

110TH CONGRESS
1ST SESSION

S. 359

To amend the Higher Education Act of 1965 to provide additional support to students.

IN THE SENATE OF THE UNITED STATES

JANUARY 22, 2007

Mr. KENNEDY (for himself, Ms. MIKULSKI, Mr. LIEBERMAN, Mr. SCHUMER, Mr. DURBIN, and Mr. OBAMA) introduced the following bill; which was read twice and referred to the Committee on Finance

A BILL

To amend the Higher Education Act of 1965 to provide additional support to students.

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 Debt Relief
5 Act of 2007”.

6 **SEC. 2. INCREASE IN FEDERAL PELL GRANTS.**

7 (a) PROGRAM AUTHORITY.—Section 401(a)(1) of the
8 Higher Education Act of 1965 (20 U.S.C. 1070a(a)(1))
9 is amended by striking “2004” and inserting “2012”.

1 (b) AMOUNT OF GRANTS.—Section 401(b)(2)(A) of
 2 the Higher Education Act of 1965 (20 U.S.C.
 3 1070a(b)(2)(A)) is amended by striking clauses (i)
 4 through (v) and inserting the following:

- 5 “(i) \$5,100 for academic year 2007–2008;
 6 “(ii) \$5,400 for academic year 2008–2009;
 7 “(iii) \$5,700 for academic year 2009–2010;
 8 “(iv) \$6,000 for academic year 2010–2011; and
 9 “(v) \$6,300 for academic year 2011–2012,”.

10 (c) ADDITIONAL FUNDS.—

11 (1) IN GENERAL.—For an academic year, there
 12 are authorized to be appropriated, and there are ap-
 13 propriated, to carry out paragraph (2) (in addition
 14 to any other amounts appropriated to carry out sec-
 15 tion 401 of the Higher Education Act of 1965 (20
 16 U.S.C. 1070a) and out of any money in the Treas-
 17 ury not otherwise appropriated) as follows:

18 (A) For academic year 2007–2008,
 19 \$4,331,000,000.

20 (B) For academic year 2008–2009,
 21 \$5,674,000,000.

22 (C) For academic year 2009–2010,
 23 \$7,050,000,000.

24 (D) For academic year 2010–2011,
 25 \$8,452,000,000.

1 (E) For academic year 2011–2012,
 2 \$9,894,000,000.

3 (2) INCREASE IN PELL GRANTS.—The amounts
 4 made available pursuant to paragraph (1) shall be
 5 used to increase the amount of the maximum Fed-
 6 eral Pell Grant under section 401 of the Higher
 7 Education Act of 1965 (20 U.S.C. 1070a) for which
 8 funds are appropriated under appropriations Acts
 9 for a fiscal year by—

10 (A) \$1,050 for award year 2007–2008;

11 (B) \$1,350 for award year 2008–2009;

12 (C) \$1,650 for award year 2009–2010;

13 (D) \$1,950 for award year 2010–2011;

14 and

15 (E) \$2,250 for award year 2011–2012.

16 **SEC. 3. STUDENT AID REWARD PROGRAM.**

17 Part G of title IV of the Higher Education Act of
 18 1965 (20 U.S.C. 1088 et seq.) is amended by inserting
 19 after section 489 the following:

20 **“SEC. 489A. STUDENT AID REWARD PROGRAM.**

21 “(a) PROGRAM AUTHORIZED.—The Secretary shall
 22 carry out a Student Aid Reward Program to encourage
 23 institutions of higher education to participate in the stu-
 24 dent loan program under this title that is most cost-effec-
 25 tive for taxpayers.

1 “(b) PROGRAM REQUIREMENTS.—In carrying out the
2 Student Aid Reward Program, the Secretary shall—

3 “(1) provide to each institution of higher edu-
4 cation participating in the student loan program
5 under this title that is most cost-effective for tax-
6 payers, a Student Aid Reward Payment, in an
7 amount determined in accordance with subsection
8 (c), to encourage the institution to participate in
9 that student loan program;

10 “(2) require each institution of higher edu-
11 cation receiving a payment under this section to pro-
12 vide student loans under such student loan program
13 for a period of 5 years after the date the first pay-
14 ment is made under this section;

15 “(3) where appropriate, require that funds paid
16 to institutions of higher education under this section
17 be used to award students a supplement to such stu-
18 dents’ Federal Pell Grants under subpart 1 of part
19 A;

20 “(4) permit such funds to also be used to award
21 need-based grants to lower- and middle-income grad-
22 uate students; and

23 “(5) encourage all institutions of higher edu-
24 cation to participate in the Student Aid Reward Pro-
25 gram under this section.

