

108TH CONGRESS
1ST SESSION

H. R. 2711

To permit refinancing of Federal student consolidation loans, and to permit students freedom to select a student loan consolidator.

IN THE HOUSE OF REPRESENTATIVES

JULY 10, 2003

Mr. WU (for himself, Mr. SIMMONS, Mr. WAXMAN, Mr. HINCHEY, Mr. BRADY of Pennsylvania, Mr. SANDERS, Mr. CLAY, Mr. FARR, Mr. FILNER, Mr. RAHALL, Mr. FORD, Mr. PETRI, Mr. McNULTY, Mr. SCOTT of Georgia, Mr. HOLDEN, Mr. MCGOVERN, Ms. WOOLSEY, Mr. GOODE, Mr. Boucher, Mr. SANDLIN, Ms. LEE, Mr. OWENS, Mr. CONYERS, Mr. ETHERIDGE, Mr. LANTOS, Mr. BISHOP of Georgia, Mr. UDALL of Colorado, Ms. JACKSON-LEE of Texas, Mr. BROWN of Ohio, Mr. SHAYS, Ms. BALDWIN, Mr. ROTHMAN, Mr. SERRANO, Mr. CLYBURN, Mr. RYAN of Ohio, Mr. RUSH, Ms. LOFGREN, Mr. MURPHY, Mr. WEXLER, Mr. RANGEL, Ms. LORETTA SANCHEZ of California, Mr. TERRY, Mr. PETERSON of Minnesota, Mr. GILLMOR, Mr. HOLT, Mr. ISRAEL, Mrs. JONES of Ohio, Mrs. MALONEY, Mr. DOYLE, Mr. ROSS, Ms. WATSON, Mr. MOORE, and Mr. GRIJALVA) introduced the following bill; which was referred to the Committee on Education and the Workforce

A BILL

To permit refinancing of Federal student consolidation loans, and to permit students freedom to select a student loan consolidator.

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 Fairness
3 Act of 2003”.

4 **SEC. 2. REMOVAL OF PROHIBITION ON REFINANCING CON-**
5 **SOLIDATION LOANS.**

6 Section 428C(a)(3) the Higher Education Act of
7 1965 (20 U.S.C. 1078–3(a)(3)) is amended—

8 (1) by striking subparagraph (B);

9 (2) in subparagraph (C), by striking “subpara-
10 graphs (A) and (B)” and inserting “subparagraph
11 (A)”; and

12 (3) by redesignating subparagraph (C) as sub-
13 paragraph (B).

14 **SEC. 3. STUDENT LOAN BORROWER CHOICE OF LOAN**
15 **CONSOLIDATOR.**

16 (a) **SELECTION OF LENDER.**—Section 428C(b)(1)(A)
17 of the Higher Education Act of 1965 (20 U.S.C. 1078–
18 3(b)(1)(A)) is amended by striking “and (i) the lender
19 holds” and all that follows through “selected for consolida-
20 tion)”.

21 (b) **INFORMATION ABOUT CONSOLIDATION LOANS.**—

22 (1) **INFORMATION FROM LENDERS.**—Section
23 428C(b)(1) of such Act is further amended—

24 (A) by striking “and” at the end of sub-
25 paragraph (E);

1 (B) by redesignating subparagraph (F) as
2 subparagraph (G); and

3 (C) by inserting after subparagraph (E)
4 the following new subparagraph:

5 “(F) that the lender will provide to each
6 applicant for a consolidation loan a clear and
7 conspicuous notice, in such form as the Sec-
8 retary shall prescribe, describing, in relation to
9 the borrower’s reported current loan balance
10 and the likely interest rate estimated by the
11 lender for the consolidation loan—

12 “(i) the effects of a consolidation loan
13 and its available repayment plans on the
14 borrower’s interest rate, the amount of his
15 or her monthly and total payments, total
16 interest accrued, the length of the repay-
17 ment term;

18 “(ii) the ability of the student bor-
19 rower to pre-pay loans; and

20 “(iii) the differences between variable
21 and fixed interest rates; and”.

