

XXXTH CONGRESS
XX SESSION

S. XXXX

To amend the Higher Education Act and Internal Revenue Code to ease the burden on current and future students by lowering the interest rates on all federal student loans, by allowing the refinancing of existing federal student loans, and by allowing deduction of qualified education expenses to most borrowers.

IN THE SENATE OF THE UNITED STATES
MONTH DD, YYY

Mr. GLADSTONE introduced the following bill; which was read twice and referred to the Committee on XYZ

A BILL

To amend the Higher Education Act and Internal Revenue Code to ease the burden on current and future students by lowering the interest rates on all federal student loans, by allowing the refinancing of existing federal student loans, and by allowing deduction of qualified education expenses to most borrowers.

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

SECTION 1. SHORT TITLE; REFERENCES.

(a) This Act may be cited as the “Student Loan Interest Reform and Relief Act of XXXX”

(b) References.—

Except as otherwise expressly provided, whenever in this Act an amendment or repeal is express in terms of an amendment to, or repeal of, a section or other provision, the reference shall be considered to be made to a section or other provision of the Higher Education Act of 1965 (20 U.S.C. 1001 et seq.).

(c) Effective Date.—

The amendments made by this Act shall be effective on October 1, XXXX.

SECTION 2. INTEREST RATE CHANGES

(a) Direct Loan Interest Rates.—

(1) Section 455(b) (20 U.S.C. 1087e(b)) is amended by redesignating paragraphs (9) and (10) as paragraphs (10) and (11), respectively; and

(2) by inserting the following after paragraph (8):

"(9) Interest rate provisions for new loans on or after July 1, XXXX.—

(A) **Rates for undergraduate FDSL and FDUSL** For Federal Direct Stafford Loans and Federal Direct Unsubsidized Stafford Loans issued to undergraduate students, for which the first disbursement is made on or after July 1, XXXX, the applicable rate of interest shall, for loans disbursed during any 12-month period beginning on July 1 and ending on June 30, be determined on the preceding June 1 and be equal to the lesser of—

(i) a rate equal to the daily average yield of the 3-year Treasury note auctioned over the 365 day period starting from June 1 of the previous calendar year; or

(ii) 1.5 percent.

(B) **Rates for graduate and professional FDUSL** For Federal Direct Stafford Loans and Federal Direct Unsubsidized Stafford Loans issued to graduate and professional students, for which the first disbursement is made on or after July 1, XXXX, the applicable rate of interest shall, for loans disbursed during any 12-month period beginning on July 1 and ending on June 30, be determined on the preceding June 1 and be equal to the lesser of—

(i) a rate equal to the daily average yield of the 3-year Treasury note auctioned over the 365 day period starting from June 1 of the previous calendar year plus 1.5 percent; or

(ii) 3 percent.

(C) **Rates for PLUS Loans** For Federal Direct Stafford Loans and Federal Direct Unsubsidized Stafford Loans issued to graduate and professional students, for which the first disbursement is made on or after July 1, XXXX, the applicable rate of interest shall, for loans disbursed during any 12-month period beginning on July 1 and ending on June 30, be determined on the preceding June 1 and be equal to the lesser of—

(i) a rate equal to the daily average yield of the 3-year Treasury note auctioned over the 365 day period starting from June 1 of the previous calendar year plus 2 percent; or

(ii) 4 percent.

(D) **Consolidation Loans** Notwithstanding the preceding paragraphs of this subsection, any Federal Direct Consolidation Loan for which the application is received on or after July 1, XXXX, shall bear interest at an annual rate on the unpaid principal balance of the loan that is equal to the weighted average of the interest rates on the loans consolidated, rounded to the nearest higher one-eighth of one percent.

(E) **Consultation** The Secretary shall determine the applicable rate of interest under this paragraph after consultation with the Secretary of the Treasury and shall publish such rate in the Federal Register as soon as practicable after the date of determination.

(F) **Rate** The applicable rate of interest determined under this paragraph for a Federal Direct Stafford Loan, a Federal Direct Unsubsidized Stafford Loan, or a Federal Direct PLUS Loan shall be fixed for the period of the loan.”.