1 “(c) AMOUNT.—The amount of a Student Aid Re-
 2 ward Payment under this section shall be not less than
 3 50 percent of the savings to the Federal Government gen-
 4 erated by the institution of higher education’s participa-
 5 tion in the student loan program under this title that is
 6 most cost-effective for taxpayers instead of the institu-
 7 tion’s participation in the student loan program that is
 8 not most cost-effective for taxpayers.

9 “(d) TRIGGER TO ENSURE COST NEUTRALITY.—

10 “(1) LIMIT TO ENSURE COST NEUTRALITY.—
 11 Notwithstanding subsection (c), the Secretary shall
 12 not distribute Student Aid Reward Payments under
 13 the Student Aid Reward Program that, in the aggre-
 14 gate, exceed the Federal savings resulting from the
 15 implementation of the Student Aid Reward Pro-
 16 gram.

17 “(2) FEDERAL SAVINGS.—In calculating Fed-
 18 eral savings, as used in paragraph (1), the Secretary
 19 shall determine Federal savings on loans made to
 20 students at institutions of higher education that par-
 21 ticipate in the student loan program under this title
 22 that is most cost-effective for taxpayers and that, on
 23 the date of enactment of this section, participated in
 24 the student loan program that is not most cost-effec-
 25 tive for taxpayers, resulting from the difference of—

1 “(A) the Federal cost of loan volume made
2 under the student loan program under this title
3 that is most cost-effective for taxpayers; and

4 “(B) the Federal cost of an equivalent type
5 and amount of loan volume made, insured, or
6 guaranteed under the student loan program
7 under this title that is not most cost-effective
8 for taxpayers.

9 “(3) DISTRIBUTION RULES.—If the Federal
10 savings determined under paragraph (2) is not suffi-
11 cient to distribute full Student Aid Reward Pay-
12 ments under the Student Aid Reward Program, the
13 Secretary shall—

14 “(A) first make Student Aid Reward Pay-
15 ments to those institutions of higher education
16 that participated in the student loan program
17 under this title that is not most cost-effective
18 for taxpayers on the date of enactment of this
19 section; and

20 “(B) with any remaining Federal savings
21 after making Student Aid Reward Payments
22 under subparagraph (A), make Student Aid Re-
23 ward Payments to the institutions of higher
24 education eligible for a Student Aid Reward

1 Payment and not described in subparagraph
2 (A) on a pro-rata basis.

3 “(4) DISTRIBUTION TO STUDENTS.—Any insti-
4 tution of higher education that receives a Student
5 Aid Reward Payment under this section—

6 “(A) shall distribute, where appropriate,
7 part or all of such payment among the students
8 of such institution who are Federal Pell Grant
9 recipients by awarding such students a supple-
10 mental grant; and

11 “(B) may distribute part of such payment
12 as a supplemental grant to graduate students in
13 financial need.

14 “(5) ESTIMATES, ADJUSTMENTS, AND CARRY
15 OVER.—

16 “(A) ESTIMATES AND ADJUSTMENTS.—
17 The Secretary shall make Student Aid Reward
18 Payments to institutions of higher education on
19 the basis of estimates, using the best data avail-
20 able at the beginning of an academic or fiscal
21 year. If the Secretary determines thereafter
22 that loan program costs for that academic or
23 fiscal year were different than such estimate,
24 the Secretary shall adjust by reducing or in-
25 creasing subsequent Student Aid Reward Pay-

ments rewards paid to such institutions of higher education to reflect such difference.

“(B) CARRY OVER.—Any institution of higher education that receives a reduced Student Aid Reward Payment under paragraph (3)(B), shall remain eligible for the unpaid portion of such institution’s financial reward payment, as well as any additional financial reward payments for which the institution is otherwise eligible, in subsequent academic or fiscal years.

“(e) DEFINITION.—In this section:

“(1) STUDENT LOAN PROGRAM UNDER THIS TITLE THAT IS MOST COST-EFFECTIVE FOR TAXPAYERS.—The term ‘student loan program under this title that is most cost-effective for taxpayers’ means the loan program under part B or D of this title that has the lowest overall cost to the Federal Government (including administrative costs) for the loans authorized by such parts.

“(2) STUDENT LOAN PROGRAM UNDER THIS TITLE THAT IS NOT MOST COST-EFFECTIVE FOR TAXPAYERS.—The term ‘student loan program under this title that is not most cost-effective for taxpayers’ means the loan program under part B or D of this title that does not have the lowest overall

1 cost to the Federal Government (including adminis-
 2 trative costs) for the loans authorized by such
 3 parts.”.

