders and are reinsured by the federal government. Direct consolidated student loans are made directly by the federal government. The two programs are similar in many but not all respects. This bill would make three temporary changes to the guaranteed student loan consolidation program in order to make it more comparable to the direct student loan consolidation program. These changes would be in effect for new consolidated loan applications from the date of enactment of this bill until October 1, 1998.

Under this bill, borrowers would be eligible to include direct student loans in their guaranteed consolidated student loan. Under current statute, borrowers with both guaranteed and direct student loans can only combine their debt into a direct consolidated student loan.

This bill would also provide that students retain their interest subsidy benefits on all subsidized loans included in the new consolidated loan. This provision is already a feature of the direct consolidated student loan program. Currently, borrowers with guaranteed consolidated student loans retain subsidy benefits only if they combine only subsidized student loan debt.

Finally, H.R. 2535 would make the interest rate on guaranteed consolidated loans the same as for direct consolidated loans. Under current law, the interest rate on a guaranteed consolidated loan is a fixed rate based on the weighted average of the interest rates of the loans consolidated rounded upward to the next whole percent, capped at 9 percent. Under this bill the interest on the loans would be a variable interest rate capped at 8.25 percent.

The impact of these changes on the demand for guaranteed consolidated student loans would be affected by how widely private

lenders market the loans and whether the current problems that have caused the temporary shutdown of the direct consolidated student loan program persist. Assuming an enactment date of November 1, 1997, this cost estimate reflects the assumption that the proposals would increase guaranteed consolidated student loan volume by approximately 10 percent in 1998, or by about \$400 million, resulting in increased subsidy costs of \$25 million.

Funds for administrative expenses

Under H.R. 2535, the Department of Education's Section 458 capped administrative entitlement fund would be reduced by \$25 million in fiscal year 1998. The 1998 limit for this fund would be lowered from \$532 million to \$507 million. Outlays savings would reflect the current program spending pattern.

Student Financial Aid Eligibility Requirements

H.R. 2535 would change the current federal formula for calculating the expected family contribution (EFC) towards a student's cost of higher education. The EFC is used to determine eligibility for federal Pell grants and subsidized student loans.

This bill would permit families to count any Hope Credit or Lifetime Learning Credit—enacted as part of the Taxpayer Relief Act of 1997—as an allowance against their income in determining the amount of their EFC. Without these changes, families would be expected to contribute more to their education in an amount equal to the tax credits, in effect eliminating any beneficial effects to those families receiving credits. These changes would be effective for determining Pell grant and subsidized loan eligibility beginning in academic year 1999–2000.

CBO is currently unable to estimate the impact of these provisions on the costs of student loans. While the exclusion of the Hope and Lifetime Learning Credits from the EFC could affect the amount of subsidized borrowing, CBO has insufficient data to provide an estimate.

Under current law, the Pell grant program is not authorized for academic year 1999–2000 and beyond, the years in which these tax credits would be in effect. However, if these provisions were to be in effect for academic year 1998–99 and the maximum grant award were \$3,000, Pell program costs would increase by about \$100 million, subject to appropriation of the necessary funds.

Pay-as-you-go considerations: The Balanced Budget and Emergency Deficit Control Act of 1985 specifies pay-as-you-go procedures for legislation affecting direct spending or receipts. The projected changes in direct spending are shown in the table below for fiscal years 1998–2007. For purposes of enforcing pay-as-you-go procedures, however, only the effects in the budget year and the succeeding four years are counted.

SUMMARY OF PAY-AS-YOU-GO EFFECTS

[By fiscal year, in millions of dollars]

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Changes in outlays	12	-8	-3	-1	0	0	0	0	0	0
Change in receipts					Not applicable					

Estimated impact on State, local, and tribal governments: H.R. 2535 contains no intergovernmental mandates as defined in UMRA and would not affect the budgets of state, local, or tribal governments.

Estimated impact on the private sector: Enactment of this bill would impose no private-sector mandates as defined under UMRA.

Estimate prepared by: Federal Cost: Deborah Kalcevic and Justin Latus; Impact on State, Local, and Tribal Governments: Marc Nicole; Impact on Private Sector: Bruce Vavrichek.

Estimate approved by: Paul N. Van de Water, Assistant Director for Budget Analysis.

ROLLCALL VOTES

COMMITTEE ON EDUCATION AND THE WORKFORCE

ROLL CALL 1

BILL H.R. 2535
PASSED 43 - 0

DATE October 1, 1997

SPONSOR/AMENDMENT Mr. Petri / Motion to report the bill favorably to the House with amendments and with the recommendation that the bill as amended do pass.

