RSC
Republican Study Committee

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**Legislative Bulletin…………………………….…...……January 24, 2002**

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## S. 1762 — 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 (*Sen. Tim Johnson*)

**Order of Business**: The bill is scheduled for consideration on Thursday, January 24, under a closed rule permitting one motion to recommit.

**Summary**: S. 1762 will fix what has been called the "2003 student interest rate/lender yield problem." The measure provides for an extension of the current interest rate formula (set to expire July 1, 2003) until 2006 and after 2006, implements a fixed student loan interest rate of 6.8 percent. The bill also extends the special allowance provisions for in-school and grace periods from 2003 to 2006.

**Additional Background:** Prior to July 1, 1998, loan interest rates, which vary annually, were based on 91-day Treasury bill rates plus a premium which varied depending on whether the borrower is in-school or in repayment. Based on legislation enacted by the Democratic Congress and President Clinton in 1993, the calculation of interest rates was scheduled to change on July 1, 1998 to "the bond equivalent rate of securities with a comparable maturity as established by the Secretary" plus 1.0% (assumed to be the 10 year Treasury note + 1.0). Two concerns were raised about the scheduled change for the FFEL program. First, the use of a long-term index instead of the 91-day T-bill creates inefficiencies (and thus increases costs) for lenders in raising funds to lend to students; and second, the reduced interest earnings under the new formula are such that profit margins may not be sufficient for some lenders to remain in the program or to make some student loans.

Congress corrected this problem in the Higher Education Act of 1998 (HEA), however, after July 1, 2003, the rate fix included in that Act ends. Once this happens, returns to lenders on student loans decline to a level potentially below their cost of funds on loans. The rate fix included in the HEA reauthorization was not intended to be temporary, but funds were not available at the time to make the fix permanent, as S. 1762 would do. It is widely acknowledged that without a permanent fix, lenders will be unable to finance student loans. S. 1762 is supported by a variety of higher education organizations, the student loan community, and the Administration.

On December 14, S. 1762 was approved in the Senate by unanimous consent. The bill was considered in the House under Suspension of the Rules on December 20, but failed by a vote of 257-148 http://clerkweb.house.gov/cgi-bin/vote.exe?year=2001&rollnumber=512 after Democrats became upset when another bill related to student loans was not scheduled for floor consideration.

**Cost to Taxpayers**: CBO estimates the bill will increase outlays by $8.1 billion over 10 years.

**Does the Bill Create New Federal Programs or Rules?**: The bill extends the current interest calculations for federal student loans for an additional 3 years beyond 2003 and sets interest rates for loans originating after July 1, 2006.

**Constitutional Authority**: A Committee report citing constitutional authority is not available.

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