4 **SEC. 4. INTEREST RATE REDUCTIONS.**

5 (a) FFEL INTEREST RATES.—

6 (1) Section 427A(*l*) of the Higher Education
 7 Act of 1965 (20 U.S.C. 1077a(*l*)) is amended by
 8 adding at the end the following:

9 “(4) REDUCED RATES FOR UNDERGRADUATE
 10 SUBSIDIZED LOANS.—Notwithstanding subsection
 11 (h) and paragraph (1) of this subsection, with re-
 12 spect to any loan to an undergraduate student made,
 13 insured, or guaranteed under this part (other than
 14 a loan made pursuant to section 428B, 428C, or
 15 428H) for which the first disbursement is made on
 16 or after July 1, 2006, and before July 1, 2012, the
 17 applicable rate of interest shall be as follows:

18 “(A) For a loan for which the first dis-
 19bursement is made on or after July 1, 2006,
 20and before July 1, 2007, 6.8 percent on the un-
 21paid principal balance of the loan.

22 “(B) For a loan for which the first dis-
 23bursement is made on or after July 1, 2007,
 24and before July 1, 2008, 6.12 percent on the
 25unpaid principal balance of the loan.

1 “(C) For a loan for which the first dis-
 2 bursement is made on or after July 1, 2008,
 3 and before July 1, 2009, 5.44 percent on the
 4 unpaid principal balance of the loan.

5 “(D) For a loan for which the first dis-
 6 bursement is made on or after July 1, 2009,
 7 and before July 1, 2010, 4.76 percent on the
 8 unpaid principal balance of the loan.

9 “(E) For a loan for which the first dis-
 10 bursement is made on or after July 1, 2010,
 11 and before July 1, 2011, 4.08 percent on the
 12 unpaid principal balance of the loan.

13 “(F) For a loan for which the first dis-
 14 bursement is made on or after July 1, 2011,
 15 and before July 1, 2012, 3.40 percent on the
 16 unpaid principal balance of the loan.”.

17 (2) SPECIAL ALLOWANCE CROSS REFERENCE.—
 18 Section 438(b)(2)(I)(ii)(II) of such Act is amended
 19 by striking “section 427A(l)(1)” and inserting “sec-
 20 tion 427A(*l*)(1) or (*l*)(4)”.

21 (b) DIRECT LOAN INTEREST RATES.—Section
 22 455(b)(7) of the Higher Education Act of 1965 (20
 23 U.S.C. 1087e(b)(7)) is amended by adding at the end the
 24 following:

1 “(D) REDUCED RATES FOR UNDER-
2 GRADUATE FDSL.—Notwithstanding the pre-
3 ceding paragraphs of this subsection, for Fed-
4 eral Direct Stafford Loans made to under-
5 graduate students for which the first disburse-
6 ment is made on or after July 1, 2006, and be-
7 fore July 1, 2012, the applicable rate of interest
8 shall be as follows:

9 “(i) For a loan for which the first dis-
10 bursement is made on or after July 1,
11 2006, and before July 1, 2007, 6.8 percent
12 on the unpaid principal balance of the
13 loan.

14 “(ii) For a loan for which the first
15 disbursement is made on or after July 1,
16 2007, and before July 1, 2008, 6.12 per-
17 cent on the unpaid principal balance of the
18 loan.

19 “(iii) For a loan for which the first
20 disbursement is made on or after July 1,
21 2008, and before July 1, 2009, 5.44 per-
22 cent on the unpaid principal balance of the
23 loan.

24 “(iv) For a loan for which the first
25 disbursement is made on or after July 1,

2009, and before July 1, 2010, 4.76 per-
cent on the unpaid principal balance of the
loan.

“(v) For a loan for which the first
disbursement is made on or after July 1,
2010, and before July 1, 2011, 4.08 per-
cent on the unpaid principal balance of the
loan.

“(vi) For a loan for which the first
disbursement is made on or after July 1,
2011, and before July 1, 2012, 3.40 per-
cent on the unpaid principal balance of the
loan.”.

**SEC. 5. INCOME CONTINGENT REPAYMENT FOR PUBLIC
SECTOR EMPLOYEES.**

Section 455(e) of the Higher Education Act of 1965
(20 U.S.C. 1087e(e)) is amended by adding at the end
the following:

“(7) REPAYMENT PLAN FOR PUBLIC SECTOR
EMPLOYEES.—

“(A) IN GENERAL.—The Secretary shall
forgive the balance due on any loan made under
this part or section 428C(b)(5) for a bor-
rower—

1 “(i) who has made 120 payments on
 2 such loan pursuant to income contingent
 3 repayment; and

4 “(ii) who is employed, and was em-
 5 ployed for the 10-year period in which the
 6 borrower made the 120 payments de-
 7 scribed in clause (i), in a public sector job.

