

104<sup>TH</sup> CONGRESS  
1<sup>ST</sup> SESSION

# H. R. 1501

To amend the Federal Credit Reform Act to improve budget accuracy of accounting for Federal costs associated with student loans, to phase-out the Federal Direct Student Loan Program, to make improvements in the Federal Family Education Loan Program, and for other purposes.

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## IN THE HOUSE OF REPRESENTATIVES

APRIL 7, 1995

Mr. ISTOOK (for himself, Mr. BAKER of Louisiana, Mr. BOEHNER, Mr. BONO, Mrs. CHENOWETH, Mr. DOOLITTLE, Mr. HUTCHINSON, Mr. INGLIS of South Carolina, Mr. SAM JOHNSON of Texas, Mr. KASICH, Mr. KIM, Mr. KLUG, Mr. MCINTOSH, Mr. MILLER of Florida, Mr. NORWOOD, Mr. PORTER, Mr. SAXTON, Mr. SCARBOROUGH, Mr. TALENT, Mr. WATTS of Oklahoma, and Mr. WELLER) introduced the following bill; which was referred to the Committee on Economic and Educational Opportunities, and in addition to the Committee on Government Reform and Oversight, for a period to be subsequently determined by the Speaker, in each case for consideration of such provisions as fall within the jurisdiction of the committee concerned

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## A BILL

To amend the Federal Credit Reform Act to improve budget accuracy of accounting for Federal costs associated with student loans, to phase-out the Federal Direct Student Loan Program, to make improvements in the Federal Family Education Loan Program, and for other purposes.

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

1 **SECTION 1. SHORT TITLE.**

2 This Act may be cited as the “Student Loan Privat-  
3 ization Act of 1995”.

4 **SEC. 2. FINDINGS.**

5 The Congress finds the following:

6 (1) The Federal Direct Student Loan Program  
7 will result in an increase of at least 500 full-time  
8 equivalent employees at the United States Depart-  
9 ment of Education and the hiring of over 15,000  
10 Federal contract employees, assuming full implemen-  
11 tation of the program.

12 (2) The involvement of private sector financial  
13 institutions and not-for-profit corporations chartered  
14 for the purpose of providing or supporting Federal  
15 student assistance results in increased efficiency,  
16 maintenance of quality of service to students and in-  
17 stitutions, and innovation in and the use of modern  
18 data processing technology.

19 (3) The Federal Family Education Loan Pro-  
20 gram is subject to excessive regulation resulting in  
21 burdensome administrative requirements for stu-  
22 dents, schools, and other program participants, the  
23 reduction of which would ease administrative bur-  
24 dens and improve program management.

25 (4) The program costs of the Federal Direct  
26 Student Loan program are inaccurately reflected

1 under the provisions of the Federal Credit Reform  
2 Act due to the exclusion of accounting for certain  
3 administrative costs associated with the program  
4 under that Act.

5 (5) The budget scoring of Federal student loans  
6 under the Federal Credit Reform Act led to projec-  
7 tions of savings which are highly unlikely to occur  
8 in reality for the Federal Direct Student Loan Pro-  
9 gram.

10 **TITLE I—REFORMS TO IMPROVE**  
11 **THE ACCURACY OF THE FED-**  
12 **ERAL CREDIT REFORM ACT**  
13 **WITH RESPECT TO BUDGET**  
14 **SCORING THE COST OF THE**  
15 **FEDERAL DIRECT STUDENT**  
16 **LOAN PROGRAM**

17 **SEC. 101. AMENDMENTS TO THE FEDERAL CREDIT REFORM**  
18 **ACT.**

19 Section 502(5)(B) of the Congressional Budget Act  
20 is amended to read as follows:

21 “(B) The cost of a direct loan shall be the  
22 net present value, at the time when the direct  
23 loan is disbursed, of the following cash flows for  
24 the estimated life of the loan—

25 “(i) loan disbursements;

1           “(ii) repayments of principal;

2           “(iii) payments of interest and other  
3 payments by or to the Government over  
4 the life of the loan after adjusting for esti-  
5 mated defaults, prepayments, fees, pen-  
6 alties and other recoveries; and

7           “(iv) in the case of a direct loan made  
8 pursuant to a program for which the Office  
9 of Management and Budget estimates that  
10 for the coming fiscal year (or for any prior  
11 fiscal year) loan commitments will equal or  
12 exceed \$5,000,000,000, direct and indirect  
13 expenses, including but not limited to the  
14 following: expenses arising from credit pol-  
15 icy and oversight; activities related to cred-  
16 it extension; loan origination; loan servic-  
17 ing; technical assistance; training; program  
18 promotion; payments to contractors, other  
19 government entities, and program partici-  
20 pants; collection of delinquent loans; write-  
21 off and close-out of loans; and an amount  
22 equal to 1 basis point multiplied by the  
23 amount of the total Federal debt obliga-  
24 tions outstanding on the last day of the  
25 Federal fiscal year for each

1                   \$50,000,000,000 outstanding in such di-  
2                   rect loans.”.