MEMBER	AYE	NO	PRESENT	NOT VOTING
Mr. GOODLING, Chairman	X			
Mr. PETRI, Vice Chairman	X			
Mrs. ROUKEMA	X			
Mr. FAWELL				X
Mr. BALLENGER	X			
Mr. BARRETT	X			
Mr. HOEKSTRA	X			
Mr. McKEON	X			
Mr. CASTLE	X			
Mr. JOHNSON	X			
Mr. TALENT	X			
Mr. GREENWOOD	X			
Mr. KNOLLENBERG	X			
Mr. RIGGS	X			
Mr. GRAHAM	X			
Mr. SOUDER	X			
Mr. McINTOSH	X			
Mr. NORWOOD	X			
Mr. PAUL	X			
Mr. SCHAFFER	X			
Mr. PETERSON	X			
Mr. UPTON	X			
Mr. DEAL	X			
Mr. HILLEARY	X			
Mr. SCARBOROUGH	X			
Mr. CLAY	X			
Mr. MILLER				X
Mr. KILDEE	X			
Mr. MARTINEZ	X			
Mr. OWENS	X			
Mr. PAYNE	X			
Mrs. MINK	X			
Mr. ANDREWS	X			
Mr. ROEMER	X			
Mr. SCOTT	X			
Ms. WOOLSEY	X			
Mr. ROMERO-BARCELO	X			
Mr. FATTAH	X			
Mr. HINOJOSA	X			
Mrs. McCARTHY	X			
Mr. TIERNEY	X			
Mr. KIND	X			
Ms. SANCHEZ	X			
Mr. FORD	X			
Mr. KUCINICH	X			
TOTALS	43	0		2

CHANGES IN EXISTING LAW MADE BY THE BILL, AS REPORTED

In compliance with clause 3 of rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italic, existing law in which no change is proposed is shown in roman):

HIGHER EDUCATION ACT OF 1965

* * * * *

TITLE IV—STUDENT ASSISTANCE

* * * * *

PART B—FEDERAL FAMILY EDUCATION LOAN PROGRAM

* * * * *

SEC. 428C. FEDERAL CONSOLIDATION LOANS.

(a) AGREEMENTS WITH ELIGIBLE LENDERS.—

(1) * * *

* * * * *

(4) DEFINITION OF ELIGIBLE STUDENT LOANS.—For the purpose of paragraph (1), the term “eligible student loans” means loans—

(A) * * *

* * * * *

(C) made under part D of this title, except that loans made under such part shall be eligible student loans only for consolidation loans for which the application is received by an eligible lender during the period beginning on the date of enactment of the Emergency Student Loan Consolidation Act of 1997 and ending on October 1, 1998;

[(C)] *(D)* made under subpart II of part A of title VII of the Public Health Service Act; or

[(D)] *(E)* made under subpart II of part B of title VIII of the Public Health Service Act.

(b) CONTENTS OF AGREEMENTS, CERTIFICATES OF INSURANCE, AND LOAN NOTES.—

(1) * * *

* * * * *

(4) TERMS AND CONDITIONS OF LOANS.—A consolidation loan made pursuant to this section shall be insurable by the Secretary or a guaranty agency pursuant to paragraph (2) only if the loan is made to an eligible borrower who has agreed to notify the holder of the loan promptly concerning any change of address and the loan is evidenced by a note or other written agreement which—

(A) * * *

* * * * *

(C)(i) * * *

(ii) provides that interest shall accrue and be paid—

(I) by the Secretary, in the case of a consolidation loan for which the application is received by an eligible lender before the date of enactment of the Emergency Student Loan Consolidation Act of 1997, or on or after October 1, 1998, that consolidated only Federal Stafford Loans for which the student borrower received an interest subsidy under section 428; [or]

(II) by the Secretary, in the case of a consolidation loan for which the application is received by an eligible lender on or after the date of enactment of the Emergency Student Loan Consolidation Act of 1997 and before October 1, 1998, except that the Secretary shall pay such interest only on that portion of the loan that repays Federal Stafford Loans for which the student borrower received an interest subsidy under section 428 or Federal Direct Stafford Loans for which the borrower received an interest subsidy under section 455; or

[(II)] (III) by the borrower, or capitalized, in the case of a consolidation loan other than a loan described in subclause (I) or (II);

* * * * *

(c) PAYMENT OF PRINCIPAL AND INTEREST.—

(1) INTEREST RATES.—(A) Consolidation loans made under this section shall bear interest at rates determined under subparagraph [(B) or (C)] (B), (C), or (D). For the purposes of payment of special allowances under section 438(b)(2), the interest rate required by this subsection is the applicable interest rate with respect to a consolidation loan.