8 “(B) PUBLIC SECTOR JOB.—In this para-
 9 graph, the term ‘public sector job’ means a full-
 10 time job in emergency management, govern-
 11 ment, public safety, law enforcement, public
 12 health, education (including early childhood
 13 education), social work in a public child or fam-
 14 ily service agency, or public interest legal serv-
 15 ices (including prosecution or public defense).

16 “(8) RETURN TO STANDARD REPAYMENT.—A
 17 borrower who is repaying a loan made under this
 18 part pursuant to income contingent repayment may
 19 choose, at any time, to terminate repayment pursu-
 20 ant to income contingent repayment and repay such
 21 loan under the standard repayment plan.”.

22 **SEC. 6. FAIR PAYMENT ASSURANCE.**

23 (a) AMENDMENT.—Part G of title IV of the Higher
 24 Education Act of 1965 (20 U.S.C. 1088 et seq.) is further
 25 amended by adding at the end the following:

1 **“SEC. 493C. FAIR PAYMENT ASSURANCE.**

2 “(a) DEFINITIONS.—In this section:

3 “(1) EXCEPTED PLUS LOAN.—The term ‘ex-
4 cepted PLUS loan’ means a loan under section
5 428B, or a Federal Direct PLUS Loan, that is
6 made, insured, or guaranteed on behalf of a depend-
7 ent student.

8 “(2) PARTIAL FINANCIAL HARDSHIP.—The
9 term ‘partial financial hardship’ means the amount
10 by which the annual amount due on the total
11 amount of loans made, insured, or guaranteed under
12 part B or D (other than an excepted PLUS loan)
13 to a borrower as calculated under the standard re-
14 payment plan under section 428(b)(9)(A)(i) or
15 455(d)(1)(A) exceeds 15 percent of the result ob-
16 tained by calculating the amount by which—

17 “(A) the borrower’s adjusted gross income;
18 exceeds

19 “(B) 150 percent of the poverty line appli-
20 cable to the borrower’s family size as deter-
21 mined under section 673(2) of the Community
22 Services Block Grant Act.

23 “(b) FAIR PAYMENT ASSURANCE PROGRAM AUTHOR-
24 IZED.—Notwithstanding any other provision of this Act,
25 the Secretary shall carry out a program under which—

1 “(1) a borrower of any loan made, insured or
2 guaranteed under part B or D (other than an ex-
3 cepted PLUS loan) who has a partial financial hard-
4 ship may elect, during any period the borrower has
5 the partial financial hardship, to have the borrower’s
6 aggregate monthly payment for all such loans not
7 exceed 15 percent of the result described in sub-
8 section (a)(2) divided by 12;

9 “(2) the holder of such a loan shall apply the
10 borrower’s monthly payment under this subsection
11 first toward interest due on the loan and then to-
12 ward the principal of the loan;

13 “(3) any interest due and not paid under para-
14 graph (2)—

15 “(A) in the case of a Federal Stafford
16 Loan or Federal Direct Stafford Loan, shall be
17 paid by the Secretary; or

18 “(B) in the case of any other loan under
19 part B or D (other than a loan described in
20 subparagraph (A) or an excepted PLUS loan),
21 shall be capitalized;

22 “(4) any principal due and not paid under
23 paragraph (2) shall be deferred in the same manner
24 as deferments under section 428(b)(1)(M);

1 “(5) the amount of time the borrower makes
2 monthly payments under paragraph (1) may exceed
3 10 years;

4 “(6) if the borrower no longer has a partial fi-
5 nancial hardship or no longer wishes to continue the
6 election under this subsection, then—

7 “(A) the maximum monthly payment re-
8 quired to be paid for all loans made to the bor-
9 rower under part B or D (other than an ex-
10 cepted PLUS loan) shall not exceed the month-
11 ly amount calculated under section
12 428(b)(9)(A)(i) or 455(d)(1)(A) when the bor-
13 rower first made the election described in this
14 subsection; and

15 “(B) the amount of time the borrower is
16 permitted to repay such loans may exceed 10
17 years; and

18 “(7) the Secretary shall repay or cancel any
19 outstanding balance of principal and interest due on
20 all loans made under part B or D (other than an ex-
21 cepted PLUS Loan) to a borrower who—

22 “(A) is in deferment due to an economic
23 hardship described in section 435(o) for a pe-
24 riod of time prescribed by the Secretary, not to
25 exceed 25 years; or

1 “(B)(i) makes the election under this sub-
2 section; and

3 “(ii) for a period of time prescribed by the
4 Secretary, not to exceed 25 years (including any
5 period during which the borrower is in
6 deferment due to an economic hardship de-
7 scribed in section 435(o)), meets any 1 or more
8 of the following requirements:

9 “(I) Has made reduced monthly pay-
10 ments under paragraph (1).

