

104TH CONGRESS
1ST SESSION

S. 1198

To amend the Federal Credit Reform Act to improve the 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.

IN THE SENATE OF THE UNITED STATES

AUGUST 11 (legislative day, JULY 10), 1995

Mr. COATS (for himself and Mr. GREGG) introduced the following bill; which was read twice and referred to the Committee on Labor and Human Resources

A BILL

To amend the Federal Credit Reform Act to improve the 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,*

3 **SECTION 1. SHORT TITLE.**

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

1 **SEC. 2. FINDINGS.**

2 Congress finds the following:

3 (1) The Federal Direct Student Loan Program
4 will result in an increase of at least 500 full-time
5 equivalent employees at the Department of Edu-
6 cation and in the hiring of over 15,000 Federal con-
7 tract employees, assuming full implementation of the
8 program.

9 (2) The involvement of private sector financial
10 institutions and not-for-profit corporations chartered
11 for purpose of providing or supporting Federal stu-
12 dent assistance results in increased efficiency, main-
13 tenance of quality of service to students and institu-
14 tions, and innovation in and the use of modern data
15 processing technology.

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

22 (4) The program costs of the Federal Direct
23 Student Loan Program are inaccurately reflected
24 under the provisions of the Federal Credit Reform
25 Act as in effect prior to the date of enactment of

1 this Act due to the exclusion of accounting for cer-
2 tain administrative costs associated with the Act.

3 (5) The budget scoring of Federal student loans
4 under the Federal Credit Reform Act as in effect
5 prior to the date of enactment of this Act led to pro-
6 jections of savings which are highly unlikely to occur
7 in reality for the Federal Direct Student Loan Pro-
8 gram.

9 **TITLE I—REFORMS TO IMPROVE**
10 **THE ACCURACY OF THE FED-**
11 **ERAL CREDIT REFORM ACT**

12 **SEC. 101. AMENDMENTS TO THE FEDERAL CREDIT REFORM**
13 **ACT.**

14 Subparagraph (B) of section 502(5) of the Congres-
15 sional Budget Act of 1974 is amended to read as follows:

16 “(B) The cost of a direct loan shall be the net
17 present value, at the time when the direct loan is
18 disbursed, of the following cash flows for the esti-
19 mated life of the loan:

20 “(i) Loan disbursements.

21 “(ii) Repayments of principal.

22 “(iii) Payments of interest and other pay-
23 ments by or to the Government over the life of
24 the loan after adjusting for estimated defaults,

1 prepayments, fees, penalties, and other recover-
2 ies.

3 “(iv) Direct expenses, including—

4 “(I) activities related to credit exten-
5 sion, loan origination, loan servicing, man-
6 agement of contractors, other government
7 entities, and program participants;

8 “(II) collection of delinquent loans;
9 and

10 “(III) writeoff and closeout of loans.”.

11 **SEC. 102. EFFECTIVE DATE.**

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

16 **TITLE II—PHASE-OUT OF THE**
17 **FEDERAL DIRECT STUDENT**
18 **LOAN PROGRAM**

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

20 Section 453 of the Higher Education Act of 1965 (20
21 U.S.C. 1087c) (hereafter referred to in this title and in
22 title III as the “Act”) is amended by adding at the end
23 the following new subsection:

24 “(f) PHASE-OUT OF PROGRAM.—

1 “(1) GENERAL AUTHORITY.—The Secretary
2 shall modify or phase-out agreements entered into
3 with institutions of higher education pursuant to
4 section 454(a) in accordance with paragraph (2).

5 “(2) MODIFICATION OR PHASE-OUT OF AGREE-
6 MENTS.—In order to ensure an expeditious and or-
7 derly phase-out of the programs authorized under
8 this part, the Secretary shall modify or phase-out
9 agreements entered into pursuant to section 454
10 with institutions of higher education to achieve the
11 following results:

12 “(A) For academic year 1995–1996, loans
13 made under this part shall represent not more
14 than 40 percent of new student loan volume for
15 such year.

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

19 “(3) NEW STUDENT LOAN VOLUME.—For the
20 purposes of this subsection, the term ‘new student
21 loan volume’ has the same meaning given such term
22 under subsection (a)(4).

23 “(4) MODIFICATION OF SOFTWARE AND SYS-
24 TEMS FOR PHASE-OUT OF DIRECT LOANS.—The Sec-
25 retary shall not make system modifications or up-

1 grades to software used in support of the program
2 under this part after the date of enactment of this
3 subsection.

4 “(5) REGULATIONS GOVERNING PHASE-OUT OF
5 DIRECT LOANS.—Not later than 90 days after the
6 date of enactment of this subsection, the Secretary
7 shall promulgate regulations governing the phase-out
8 of the Federal Direct Student Loan Program as pro-
9 vided for in this subsection. Such regulation shall
10 not be subject to the provisions of the Master Cal-
11 endar as specified under section 482. The provisions
12 of this subsection shall be implemented notwith-
13 standing the nonpublication of regulations required
14 under this subsection by the Secretary.”.

