An Act

To amend the Higher Education Act of 1965 to establish fixed interest rates for student and parent borrowers, to extend current law with respect to special allowances for lenders, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. INTEREST RATE PROVISIONS.

(a) FFEL FIXED INTEREST RATES.—

(1) AMENDMENT.—Section 427A of the Higher Education Act of 1965 (20 U.S.C. 1077a) is amended—

(A) by redesignating subsections (l) and (m) as subsections (m) and (n), respectively; and

(B) by inserting after subsection (k) the following new subsection:

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(l) INTEREST RATES FOR NEW LOANS ON OR AFTER JULY 1, 2006.

(1) IN GENERAL.—Notwithstanding subsection (h), with respect to any loan made, insured, or guaranteed under this part (other than a loan made pursuant to section 428B or 428C) for which the first disbursement is made on or after July 1, 2006, the applicable rate of interest shall be 6.8 percent on the unpaid principal balance of the loan.

(2) PLUS LOANS.—Notwithstanding subsection (h), with respect to any loan under section 428B for which the first disbursement is made on or after July 1, 2006, the applicable rate of interest shall be 7.9 percent on the unpaid principal balance of the loan.

(3) CONSOLIDATION LOANS.—With respect to any consolidation loan under section 428C for which the application is received by an eligible lender on or after July 1, 2006, the applicable rate of interest shall be at an annual rate on the unpaid principal balance of the loan that is equal to the lesser of—

(A) the weighted average of the interest rates on the loans consolidated, rounded to the nearest higher one-eighth of 1 percent; or

(B) 8.25 percent.”

(2) CONFORMING AMENDMENT.—Section 428C(c)(1)(A) of such Act (20 U.S.C. 1078–3(c)(1)(A)) is amended to read as follows:
“(1) INTEREST RATE.—(A) Notwithstanding subparagraphs 
(B) and (C), with respect to any loan made under this section 
for which the application is received by an eligible lender—
“(i) on or after October 1, 1998, and before July 1, 
2006, the applicable interest rate shall be determined under 
section 427A(k)(4); or 
“(ii) on or after July 1, 2006, the applicable interest 
rate shall be determined under section 427A(1)(3).”.

(b) DIRECT LOANS FIXED INTEREST RATES.—
   (1) TECHNICAL CORRECTION.—Paragraph (6) of section 
455(b) of the Higher Education Act of 1965 (20 U.S.C. 1087e(b)), 
as redesignated by section 8301(c)(1) of the Transportation 
Equity Act for the 21st Century (Public Law 105–178; 112 
Stat. 498) is redesignated as paragraph (9) and is transferred 
to follow paragraph (7) of section 455(b) of the Higher Education 
Act of 1965.
   (2) AMENDMENTS.—Section 455(b) of the Higher Education 
Act of 1965 (20 U.S.C. 1087e(b)) is amended—
      (A) by redesignating paragraph (7) as paragraph (8); 
      and
      (B) by inserting after paragraph (6) the following new 
paragraph:
   “(7) INTEREST RATE PROVISION FOR NEW LOANS ON OR AFTER 
JULY 1, 2006.—
   “(A) RATES FOR FDSL AND FDUSL.—Notwithstanding the 
preceding paragraphs of this subsection, for Federal Direct 
Stafford Loans and Federal Direct Unsubsidized Stafford 
Loans for which the first disbursement is made on or 
after July 1, 2006, the applicable rate of interest shall 
be 6.8 percent on the unpaid principal balance of the loan.
   “(B) PLUS LOANS.—Notwithstanding the preceding 
paragraphs of this subsection, with respect to any Federal 
Direct PLUS loan for which the first disbursement is made 
on or after July 1, 2006, the applicable rate of interest 
shall be 7.9 percent on the unpaid principal balance of 
the loan.
   “(C) CONSOLIDATION LOANS.—Notwithstanding the pre-
ceding paragraphs of this subsection, any Federal Direct 
Consolidation loan for which the application is received 
on or after July 1, 2006, shall bear interest at an annual 
rate on the unpaid principal balance of the loan that is 
equal to the lesser of—
      “(i) the weighted average of the interest rates on 
the loans consolidated, rounded to the nearest higher 
one-eighth of one percent; or
      “(ii) 8.25 percent.”.

(c) EXTENSION OF CURRENT INTEREST RATE PROVISIONS FOR 
THREE YEARS.—Sections 427A(k) and 455(b)(6) of the Higher 
Education Act of 1965 (20 U.S.C. 1077a(k), 1087e(b)(6)) are each 
amended—
   (1) by striking “2003” in the heading and inserting “2006”; 
   and
   (2) by striking “July 1, 2003,” each place it appears and 
inserting “July 1, 2006,”.
SEC. 2. EXTENSION OF SPECIAL ALLOWANCE PROVISION.

(1) by striking "AND BEFORE JULY 1, 2003" in the heading;
(2) by striking "and before July 1, 2003," each place it appears, other than in clauses (ii) and (v);
(3) by striking clause (ii) and inserting the following:
"(ii) IN SCHOOL AND GRACE PERIOD.—In the case of any loan—
(I) for which the first disbursement is made on or after January 1, 2000, and before July 1, 2006, and for which the applicable rate of interest is described in section 427A(k)(2); or
(II) for which the first disbursement is made on or after July 1, 2006, and for which the applicable rate of interest is described in section 427A(l)(1), but only with respect to (aa) periods prior to the beginning of the repayment period of the loan; or (bb) during the periods in which principal need not be paid (whether or not such principal is in fact paid) by reason of a provision described in section 427A(a)(2)(C) or 428(b)(1)(M); clause (i)(III) of this subparagraph shall be applied by substituting '1.74 percent' for '2.34 percent';",;
(4) in clause (iii), by inserting "or (l)(2)" after "427A(k)(3)";
(5) in clause (iv), by inserting "or (l)(3)" after "427A(k)(4)";
(6) in clause (v)—
(A) in the heading, by inserting "BEFORE JULY 1, 2006" after "PLUS LOANS"; and
(B) by striking "July 1, 2003," and inserting "July 1, 2006;"
(7) in clause (vi)—
(A) by inserting "or (l)(3)" after "427A(k)(4)" the first place it appears; and
(B) by inserting "or (l)(3), whichever is applicable" after "427A(k)(4)" the second place it appears; and
(8) by adding at the end the following new clause:
"(vii) LIMITATION ON SPECIAL ALLOWANCES FOR PLUS LOANS ON OR AFTER JULY 1, 2006.—In the case of PLUS loans made under section 428B and first disbursed on or after July 1, 2006, for which the interest rate is determined under section 427A(l)(2), a special allowance shall not be paid for such loan during any 12-month period beginning on July 1 and ending on June 30 unless—
“(I) the average of the bond equivalent rates of the quotes of the 3-month commercial paper (financial), as published by the Board of Governors of the Federal Reserve System in Publication H-15 (or its successor), for the last calendar week ending on or before such July 1; plus
“(II) 2.64 percent, exceeds 9.0 percent.”.

Approved February 8, 2002.