11 “(II) Has made monthly payments of
12 not less than the monthly amount cal-
13 culated under section 428(b)(9)(A)(i) or
14 455(d)(1)(A) when the borrower first made
15 the election described in this subsection.

16 “(III) Has made payments under a
17 standard repayment plan under section
18 428(b)(9)(A)(i) or 455(d)(1)(A).

19 “(IV) Has made payments under an
20 income contingent repayment plan under
21 section 455(d)(1)(D).”.

22 (b) CONFORMING ICR AMENDMENT.—Section
23 455(d)(1)(D) of the Higher Education Act of 1965 (20
24 U.S.C. 1087e(d)(1)(D)) is amended by inserting “made
25 on behalf of a dependent student” after “PLUS loan”.

1 **SEC. 7. DEFINITION OF ECONOMIC HARDSHIP.**

2 Section 435(o) of the Higher Education Act of 1965
3 (20 U.S.C. 1085(o)) is amended—

4 (1) in paragraph (1)—

5 (A) in subparagraph (A)(ii), by striking
6 “100 percent of the poverty line for a family of
7 2” and inserting “150 percent of the poverty
8 line applicable to the borrower’s family size”;

9 (B) by striking subparagraph (B); and

10 (C) by redesignating subparagraph (C) as
11 subparagraph (B); and

12 (2) in paragraph (2), by striking “(1)(C)” and
13 inserting “(1)(B)”.

14 **SEC. 8. DEFERRALS.**

15 (a) FISL.—Section 427(a)(2)(C)(iii) of the Higher
16 Education Act of 1965 (20 U.S.C. 1077(a)(2)(C)(iii)) is
17 amended by striking “not in excess of 3 years”.

18 (b) INTEREST SUBSIDIES.—Section 428(b)(1)(M)(iv)
19 of the Higher Education Act of 1965 (20 U.S.C.
20 1078(b)(1)(M)(iv)) is amended by striking “not in excess
21 of 3 years”.

22 (c) DIRECT LOANS.—Section 455(f)(2)(D) of the
23 Higher Education Act of 1965 (20 U.S.C. 1087e(f)(2)(D))
24 is amended by striking “not in excess of 3 years”.

1 (d) PERKINS.—Section 464(c)(2)(A)(iv) of the High-
 2 er Education Act of 1965 (20 U.S.C. 1087dd(c)(2)(A)(iv))
 3 is amended by striking “not in excess of 3 years”.

4 **SEC. 9. MAXIMUM REPAYMENT PERIOD.**

5 (a) IN GENERAL.—Section 455(e) of the Higher
 6 Education Act of 1965 (20 U.S.C. 1087e(e)) is amended
 7 by adding at the end the following:

8 “(7) MAXIMUM REPAYMENT PERIOD.—In calcu-
 9 lating the extended period of time for which an in-
 10 come contingent repayment plan under this sub-
 11 section may be in effect for a borrower, the Sec-
 12 retary shall include all time periods during which a
 13 borrower of loans under part B, part D, or part E—

14 “(A) is not in default on any loan that is
 15 included in the income contingent repayment
 16 plan; and

17 “(B)(i) is in deferment due to an economic
 18 hardship described in section 435(o);

19 “(ii) makes monthly payments under para-
 20 graph (1) or (6) of section 493C(b); or

21 “(iii) makes payments under a standard
 22 repayment plan described in section
 23 428(b)(9)(A)(i) or subsection (d)(1)(A).”.

1 (b) TECHNICAL CORRECTION.—Section 455(d)(1)(C)
 2 (20 U.S.C. 1087e(d)(1)(C)) is amended by striking
 3 “428(b)(9)(A)(v)” and inserting “428(b)(9)(A)(iv)”.