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

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

18 **SEC. 203. ADMINISTRATIVE EXPENSES.**

19 Subsection (a) of section 458 of the Act (20 U.S.C.
20 1087h(a)) is amended to read as follows:

21 “(a) IN GENERAL.—Each fiscal year, there shall be
22 available, from funds not otherwise appropriated, funds to
23 be obligated for administrative costs under this part, and
24 for certain expenditures in support of the program author-
25 ized under part B, not to exceed (from such funds not

1 otherwise appropriated) \$50,000,000 in fiscal year 1996,
2 and \$45,000,000 in fiscal year 1997. Beginning in fiscal
3 year 1998, no funds shall be made available under this
4 subsection unless carried over from a prior fiscal year. The
5 total expenditures by the Secretary (from such funds not
6 otherwise appropriated) under this subsection shall not ex-
7 ceed \$700,000,000 for fiscal years 1994 through 1998.
8 The Secretary may carry over funds available under this
9 section for a subsequent fiscal year.”.

10 **SEC. 204. REPEAL.**

11 Effective October 1, 1997, part D of title IV of the
12 Higher Education Act, as amended by this title, is re-
13 pealed.

14 **TITLE III—IMPROVEMENTS TO**
15 **THE FEDERAL FAMILY EDU-**
16 **CATION LOAN PROGRAM**

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

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

22 **SEC. 302. RESERVE FUNDS.**

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

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

6 **SEC. 303. TERMINATION OF FDSL CONSOLIDATION LOAN**
7 **AUTHORITY.**

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

11 (b) PART D AUTHORITY.—Section 455 of the Act (20
12 U.S.C. 1087e) is amended by striking subsection (g).

13 **SEC. 304. CONSOLIDATION UNDER FFELP OF LOANS MADE**
14 **PURSUANT TO PART D.**

15 Section 428C(a)(4)(B) of the Act (20 U.S.C. 1087–
16 3(a)(4)(B)) is amended by inserting “part D or” before
17 “part E”.

18 **SEC. 305. ACCOUNTABILITY OF FUNDS FOR DIRECT LOAN**
19 **ADMINISTRATIVE EXPENSES.**

20 Section 458 of the Act (20 U.S.C. 1087h) is amend-
21 ed—

22 (1) by redesignating subsection (d) as sub-
23 section (e); and

24 (2) by inserting after subsection (c), the follow-
25 ing new subsection:

1 “(d) PROHIBITION ON CERTAIN EXPENDITURES.—
2 Notwithstanding any other provision of law, funds avail-
3 able under this section shall not be used to support public
4 relation activities (by Department of Education employees
5 or pursuant to contracts with the Department) or market-
6 ing of institutions to encourage participation in the pro-
7 gram authorized under this part.”.

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

9 Part D of title IV of the Act is amended by inserting
10 after section 458 (20 U.S.C. 1087h) the following new sec-
11 tion:

12 **“SEC. 459. SALE OF FEDERAL DIRECT STUDENT LOAN**
13 **PORTFOLIOS.**

14 “(a) AUCTION SALES OF LOAN PORTFOLIOS.—The
15 Secretary shall conduct auctions to sell the outstanding
16 portfolios of loans made pursuant to this part. Such auc-
17 tions shall consist of the sale of portfolios representative
18 of the overall characteristics of the direct loans held by
19 the Secretary. Auctions shall be held for portfolios of not
20 less than \$40,000,000 worth of loans per sale. The first
21 sale of loans shall take place not later than 120 days after
22 the date of enactment of this section, and shall not include
23 Federal guarantees or reinsurance against the contingency
24 of borrower default, death, or disability.

1 “(b) LOAN TERMS SUBJECT TO PROMISSORY
2 NOTE.—Loans described in subsection (a) shall be subject
3 to the terms and conditions as specified in the borrower
4 promissory note, and shall not be subject to further Fed-
5 eral regulations pursuant to this Act.

6 “(c) ASSESSMENT OF AUCTION.—The Secretary,
7 subsequent to holding of the auctions under subsection
8 (a), shall prepare a report on the results of such actions.
9 Such report shall include the following:

10 “(1) The opinion of the Secretary as to whether
11 the results of the auction represent a true reflection
12 of the Federal subsidy costs associated with federally
13 supported student loans.

14 “(2) An estimate of the reductions in Federal
15 administrative costs achieved through the elimi-
16 nation of future Federal oversight and administra-
17 tive responsibilities of affected loans as a result of
18 sale to the private sector.

19 “(d) TRANSMITTAL OF RESULTS TO CONGRESSIONAL
20 BUDGET OFFICE AND OFFICE OF MANAGEMENT AND
21 BUDGET.—The Secretary shall provide a copy of all re-
22 ports and analyses prepared in connection with implemen-
23 tation of this section to the Director of the Congressional
24 Budget Office and the Director of the Office of Manage-
25 ment and Budget.

1 “(e) DISPOSITION OF PROCEEDS.—All proceeds re-
2 ceived as a result of the auctions conducted under this
3 section shall be returned to the Department of the Treas-
4 ury after deduction of expenses incurred by the Depart-
5 ment of Education in connection with the auctions re-
6 quired pursuant to this section.”.

7 **SEC. 307. EFFECTIVE DATE.**

8 Except as otherwise specified herein, the amendments
9 made by this title shall be effective 30 days after the date
10 of the enactment of this Act.

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