

109TH CONGRESS
1ST SESSION

H. R. 1029

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

IN THE HOUSE OF REPRESENTATIVES

MARCH 1, 2005

Mr. WU (for himself, Mr. SIMMONS, Ms. LEE, Mr. BERRY, Mr. HOLDEN, Ms. WATSON, Mr. WEINER, Mr. HINCHEY, Mr. DOYLE, Mrs. JONES of Ohio, Mr. LANTOS, Mrs. CHRISTENSEN, Ms. BERKLEY, Mr. OLVER, Mr. WEXLER, Mr. McNULTY, Mr. TOWNS, Mr. WAXMAN, Ms. SLAUGHTER, Mr. MCINTYRE, Mrs. MALONEY, Mr. MARKEY, Mr. MCGOVERN, Mr. SCOTT of Georgia, Mr. BROWN of Ohio, Mr. RAHALL, Mr. PAYNE, Mr. BLUMENAUER, Mr. ABERCROMBIE, Mr. ISRAEL, Mr. SHAYS, Mrs. JOHNSON of Connecticut, Mr. ETHERIDGE, Mr. FORD, Mr. BRADY of Pennsylvania, Mr. GREEN of Wisconsin, Mr. STUPAK, Mr. McDERMOTT, Mr. BISHOP of Georgia, Ms. MILLENDER-McDONALD, Ms. BORDALLO, Mr. CUMMINGS, Mr. DELAHUNT, Mr. BOUCHER, Ms. KILPATRICK of Michigan, Mr. GOODE, Mr. FILNER, Mr. OWENS, Mr. UDALL of Colorado, Mr. PALLONE, Mr. HOLT, Mr. UDALL of New Mexico, Ms. ESHOO, Ms. BALDWIN, Mr. CONYERS, Mr. WALSH, Mr. GENE GREEN of Texas, Mr. ROSS, Mr. LARSON of Connecticut, Mr. SPRATT, Mr. LIPINSKI, Mr. TAYLOR of Mississippi, and Mr. PUTNAM) 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 2005”.

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 subsection (l) and inserting the fol-
6 lowing:

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

9 “(1) IN GENERAL.—Notwithstanding subsection
10 (h), with respect to any loan made, insured, or guar-
11 anteed under this part (other than a loan made pur-
12 suant to section 428B or 428C) for which the first
13 disbursement is made on or after July 1, 2006, the
14 applicable rate of interest shall, during any 12-
15 month period beginning on July 1 and ending on
16 June 30, be determined on the preceding June 1
17 and be equal to—

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

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

23 “(2) PLUS LOANS.—Notwithstanding sub-
24 section (h), with respect to any loan under section
25 428B for which the first disbursement is made on or

1 after July 1, 2006, the applicable rate of interest
 2 shall be determined under paragraph (1)—

3 “(A) by substituting ‘3.1 percent’ for ‘2.3
 4 percent’; and

5 “(B) by substituting ‘7.5 percent’ for ‘6.8
 6 percent’.

7 “(3) CONSOLIDATION LOANS.—With respect to
 8 any consolidation loan under section 428C for which
 9 the application is received by an eligible lender on or
 10 after July 1, 2006, the applicable rate of interest
 11 shall, during any 12-month period beginning on July
 12 1 and ending on June 30, be determined on the pre-
 13 ceding June 1 and be equal to—

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

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

19 (b) OFFSETTING ORIGINATION FEES.—Section
 20 438(c) of the Higher Education Act of 1965 (20 U.S.C.
 21 1087–1(c)) is amended—

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

24 (2) in paragraph (2), by striking “paragraph
 25 (8)” and inserting “paragraph (9)”;

1 (3) by redesignating paragraphs (7) and (8) as
2 paragraphs (8) and (9), respectively; and

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

5 “(7) CONSOLIDATION LOANS.—With respect to
6 any loans made under section 428C on or after July
7 1, 2006, each eligible lender under this part is au-
8 thorized to charge the borrower an origination fee of
9 not to exceed 0.5 percent of the principal amount of
10 the loan. Except as provided in paragraph (9), a
11 lender that charges an origination fee under this
12 paragraph shall assess the same fee to all bor-
13 rowers.”.

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