4 **SEC. 10. IN-SCHOOL CONSOLIDATION.**

5 Section 428(b)(7)(A) of the Higher Education Act of
 6 1965 (20 U.S.C. 1078(b)(7)(A)) is amended by striking
 7 “shall begin” and all that follows through the period and
 8 inserting “shall begin—

9 “(i) the day after 6 months after the date
 10 the student ceases to carry at least one-half the
 11 normal full-time academic workload (as deter-
 12 mined by the institution); or

13 “(ii) on an earlier date if the borrower re-
 14 quests and is granted a repayment schedule
 15 that provides for repayment to commence at an
 16 earlier date.”.

17 **SEC. 11. CONSOLIDATION LOAN CHANGES.**

18 Section 428C(a)(3) of the Higher Education Act of
 19 1965 (20 U.S.C. 1078–3(a)(3)) is amended to read as fol-
 20 lows:

21 “(3) DEFINITION OF ELIGIBLE BORROWER.—
 22 For the purpose of this section, the term ‘eligible
 23 borrower’ means a borrower who—

24 “(A) is not subject to a judgment secured
 25 through litigation with respect to a loan under

1 this title or to an order for wage garnishment
 2 under section 488A; and

3 “(B) at the time of application for a con-
 4 solidation loan—

5 “(i) is in repayment status as deter-
 6 mined under section 428(b)(7)(A);

7 “(ii) is in a grace period preceding re-
 8 payment; or

9 “(iii) is a defaulted borrower who has
 10 made arrangements to repay the obligation
 11 on the defaulted loans satisfactory to the
 12 holders of the defaulted loans.”.

13 **SEC. 12. REDUCTION OF DIRECT LOAN ORIGINATION FEES.**

14 Section 455(c) of the Higher Education Act of 1965
 15 (20 U.S.C. 1087e(c)) is amended—

16 (1) in paragraph (1)—

17 (A) by striking “4.0 percent” and inserting
 18 “3.0 percent”; and

19 (B) by striking “shall” and inserting “is
 20 authorized to”; and

21 (2) in paragraph (2)—

22 (A) in subparagraph (A), by striking “‘3.0
 23 percent’ for ‘4.0 percent’” and inserting “‘2.0
 24 percent’ for ‘3.0 percent’”;

1 (B) in subparagraph (B), by striking “‘2.5
2 percent’ for ‘4.0 percent’” and inserting “‘1.5
3 percent’ for ‘3.0 percent’”;

4 (C) in subparagraph (C), by striking “‘2.0
5 percent’ for ‘4.0 percent’” and inserting “‘1.0
6 percent’ for ‘3.0 percent’”;

7 (D) in subparagraph (D), by striking “‘1.5
8 percent’ for ‘4.0 percent’” and inserting “‘0.5
9 percent’ for ‘3.0 percent’”; and

10 (E) in subparagraph (E), by striking “‘1.0
11 percent’ for ‘4.0 percent’” and inserting “‘0.0
12 percent’ for ‘3.0 percent’”.

13 **SEC. 13. ADMINISTRATIVE ACCOUNT FOR DIRECT LOAN**
14 **PROGRAM.**

15 Section 458 of the Higher Education Act of 1965 (20
16 U.S.C. 1087h) is amended—

17 (1) in subsection (a)—

18 (A) by striking paragraphs (2) and (3) and
19 inserting the following:

20 “(2) MANDATORY FUNDS FOR FISCAL YEARS
21 2007 THROUGH 2011.—Each fiscal year there shall be
22 available to the Secretary, from funds not otherwise
23 appropriated, funds to be obligated for—

1 “(A) administrative costs under this part
2 and part B, including the costs of the direct
3 student loan programs under this part; and

4 “(B) account maintenance fees payable to
5 guaranty agencies under part B and calculated
6 in accordance with subsection (b),
7 not to exceed (from such funds not otherwise appro-
8 priated) \$904,000,000 (less any amounts previously
9 appropriated for the costs and fees described this
10 paragraph for fiscal year 2007) for fiscal year 2007,
11 \$943,000,000 for fiscal year 2008, \$983,000,000 for
12 fiscal year 2009, \$1,023,000,000 for fiscal year
13 2010, \$1,064,000,000 for fiscal year 2011, and
14 \$1,106,000,000 for fiscal year 2012.”;

15 (B) by redesignating paragraphs (4) and
16 (5) as paragraphs (3) and (4), respectively; and

17 (C) in paragraph (3) (as redesignated in
18 subparagraph (B)), by striking “paragraph (3)”
19 and inserting “paragraph (2)”; and
20 (2) in subsection (b), by striking “(a)(3)” and
21 inserting “(a)(2)”.