* * * * *

(D) A consolidation loan for which the application is received by an eligible lender on or after the date of enactment of the Emergency Student Loan Consolidation Act of 1997 and before October 1, 1998, shall bear interest at an annual rate on the unpaid principal balance of the loan that is equal to the rate specified in section 427A(f).

* * * * *

PART D—WILLIAM D. FORD FEDERAL DIRECT LOAN PROGRAM

* * * * *

SEC. 458. FUNDS FOR ADMINISTRATIVE EXPENSES.

(a) ADMINISTRATIVE EXPENSES.—

(1) IN GENERAL.—Each fiscal year, there shall be available to the Secretary from funds not otherwise appropriated, funds to be obligated for—

(A) administrative costs under this part and part B, including the costs of the direct student loan programs under this part, and

(B) administrative cost allowances payable to guaranty agencies under part B and calculated in accordance with paragraph (2),

not to exceed (from such funds not otherwise appropriated) ~~[\$532,000,000]~~ \$507,000,000 in fiscal year 1998, \$610,000,000 in fiscal year 1999, \$705,000,000 in fiscal year 2000, \$750,000,000 in fiscal year 2001, and \$750,000,000 in fiscal year 2002. Administrative cost allowances under subparagraph (B) of this paragraph shall be paid quarterly and used in accordance with section 428(f). The Secretary may carry over funds available under this section to a subsequent fiscal year.

* * * * *

PART F—NEED ANALYSIS

* * * * *

SEC. 475. FAMILY CONTRIBUTION FOR DEPENDENT STUDENTS.

(a) * * *

* * * * *

(c) PARENTS' AVAILABLE INCOME.—

(1) IN GENERAL.—The parents' available income is determined by deducting from total income (as defined in section 480)—

(A) * * *

* * * * *

(D) an income protection allowance, determined in accordance with paragraph (4); **[and]**

(E) an employment expense allowance, determined in accordance with paragraph (5)**[.]; and**

(F) *the amount of any tax credit taken by the parents under section 25A of the Internal Revenue Code of 1986.*

* * * * *

(g) STUDENT CONTRIBUTION FROM AVAILABLE INCOME.—

(1) * * *

(2) ADJUSTMENT TO STUDENT INCOME.—The adjustment to student income is equal to the sum of—

(A) * * *

* * * * *

(C) an allowance for social security taxes determined in accordance with paragraph (4); **[and]**

(D) an income protection allowance of \$1,750**[.]; and**

(E) *the amount of any tax credit taken by the student under section 25A of the Internal Revenue Code of 1986.*

* * * * *

SEC. 476. FAMILY CONTRIBUTION FOR INDEPENDENT STUDENTS WITHOUT DEPENDENTS OTHER THAN A SPOUSE.

(a) * * *

(b) FAMILY'S CONTRIBUTION FROM AVAILABLE INCOME.—

(1) IN GENERAL.—The family's contribution from income is determined by—

(A) deducting from total income (as defined in section 480)—

(i) * * *

* * * * *

(iv) an income protection allowance of—
(I) * * *

* * * * *

(III) \$6,000 for married students where one is enrolled pursuant to subsection (a)(2); [and]
(v) in the case where a spouse is present, an employment expense allowance, as determined in accordance with paragraph (4); and
(vi) the amount of any tax credit taken under section 25A of the Internal Revenue Code of 1986; and

* * * * *

SEC. 477. FAMILY CONTRIBUTION FOR INDEPENDENT STUDENTS WITH DEPENDENTS OTHER THAN A SPOUSE.

(a) * * *

(b) FAMILY'S AVAILABLE INCOME.—

(1) IN GENERAL.—The family's available income is determined by deducting from total income (as defined in section 480)—

(A) * * *

* * * * *

(D) an income protection allowance, determined in accordance with paragraph (4); [and]

(E) an employment expense allowance, determined in accordance with paragraph (5)[.]; and

(F) the amount of any tax credit taken under section 25A of the Internal Revenue Code of 1986.

* * * * *

SEC. 480. DEFINITIONS.

As used in this part:

(a) TOTAL INCOME.—(1) * * *

(2) No portion of any student financial assistance received from any program by an individual, [and] no portion of a national service educational award or post-service benefit received by an individual under title I of the National and Community Service Act of 1990 (42 U.S.C. 12571 et seq.), and no portion of any tax credit taken under section 25A of the Internal Revenue Code of 1986, shall be included as income or assets in the computation of expected family contribution for any program funded in whole or in part under this Act.

* * * * *

(j) OTHER FINANCIAL ASSISTANCE; TUITION PREPAYMENT PLANS.—

(1) * * *

* * * * *

(4) Notwithstanding paragraph (1), a tax credit taken under section 25A of the Internal Revenue Code of 1986 shall not be treated as estimated financial assistance for purposes of section 471(3).

* * * * *