(b) In School Deferment.—

(1) Section 455(f) (20 U.S.C. 1087e(f)) is amended by striking “a borrower” in paragraph (1) and inserting “Except as provided in paragraph (5), a borrower”; and

(2) by adding the following new paragraph at the end:

“(5) Notwithstanding any other provision of this Act, a borrower described in paragraph (2)(A) shall be eligible for a deferment, during which periodic installments of principal need not be paid, and interest shall not accrue.”.

(c) Effective Date.—

- (1) The amendments made by subsections (a) and (b) shall take effect as if enacted on July 1, XXXX.

SECTION 3. REFINANCING EXISTING LOANS

(a) Program authority.—

- (1) Section 451(a) (20 U.S.C. 1087a(a)) is amended by striking “and (2)” and inserting “(2)”; and
- (2) by inserting “; and (3) to make loans under section 460A” after “section 459A”.

(b) Refinancing.—

- (1) Title IV, Part D is amended by adding the following at the end:

“Sec. 460A. Refinancing Federal Family Education Loans and Federal Direct Loans.

(a) In general.—

Within 180 days after the date of enactment of the Student Loan Interest Reform and Financing Act, the Secretary shall establish a program under which the Secretary, upon receipt of an application from a qualified borrower, reissues the borrower’s original loan under this part or part B as a loan under this part, in accordance with the provisions of this section, in order to permit the borrower to obtain the interest rate provided under subsection (c).

(b) Definition of a qualified borrower.—

- (1) In general, the term “qualified borrower” means a borrower—

- (A) of a loan under this part or part B for which the first disbursement was made, or the application for reissuance under this section was received, before July 1, XXXX; and
- (B) who meets the eligibility requirements based on income or debt-to-income ratio established by the Secretary.

(2) Income requirements.—

Not later than 180 days after the date of enactment of the Student Loan Interest Reform and Financing Act, the Secretary shall establish eligibility requirements based on income or debt-to-income ratio that take into consideration providing access to refinancing under this section for borrowers with the greatest financial need.

(c) Reissuing Loans.—

(1) Upon application of a qualified borrower, the Secretary shall reissue a Federal Direct Stafford Loan, a Federal Direct Unsubsidized Stafford Loan, a Federal Direct PLUS Loan, or a Federal Direct Consolidation Loan of the qualified borrower, for which the first disbursement was made, or the application for the reissuance of a loan under this section was received before July 1, XXXX, in an amount equal to the sum of—

(A) the unpaid principal, accrued unpaid interest, and late charges of the original loan; and

(B) the administrative fee under subsection (w)(3).

(2) Discharging and reissuing Federal Family Education Program Loans as refinanced Federal Direct Loans.—

Upon application of a qualified borrower for any loan that was made, insured, or guaranteed under part B and for which the first disbursement was made before July 1, 2010, the Secretary shall reissue such loan as a loan under this part, in an amount equal to the sum of the unpaid principal, accrued unpaid interest, and late charges of the original loan and the administrative fee under subsection (e)(3), to the borrower in accordance with the following:

(A) The Secretary shall pay the proceeds of such loan to the eligible lender of the loan made, insured, or guaranteed under part B, in order to discharge the borrower from any remaining obligation to the lender with respect to the original loan.

(B) The Secretary shall reissue—

(i) a loan originally made, insured, or guaranteed under section 428 as a Federal

Direct Stafford Loan;

(ii) a loan originally made, insured, or guaranteed under section 428B as a Federal Direct PLUS Loan;

(iii) a loan originally made, insured, or guaranteed under section 428C as a Federal Direct Consolidation Loan; and

(iv) a loan originally made, insured, or guaranteed under section 428H as a Federal Direct Unsubsidized Stafford Loan.

(C) The interest rate for each loan reissued under this paragraph shall be the rate provided under subsection (d).

(d) Interest rate provisions for reissued loans.—

(1) **Rates for undergraduate FDSL and FDUSL** For reissued Federal Direct Stafford Loans and Federal Direct Unsubsidized Stafford Loans, the applicable rate of interest shall be equal to the lesser of—

(i) a rate equal to the daily average yield of the 3-year Treasury note auctioned over the 365 day period starting from June 1 of the previous calendar year; or

(ii) 1.5 percent.

(B) **Rates for graduate and professional FDUSL** For reissued Federal Direct Stafford Loans and Federal Direct Unsubsidized Stafford Loans, the applicable rate of interest shall be equal to the lesser of—

(i) a rate equal to the daily average yield of the 3-year Treasury note auctioned over the 365 day period starting from June 1 of the previous calendar year plus 1.5 percent; or

(ii) 3 percent.