22 **SEC. 14. COLLEGE TUITION DEDUCTION AND CREDIT FOR**
23 **INTEREST ON HIGHER EDUCATION LOANS.**

24 (a) EXPANSION OF DEDUCTION FOR HIGHER EDU-
25 CATION EXPENSES.—

1 (1) AMOUNT OF DEDUCTION.—Subsection (b)
 2 of section 222 of the Internal Revenue Code of 1986
 3 (relating to deduction for qualified tuition and re-
 4 lated expenses) is amended to read as follows:

5 “(b) LIMITATIONS.—

6 “(1) DOLLAR LIMITATIONS.—

7 “(A) IN GENERAL.—Except as provided in
 8 paragraph (2), the amount allowed as a deduc-
 9 tion under subsection (a) with respect to the
 10 taxpayer for any taxable year shall not exceed
 11 the applicable dollar limit.

12 “(B) APPLICABLE DOLLAR LIMIT.—The
 13 applicable dollar limit for any taxable year shall
 14 be determined as follows:

“Taxable year:	Applicable dollar amount:
2007	\$8,000
2008 and thereafter	\$12,000.

15 “(2) LIMITATION BASED ON MODIFIED AD-
 16 JUSTED GROSS INCOME.—

17 “(A) IN GENERAL.—The amount which
 18 would (but for this paragraph) be taken into ac-
 19 count under subsection (a) shall be reduced
 20 (but not below zero) by the amount determined
 21 under subparagraph (B).

22 “(B) AMOUNT OF REDUCTION.—The
 23 amount determined under this subparagraph

1 equals the amount which bears the same ratio
 2 to the amount which would be so taken into ac-
 3 count as—

4 “(i) the excess of—

5 “(I) the taxpayer’s modified ad-
 6 justed gross income for such taxable
 7 year, over

8 “(II) \$65,000 (\$130,000 in the
 9 case of a joint return), bears to

10 “(ii) \$15,000 (\$30,000 in the case of
 11 a joint return).

12 “(C) MODIFIED ADJUSTED GROSS IN-
 13 COME.—For purposes of this paragraph, the
 14 term ‘modified adjusted gross income’ means
 15 the adjusted gross income of the taxpayer for
 16 the taxable year determined—

17 “(i) without regard to this section and
 18 sections 199, 911, 931, and 933, and

19 “(ii) after the application of sections
 20 86, 135, 137, 219, 221, and 469.

21 For purposes of the sections referred to in
 22 clause (ii), adjusted gross income shall be deter-
 23 mined without regard to the deduction allowed
 24 under this section.

25 “(D) INFLATION ADJUSTMENTS.—

“(i) IN GENERAL.—In the case of any taxable year beginning in a calendar year after 2007, both of the dollar amounts in subparagraph (B)(i)(II) shall be increased by an amount equal to—

“(I) such dollar amount, multiplied by

“(II) the cost-of-living adjustment determined under section 1(f)(3) for the calendar year in which the taxable year begins, by substituting ‘calendar year 2006’ for ‘calendar year 1992’ in subparagraph (B) thereof.

“(ii) ROUNDING.—If any amount as adjusted under clause (i) is not a multiple of \$50, such amount shall be rounded to the nearest multiple of \$50.”.

(2) QUALIFIED TUITION AND RELATED EXPENSES OF ELIGIBLE STUDENTS.—

(A) IN GENERAL.—Section 222(a) of the Internal Revenue Code of 1986 (relating to allowance of deduction) is amended by inserting “of eligible students” after “expenses”.

(B) DEFINITION OF ELIGIBLE STUDENT.—Section 222(d) of such Code (relating to defini-

1 tions and special rules) is amended by redesignig-
 2 nating paragraphs (2) through (6) as para-
 3 graphs (3) through (7), respectively, and by in-
 4 serting after paragraph (1) the following new
 5 paragraph:

6 “(2) ELIGIBLE STUDENT.—The term ‘eligible
 7 student’ has the meaning given such term by section
 8 25A(b)(3).”.

9 (3) DEDUCTION MADE PERMANENT.—Title IX
 10 of the Economic Growth and Tax Relief Reconcili-
 11 ation Act of 2001 (relating to sunset of provisions
 12 of such Act) shall not apply to the amendments
 13 made by section 431 of such Act.

14 (4) EFFECTIVE DATE.—The amendments made
 15 by this subsection shall apply to payments made in
 16 taxable years beginning after December 31, 2006.