22 (2) INFORMATION FROM INSTITUTIONS.—Sec-
23 tion 485(b)(1)(A) of such Act (20 U.S.C. 1092(b))
24 is amended—

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

2 (i);

3 (B) by striking the period at the end of

4 clause (ii) and inserting “; and”; and

5 (C) by adding at the end the following new

6 clause:

7 “(iii) providing to the borrower of a loan made

8 under part B, D, or E, a clear and conspicuous no-

9 tice, in such form as the Secretary shall prescribe,

10 describing the effect of using a consolidation loan to

11 discharge the borrower’s student loans, and includ-

12 ing, with respect to a series of loan amounts

13 ranges—

14 “(I) the differences between fixed and vari-

15 able interest rates;

16 “(II) the effects of consolidation loan and

17 its available repayment plans on the borrower’s

18 interest rate, the amount of his or her monthly

19 and total payments, total interest accrued, and

20 the length of repayment term; and

21 “(III) the ability of the student borrower

22 to prepay loans.”.

1 **SEC. 4. INTEREST RATES ON CONSOLIDATED AND RE-**
 2 **CONSOLIDATED LOANS.**

3 (a) INTEREST RATE CHANGES.—Section 427A of the
 4 Higher Education Act of 1965 (20 U.S.C. 1077a) is
 5 amended by striking subsections (k) and (l) and inserting
 6 the following:

7 “(k) INTEREST RATES FOR NEW LOANS ON OR
 8 AFTER OCTOBER 1, 1998, AND BEFORE JANUARY 1,
 9 2004.—

10 “(1) IN GENERAL.—Notwithstanding subsection
 11 (h) and subject to paragraph (2) of this subsection,
 12 with respect to any loan made, insured, or guaran-
 13 teed under this part (other than a loan made pursu-
 14 ant to section 428B or 428C) for which the first dis-
 15 bursement is made on or after October 1, 1998, and
 16 before January 1, 2004, the applicable rate of inter-
 17 est shall, during any 12-month period beginning on
 18 July 1 and ending on June 30, be determined on the
 19 preceding June 1 and be equal to—

20 “(A) the bond equivalent rate of 91-day
 21 Treasury bills auctioned at the final auction
 22 held prior to such June 1; plus

23 “(B) 2.3 percent,
 24 except that such rate shall not exceed 8.25 percent.

25 “(2) IN SCHOOL AND GRACE PERIOD RULES.—
 26 Notwithstanding subsection (h), with respect to any

1 loan under this part (other than a loan made pursu-
2 ant to section 428B or 428C) for which the first dis-
3 bursement is made on or after October 1, 1998, and
4 before January 1, 2004, the applicable rate of inter-
5 est for interest which accrues—

6 “(A) prior to the beginning of the repay-
7 ment period of the loan; or

8 “(B) during the period in which principal
9 need not be paid (whether or not such principal
10 is in fact paid) by reason of a provision de-
11 scribed in section 427(a)(2)(C) or
12 428(b)(1)(M),

13 shall be determined under paragraph (1) by sub-
14 stituting ‘1.7 percent’ for ‘2.3 percent’.

15 “(3) PLUS LOANS.—Notwithstanding sub-
16 section (h), with respect to any loan under section
17 428B for which the first disbursement is made on or
18 after October 1, 1998, and before January 1, 2004,
19 the applicable rate of interest shall be determined
20 under paragraph (1)—

21 “(A) by substituting ‘3.1 percent’ for ‘2.3
22 percent’; and

23 “(B) by substituting ‘9.0 percent’ for ‘8.25
24 percent’.

1 “(4) CONSOLIDATION LOANS.—With respect to
2 any consolidation loan under section 428C for which
3 the application is received by an eligible lender on or
4 after October 1, 1998, and before January 1, 2004,
5 the applicable rate of interest shall be at an annual
6 rate on the unpaid principal balance of the loan that
7 is equal to the lesser of—

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

11 “(B) 8.25 percent.