3 **SEC. 102. EFFECTIVE DATE.**

4           The amendment made by section 101 shall apply to  
5 all fiscal years beginning on or after October 1, 1995, and  
6 to statutory changes made on or after the date of enact-  
7 ment of this Act.

8 **TITLE II—PHASE-OUT OF THE**  
9 **FEDERAL DIRECT STUDENT**  
10 **LOAN PROGRAM**

11 **SEC. 201. PHASE-OUT OF PROGRAM.**

12           Section 453 of the Higher Education Act of 1965 (20  
13 U.S.C. 1087c) (hereinafter in this title and in title III re-  
14 ferred to as “the Act”) is amended by adding at the end  
15 the following new subsection:

16           “(f) PHASE-OUT OF PROGRAM.—

17                   “(1) GENERAL AUTHORITY.—The Secretary  
18 shall modify or phase-out agreements entered into  
19 with institutions of higher education pursuant to  
20 section 454(a) to implement the phase-out of the  
21 Federal Direct Student Loan Program as specified  
22 in paragraph (2) of this section.

23                   “(2) MODIFICATION OR PHASE-OUT OF AGREE-  
24 MENTS.—In order to ensure an expeditious but or-  
25 derly phase-out of the programs authorized under

1 this part, the Secretary shall modify or phase-out  
2 agreements entered into pursuant to section 454  
3 with institutions of higher education to achieve the  
4 following results:

5 “(A) For academic year 1995–1996, loans  
6 made under this part shall represent not more  
7 than 5 percent of new student loan volume for  
8 such year.

9 “(B) For academic year 1996–1997 and  
10 all subsequent academic years, no loans shall be  
11 made pursuant to this part.

12 “(3) NEW STUDENT LOAN VOLUME.—For the  
13 purposes of this subsection, the term ‘new student  
14 loan volume’ has the same meaning as under sub-  
15 section (a)(4) of this section.

16 “(4) MODIFICATION OF SOFTWARE AND SYS-  
17 TEMS FOR PHASE-OUT OF DIRECT LOANS.—The Sec-  
18 retary shall not make system modifications or up-  
19 grades to software used in support of the program  
20 under this part after the date of enactment of this  
21 subsection.

22 “(5) REGULATIONS GOVERNING PHASE-OUT OF  
23 DIRECT LOANS.—The Secretary shall promulgate  
24 regulations governing the phase-out of the Federal  
25 Direct Student Loan Program not later than 90

1 days after the date of enactment of this subsection.  
2 Such regulation shall not be subject to the provisions  
3 of the Master Calendar as specified under section  
4 482 of this title. The provisions of this subsection  
5 shall be implemented notwithstanding the  
6 nonpublication of regulations required under this  
7 subsection by the Secretary.”.

8 **SEC. 202. DIRECT LOAN VOLUME LIMITS.**

9 Section 453(a) of the Act (20 U.S.C. 1087(a)) is  
10 amended by striking paragraphs (2) and (3).

11 **SEC. 203. ADMINISTRATIVE EXPENSES.**

12 Section 458(a) of the Act (20 U.S.C. 1087h(a)) is  
13 amended to read as follows:

14 “(a) IN GENERAL.—Each fiscal year there shall be  
15 available, from funds not otherwise appropriated, funds to  
16 be obligated for administrative costs under this part, and  
17 for certain expenditures in support of the program author-  
18 ized under part B, not to exceed (from such funds not  
19 otherwise appropriated) \$50,000,000 in fiscal year 1996,  
20 \$45,000,000 in fiscal year 1997, and no funds available  
21 in fiscal year 1998. The total expenditures by the Sec-  
22 retary (from such funds not otherwise appropriated) shall  
23 not exceed \$700,000,000 in fiscal years 1994 through  
24 1998. The Secretary is also authorized to carry over funds  
25 available under this section to a subsequent fiscal year.”.

1 **SEC. 204. REPEAL.**

2 Part D of title IV of the Higher Education Act, as  
3 amended by this title, is repealed effective October 1,  
4 1997.

5 **TITLE III—IMPROVEMENTS TO**  
6 **THE FEDERAL FAMILY EDU-**  
7 **CATION LOAN PROGRAM**

8 **SEC. 301. RECOVERY OF GUARANTY AGENCY RESERVES.**

9 The last sentence of section 422(a)(2) of the Act (20  
10 U.S.C. 1072(a)(2)) is amended by striking “Except as  
11 provided in section 428(c)(10)(E) or (F), such” and in-  
12 serting in lieu thereof “Such”.