17 (b) CREDIT FOR INTEREST ON HIGHER EDUCATION
 18 LOANS.—

19 (1) IN GENERAL.—Subpart A of part IV of sub-
 20 chapter A of chapter 1 of the Internal Revenue Code
 21 of 1986 (relating to nonrefundable personal credits)
 22 is amended by inserting after section 25D the fol-
 23 lowing new section:

1 **“SEC. 25E. INTEREST ON HIGHER EDUCATION LOANS.**

2 “(a) ALLOWANCE OF CREDIT.—In the case of an in-
3 dividual, there shall be allowed as a credit against the tax
4 imposed by this chapter for the taxable year an amount
5 equal to the interest paid by the taxpayer during the tax-
6 able year on any qualified education loan.

7 “(b) MAXIMUM CREDIT.—

8 “(1) IN GENERAL.—Except as provided in para-
9 graph (2), the credit allowed by subsection (a) for
10 the taxable year shall not exceed \$1,500.

11 “(2) LIMITATION BASED ON MODIFIED AD-
12 JUSTED GROSS INCOME.—

13 “(A) IN GENERAL.—If the modified ad-
14 justed gross income of the taxpayer for the tax-
15 able year exceeds \$50,000 (\$100,000 in the
16 case of a joint return), the amount which would
17 (but for this paragraph) be allowable as a credit
18 under this section shall be reduced (but not
19 below zero) by the amount which bears the
20 same ratio to the amount which would be so al-
21 lowable as such excess bears to \$20,000
22 (\$40,000 in the case of a joint return).

23 “(B) MODIFIED ADJUSTED GROSS IN-
24 COME.—The term ‘modified adjusted gross in-
25 come’ means adjusted gross income determined

1 without regard to sections 199, 222, 911, 931,
2 and 933.

3 “(C) INFLATION ADJUSTMENT.—In the
4 case of any taxable year beginning after 2007,
5 the \$50,000 and \$100,000 amounts referred to
6 in subparagraph (A) shall be increased by an
7 amount equal to—

8 “(i) such dollar amount, multiplied by

9 “(ii) the cost-of-living adjustment de-
10 termined under section (1)(f)(3) for the
11 calendar year in which the taxable year be-
12 gins, by substituting ‘2006’ for ‘1992’.

13 “(D) ROUNDING.—If any amount as ad-
14 justed under subparagraph (C) is not a multiple
15 of \$50, such amount shall be rounded to the
16 nearest multiple of \$50.

17 “(c) DEPENDENTS NOT ELIGIBLE FOR CREDIT.—No
18 credit shall be allowed by this section to an individual for
19 the taxable year if a deduction under section 151 with re-
20 spect to such individual is allowed to another taxpayer for
21 the taxable year beginning in the calendar year in which
22 such individual’s taxable year begins.

23 “(d) LIMIT ON PERIOD CREDIT ALLOWED.—A credit
24 shall be allowed under this section only with respect to
25 interest paid on any qualified education loan during the

1 first 60 months (whether or not consecutive) in which in-
 2 terest payments are required. For purposes of this para-
 3 graph, any loan and all refinancings of such loan shall be
 4 treated as 1 loan.

5 “(e) DEFINITIONS.—For purposes of this section—

6 “(1) QUALIFIED EDUCATION LOAN.—The term
 7 ‘qualified education loan’ has the meaning given
 8 such term by section 221(d)(1).

9 “(2) DEPENDENT.—The term ‘dependent’ has
 10 the meaning given such term by section 152.

11 “(f) SPECIAL RULES.—

12 “(1) DENIAL OF DOUBLE BENEFIT.—No credit
 13 shall be allowed under this section for any amount
 14 taken into account for any deduction under any
 15 other provision of this chapter.

16 “(2) MARRIED COUPLES MUST FILE JOINT RE-
 17 TURN.—If the taxpayer is married at the close of
 18 the taxable year, the credit shall be allowed under
 19 subsection (a) only if the taxpayer and the tax-
 20 payer’s spouse file a joint return for the taxable
 21 year.

22 “(3) MARITAL STATUS.—Marital status shall be
 23 determined in accordance with section 7703.”.

24 (2) CONFORMING AMENDMENT.—The table of
 25 sections for subpart A of part IV of subchapter A

1 of chapter 1 of the Internal Revenue Code of 1986
2 is amended by inserting after the item relating to
3 section 25D the following new item:

“Sec. 25E. Interest on higher education loans.”.

4 (3) EFFECTIVE DATE.—The amendments made
5 by this section shall apply to any qualified education
6 loan (as defined in section 25E(e)(1) of the Internal
7 Revenue Code of 1986, as added by this section) in-
8 curred on, before, or after the date of the enactment
9 of this Act, but only with respect to any loan inter-
10 est payment due after December 31, 2006.

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