

Summary of Higher Education Act Changes in the Conference Report on S. 1932, the Deficit Reduction Act of 2005 (Budget Reconciliation)

[Unless otherwise noted, all provisions are effective on July 1, 2006]

1. The 50% rule is repealed for distance education and greater use of courses taught via telecommunications is permitted.
2. The SMART Grant Program is created – about \$5 billion over five years in additional grants for low-income, high-achieving students in their first two years and in the third and fourth year to low-income, high-achieving students majoring in mathematics, the sciences, engineering or foreign languages critical to national security. The ProGAP grant program for Pell-eligible students was not included.
3. Stafford Loan limits are increased to \$3,500 for freshmen and \$4,500 for sophomores, effective July 1, 2007. The provisions were the same in both bills.
4. PLUS loans are allowed to be made to Graduate and Professional students. This provision came from the Senate bill.
5. Stafford Loan limits are increased for graduate and professional students to \$12,000 per year. The provision was the same in both bills.
6. The fixed Stafford Loan interest rate that is in current law is retained at 6.8%, effective July 1, 2006. This is the Senate provision. It was adopted to generate greater savings than possible under the House variable rate provisions.
7. PLUS loan interest rates are fixed at 8.5%, as of July 1, 2006. This is also from the Senate bill. Because the rate is increased over the 7.9% scheduled to go into effect on July 1, 2006, this provision will produce savings.
8. No changes are made to the Consolidation Loan interest rate formulas, leaving them fixed at the weighted average of the loans being consolidated rounded up to the nearest eighth of a percent. When Stafford and PLUS loans are also fixed rates, there will be no potential advantage to “locking in” low rates as there has been for the past few years. Extending the repayment period in order to lower monthly payments will still make these loans attractive.
9. The rebate of floor income by FFEL lenders is required, effective April 1, 2006. This is the difference between the interest paid by borrowers and the interest set by the variable rate formula that guaranties lenders a market rate of return. The earlier effective date was chosen to increase savings.
10. Borrowers are permitted to get deferments when they are serving in the military during war or other national emergency period for Stafford, PLUS and Perkins Loans.

11. Repayment plans for FDSL are modified to conform to those offered in FFEL, as was done in the House HEA reauthorization legislation.
12. Origination fees are phased out for FFEL, but a one percent mandatory guaranty fee is included. FDSL borrower-paid fees are reduced to one percent to make them the equivalent as in FFEL. The phase-downs are over five years. The current up front interest rebate for Direct Loans would apparently be permitted.
13. Loan disbursements are to be made directly to the school for students studying at foreign institutions, unless the school requests that they be made to the student.
14. "Reconsolidation" is permitted into direct lending in the case of loans that have been submitted to a guaranty agency for default aversion under some conditions.
15. In-school consolidation is repealed.
16. The single holder rule for consolidation loan borrowers is not repealed. Both the House and Senate bills would have repealed the single holder rule but the repeal was struck from the final bill because of the Byrd Rule.
17. Expanded general disclosure requirements for consolidation loans that were in the House bill were not included. Like with the single holder rule, these provisions were dropped at the last minute because they violated the Byrd Rule. Perkins loan-specific disclosure requirements that were in the Senate bill were not included.
18. Schools that have not already made a FFEL loan as a school lender are excluded from doing so as of April 1, 2006. Among various additional requirements put on schools are compliance audits and having a default rate of less than 10%. Other restrictions that were in the Senate bill were dropped, including requiring schools to hold loans until they enter repayment.
19. 9.5%/half special allowance loan "recycling" is eliminated on enactment for for-profit lenders and lenders with more than \$100 million in holdings of those loans and is eliminated in 2010 for others.
20. FFEL lender insurance is reduced to 97% except for lender of last resort loans, which remain at 100%.
21. The guaranty insurance fee is made mandatory, with collection methods optional – deduction can come from loan proceeds or from other non-federal sources. VFA guaranty agencies are required to charge the fee.
22. Guaranty agency default collection retention for loans that are consolidated out of default is reduced to 18.5% as of Oct. 1, 2006, of which 8.5% is remitted to the

- Secretary. Excess default collections through consolidation (defined as 45%) are not permitted as of October 1, 2009.
23. Retention on collections on defaulted loans is maintained at 23 percent (except as noted above).
 24. Exceptional performer status for FFEL lenders that meet certain criteria is retained, with insurance at 99%. Current provisions of the program are maintained.
 25. Direct loan administrative costs (Section 458) become discretionary after FY 2006 -- subject to annual appropriations.
 26. Guaranty agency account maintenance fees remain mandatory and are capped at .1% of original principle of loans outstanding.
 27. Loan forgiveness for borrowers who are in Direct Loan Income Contingent Repayment, go into public service, and make 120 payments, which was in the Senate bill, was not included.
 28. Changes are made to calculations of cost of attendance to include the cost of obtaining a first professional credential.
 29. Changes were made, effective July 1, 2007, to expected family contribution formulas by raising the income protection allowance to \$3,000 and reducing the percentage of assets students are required to spend to 20%. The income protection allowance was also raised for independent students.
 30. The simplified needs test changes and automatic zero expected family contribution provisions for aid eligibility are included.
 31. Expanded teacher loan forgiveness from the Taxpayer Teacher Protection Act is extended, including permitting some qualified private school teachers to qualify.
 32. The requirement that loans be disbursed a semester at a time and that the first disbursement for new students is delayed 30 days is waived (again) for schools with a default rate of less than 10% and was made to apply to foreign schools.