12 “(5) CONSULTATION.—The Secretary shall de-
13 termine the applicable rate of interest under this
14 subsection after consultation with the Secretary of
15 the Treasury and shall publish such rate in the Fed-
16 eral Register as soon as practicable after the date of
17 determination.

18 “(l) INTEREST RATES FOR NEW LOANS ON OR
19 AFTER JANUARY 1, 2004.—

20 “(1) IN GENERAL.—Notwithstanding subsection
21 (h), with respect to any loan made, insured, or guar-
22 anteed under this part (other than a loan made pur-
23 suant to section 428B or 428C) for which the first
24 disbursement is made on or after January 1, 2004,
25 the applicable rate of interest shall, during any 12-

1 month period beginning on July 1 and ending on
2 June 30, be determined on the preceding June 1
3 and be equal to—

4 “(A) the bond equivalent rate of 91-day
5 Treasury bills auctioned at the final auction
6 held prior to such June 1; plus

7 “(B) 2.3 percent,
8 except that such rate shall not exceed 6.8 percent.

9 “(2) PLUS LOANS.—Notwithstanding sub-
10 section (h), with respect to any loan under section
11 428B for which the first disbursement is made on or
12 after January 1, 2004, the applicable rate of interest
13 shall be determined under paragraph (1)—

14 “(A) by substituting ‘3.1 percent’ for ‘2.3
15 percent’; and

16 “(B) by substituting ‘7.5 percent’ for ‘6.8
17 percent’.

18 “(3) CONSOLIDATION LOANS.—With respect to
19 any consolidation loan under section 428C for which
20 the application is received by an eligible lender on or
21 after January 1, 2004, the applicable rate of interest
22 shall, during any 12-month period beginning on July
23 1 and ending on June 30, be determined on the pre-
24 ceding June 1 and be equal to—

1 “(A) the bond equivalent rate of 91-day
2 Treasury bills auctioned at the final auction
3 held prior to such June 1; plus

4 “(B) 2.3 percent,
5 except that such rate shall not exceed 6.8 percent.”.

6 (b) OFFSETTING ORIGINATION FEES.—Section
7 438(c) of the Higher Education Act of 1965 (20 U.S.C.
8 1087–1(c)) is amended—

9 (1) in paragraph (1), by inserting “or para-
10 graph (7)” after “paragraph (2)”;

11 (2) in paragraph (2), by striking “paragraph
12 (8)” and inserting “paragraph (9)”;

13 (3) by redesignating paragraphs (7) and (8) as
14 paragraphs (8) and (9), respectively; and

15 (4) by inserting after paragraph (6) the fol-
16 lowing new paragraph:

17 “(7) CONSOLIDATION LOANS.—With respect to
18 any loans made under section 428C on or after Jan-
19 uary 1, 2004, each eligible lender under this part is
20 authorized to charge the borrower an origination fee
21 of not to exceed 0.5 percent of the principal amount
22 of the loan. Except as provided in paragraph (9), a
23 lender that charges an origination fee under this
24 paragraph shall assess the same fee to all bor-
25 rowers.”.

1 (c) SPECIAL ALLOWANCE CONFORMING CHANGES.—
2 Section 438(b)(2) of the Higher Education Act of 1965
3 (20 U.S.C. 1087–1(b)(2)) is amended by striking “July
4 1, 2006” each place it appears in clauses (ii), (v), and
5 (vii) of subparagraph (I), including in the headings of such
6 clauses, and inserting “January 1, 2004”.

7 (d) ADDITIONAL CONFORMING AMENDMENTS.—Sec-
8 tion 428C(c)(1) of the Higher Education Act of 1965 (20
9 U.S.C. 1078–3(c)(1)) is amended by striking “July 1,
10 2006” each place it appears and inserting “January 1,
11 2004”.

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