(C) **Rates for PLUS Loans** For reissued Federal Direct Stafford Loans and Federal Direct Unsubsidized Stafford Loans, the applicable rate of interest shall be equal to the lesser of—

(i) a rate equal to the daily average yield of the 3-year Treasury note auctioned over the 365 day period starting from June 1 of the previous calendar year plus 2 percent; or

(ii) 4 percent.

(D) Consolidation Loans For reissued Federal Direct Consolidation, the applicable rate of interest shall be equal to the weighted average of the interest rates on the loans consolidated based on rates determined in the preceding paragraphs of this subsection, rounded to the nearest higher one-eighth of one percent.

(e) Loan terms and conditions.—

(1) In general—

A loan reissued under this section shall have the same terms and conditions as the original loan, except as otherwise provided in this section.

(2) Reissuing a loan under this section shall not result in the extension of the duration of the repayment period of the loan, and the borrower shall retain the same repayment term that was in effect on the original loan. Nothing in this paragraph shall be construed to prevent a borrower from electing a different repayment plan at any time in accordance with section 455(d)(3).

(3) The Secretary shall charge the borrower of a loan reissued under this section an administrative fee of not more than 0.5 percent of the sum of the unpaid principal and late charges of the original loan.

(f) Expiration of authority.—

The Secretary's authority to reissue loans under this section shall expire on the date that is determined in accordance with section 4 of the Fairness in Student Loan Lending Act.”.

(2) Modifications for Public Service Employees:

Section 455(m) (20 U.S.C. 1087e(m)) is amended—

(A) by redesignating paragraphs (3) and (4) as paragraphs (4) and (5), respectively; and

(B) by inserting after paragraph (2) the following:

"(3) Special rules for section 460A loans. —

(A) Refinanced Federal Direct Loans. —

Notwithstanding paragraph (1), in determining the number of monthly payments that meet the requirements of such paragraph for an eligible Federal Direct Loan reissued under section 460A that was originally a loan under this part, the Secretary shall include all monthly payments made on the original loan that meet the requirements of such paragraph.

(B) Refinanced Federal Family Education Loans. —

In the case of an eligible Federal Direct Loan reissued under section 460A that was originally a loan under part B, only monthly payments made after the date on which the loan was reissued may be included for purposes of paragraph (1)."

; and

(C) in the newly redesignated paragraph (4)(A) (based on redesignations in paragraph (A) of this subsection), by inserting

“(including any Federal Direct Stafford Loan, Federal Direct PLUS Loan, Federal Direct Unsubsidized Stafford Loan, or Federal Direct Consolidation Loan reissued under section 460A)” before the period at the end.

(3) Income-based repayment modifications.—

Section 493C (20 U.S.C. 1098e) is amended by adding the following at the end:

"(a) Refinanced Federal Direct and Federal Family Education Loans. —

In calculating the period of time during which a borrower of a loan that is reissued under section 460A has made monthly payments for purposes of subsection (b)(7), the Secretary shall deem the period to include all monthly payments made for the original loan, and all monthly payments made for the

reissued loan, that otherwise meet the requirements of this section.”.

SECTION 4. QUALIFIED EDUCATION DEDUCTIONS

(a) Section 25A of the Internal Revenue Code (26 U.S.C. 25A).—

(1) Section 25A(f)(1) is amended.—

(A) by redesignating paragraphs (B) and (C) as paragraphs (C) and (D), respectively; and

(B) by inserting the following after paragraph (A):

“(B) **Student Assistance** Payments made under Title IV of the Higher Education Act of 1965 (20 U.S.C. 1070 et seq.) will be considered as a qualified tuition and related expense as defined under paragraph (A).”

(b) Section 222 of the Internal Revenue Code (26 U.S.C. 222).—

(1) Section 222(b)(2)(B)(i) is amended—

(A) by striking “does not exceed” and inserting “exceeds”; and

(B) by striking “\$65,000” and inserting “\$150,000”; and

(C) by striking “\$130,000” and inserting “\$250,000”; and

(D) by striking “\$4,000, and” and inserting “zero.”

(2) Section 222(b)(2)(B)(ii) and Section 222(b)(2)(B)(iii) are repealed.

(3) Section 222(e) is repealed.