13 **SEC. 302. RESERVE FUNDS.**

14 Section 422(g) of the Act (20 U.S.C. 1072(g)) is  
15 amended to read as follows:

16 “(g) DISPOSITION OF FUNDS RETURNED OR RECOV-  
17 ERED BY THE SECRETARY.—Any funds that are returned  
18 or otherwise recovered by the Secretary pursuant to this  
19 subsection shall be returned to the United States Treasury  
20 for purposes of reducing the Federal debt.”.

21 **SEC. 303. TERMINATION OF FDSL CONSOLIDATION LOAN**  
22 **AUTHORITY.**

23 (a) PART B AUTHORITY.—Section 428C(b) of the  
24 Act (20 U.S.C. 1078–3(b)) is amended by striking para-  
25 graph (5).

1 (b) PART D AUTHORITY.—Section 455 of the Act is  
2 amended by striking subsection (g).

3 **SEC. 304. CONSOLIDATION UNDER FFELP OF LOANS MADE**  
4 **PURSUANT TO PART D.**

5 Section 428C(a)(4)(B) of the Act (20 U.S.C. 1087–  
6 3(a)(4)(B)) is amended by inserting “part D or” before  
7 “part E”.

8 **SEC. 305. ACCOUNTABILITY OF FUNDS FOR DIRECT LOAN**  
9 **ADMINISTRATIVE EXPENSES.**

10 Section 458 of the Act (20 U.S.C. 1087h) is amended  
11 by redesignating subsection (d) as subsection (e), and by  
12 inserting after subsection (c) thereof the following new  
13 subsection:

14 “(d) PROHIBITION ON CERTAIN EXPENDITURES.—  
15 Notwithstanding any other provision of law, funds avail-  
16 able under this section shall not be used to support public  
17 relations activities (by Department of Education employ-  
18 ees or pursuant to contracts with the Department) or mar-  
19 keting of institutions to encourage participation in the  
20 program authorized under this part.”.

21 **SEC. 306. SALE OF FDSL LOAN PORTFOLIOS.**

22 The Act is amended by inserting after section 458  
23 of the Act (20 U.S.C. 1087h) the following new section:

1 **“SEC. 459. SALE OF FEDERAL DIRECT STUDENT LOAN**  
2 **PORTFOLIOS.**

3 “(a) AUCTION SALES OF LOAN PORTFOLIOS.—The  
4 Secretary shall conduct auctions to sell the outstanding  
5 portfolio of loans made pursuant to this part. Such auc-  
6 tions shall consist of sales of portfolios representative of  
7 the overall characteristics of the direct loans held by the  
8 Secretary. Auctions shall be held for portfolios of not less  
9 than \$40,000,000 of loans per sale. The first sale of loans  
10 shall take place not later than 120 days after the date  
11 of enactment of this section, and shall not include Federal  
12 guarantees or reinsurance against the contingency of bor-  
13 rower default, death, or disability.

14 “(b) LOAN TERMS SUBJECT TO PROMISSORY  
15 NOTE.—Such loans shall be subject to the terms and con-  
16 ditions as specified in the borrower promissory note, and  
17 shall not be subject to further Federal regulations pursu-  
18 ant to this Act.

19 “(c) ASSESSMENT OF AUCTION.—The Secretary, fol-  
20 lowing the auctions required pursuant to this section, shall  
21 prepare a report on the results of such auctions. Such re-  
22 port shall include (but not be limited to) the following:

23 “(1) The Secretary’s opinion as to whether the  
24 results of the auction represent a true reflection of  
25 the Federal subsidy costs associated with federally  
26 supported student loans; and

1           “(2) an estimate of the reductions in Federal  
2           administrative costs achieved through eliminating fu-  
3           ture Federal oversight and administrative respon-  
4           sibilities of affected loans as a result of sale to the  
5           private sector.

6           “(d) TRANSMITTAL OF RESULTS TO CONGRESSIONAL  
7           BUDGET OFFICE AND OFFICE OF MANAGEMENT AND  
8           BUDGET.—The Secretary shall provide a copy of all re-  
9           ports and analyses prepared in connection with implemen-  
10          tation of this section to the Director of the Congressional  
11          Budget Office and the Director of the Office of Manage-  
12          ment and Budget.

13          “(e) DISPOSITION OF PROCEEDS.—All proceeds re-  
14          ceived as a result of the auctions conducted pursuant to  
15          this part shall be returned to the United States Depart-  
16          ment of the Treasury after deduction of expenses incurred  
17          by the Department of Education in connection with the  
18          auctions required pursuant to this section.”.

19          **SEC. 307. EFFECTIVE DATE.**

20          Except as otherwise specified therein, the amend-  
21          ments made by this title shall be effective 30 days after  
22          the date of the enactment.

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