

Part B and D FFELP and Direct Loan Student Loan Issues

Loan Issue 1: Increased Loan Limits [Sections 425(a), 428(b)(1)(A), 428H(d), & 455(a)]

Recommendations: (a) Increase undergraduate annual loan limits to the following levels effective in 2004 with stepped increases in both subsidized and unsubsidized annual limits of \$500 in 2007 and 2009; for graduate/professional borrowers stepped increases in subsidized annual limits of \$1,000 in 2007 and 2009; increase graduate/professional borrower annual loan limits; increase unsubsidized loan limit to 150% of subsidized loan limit.

Annual Limits for Stafford Loans*

	<i>Subsidized Loans</i>	<i>Total (subsidized & unsubsidized loans)</i>
<i>Dependent Undergraduates</i>	\$7,000	\$7,000
<i>Undergraduates without access to PLUS</i>	\$7,000	\$14,000
<i>Graduate & Professional Students</i>	\$10,000	\$25,000

*Does not include certain health profession student annual & aggregate limits which would be added to both categories; there would be no change from current practice for such loans—annual and aggregate.

(b) There would be only one loan limit for undergraduate borrowers rather than the current first-year, second-year, and third- and fourth-year limits.

(c) Schools would have the authority to implement lower loan limits for undergraduate and graduate students. At the school's discretion such lower limits could be implemented in several ways: school-wide, class level, by residency, and academic program. A statutory provision would be placed into the law prohibiting any executive agency or judicial review of a school's decision to have lower limits than the federal maximums. Permit schools to implement a student appeals process to allow for a higher loan limit on a case-by case basis; such a process may not be subject to review by the authorities.

(d) New loan limits apply to first academic year after the date of enactment of the newly reauthorized Higher Education Act.

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Rationale: NASFAA believes one of the highest priorities for this HEA reauthorization, after providing for adequate grant assistance, is to raise loan limits. Reauthorization Task Force members wrestled with the question of whether or not to increase loan limits and, if so, how high. We believe we have developed a balanced approach to student loans with a strong emphasis on the need to increase grant funding. We believe loan limits should be increased. We reject the notion advanced by some that there is no need to raise loan limits because there is little evidence that students need increased limits; that notion is unfounded as to the true needs of borrowers in the 21st Century. Further, a recent and widely-distributed study indicating there is no need for raising loan limits because small percentages of students borrow private market loans is methodologically flawed

The last time loan limits were raised for first-year students was when Ronald Reagan was president (1986). The last time loan limits were raised for all other students George Bush, the father, was president (1992). Loan limits were not raised during the HEA reauthorization in 1998. We regret this fact since we warned then that without an increase in the federal limits borrowers would increasingly turn to private label loans. That prediction has come true.

We need to raise loan limits now, not only to “catch up” for past lack of loan limit increases, but also establish a structure for future changes. Consequently, we are recommending subsidized loan limits for undergraduates that are the same no matter what academic year the borrower is in, instead of the current three limits. All the proposed loan limits are straight-line inflation increases from the last time loan limits were raised in 1992. Such estimates use the Consumer Price Index (CPI) inflation index rather than the higher education index (HEPI) since the CPI is the federal standard and HEPI is less recognized by the federal government. If we had used HEPI our proposed loan limits would have been considerably higher.

NASFAA recommends increased subsidized loan limits for undergraduate borrowers starting at \$7,000 and for graduate and professional students starting at \$10,000, in 2004, with stepped increases in the out-years for both. We also recommend increasing unsubsidized loan limits for undergraduates starting at \$7,000 and for graduate and professional students to 150% of the subsidized limits with stepped increases in the out years. It is important to note these limits are statutory limits and do not include certain health profession student annual and aggregate limits which are regulatory and would be added to both categories; there would be no change from current practice for such loans—annual and aggregate.

Even though we are proposing increased loan limits we are proposing a complementary policy that would allow schools to implement lower loan limits on a school-wide, class level, or academic program basis. A school could decide to have a school-wide limit that was lower than the federal limit. A school could decide to have a lower loan limit for its first-year students. A school could decide to have a lower loan limit for liberal arts majors and a higher one for its engineering students. It would be up to the school to decide to have a

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lower limit and what that limit should be. This new authority would be in addition to the current authority found in Section 428(a)(2)(F), which permits schools to refuse to certify (or to reduce the amount of) a student's loan on a case-by-case basis. The decision by a school to have a lower limit would be statutorily protected from review by any court or ED. Finally, schools, under this recommendation, would have the authority to implement a student appeals process so that a borrower may be granted a higher loan amount than normally would be allowed under a school policy implementing a lower loan limit as permitted under this policy recommendation. Such appeals would be granted on a case-by-case basis and such a policy may not be subject to review by the authorities.

If loan limits are not raised in this reauthorization, and the next reauthorization will not take place until 2010, then this is an unreasonably long period of time to remain at current levels. In fact, if this reauthorization expires in 2010 and loan limits are not raised, then that will result in a situation that since the reauthorization of the HEA in 1972 when loan limits were raised to \$2,500 for all undergraduate borrowers that loan limits in that 38-year time period will have been raised only \$125 for first-year borrowers, \$1,000 for second-year borrowers, and \$3,000 for third- and fourth-year borrowers. If the loan limits in place in 1972 were increased by the CPI, then today's student loan limits would be slightly under \$11,000.

Current HEA Law	NASFAA Proposed Statutory Language
<p>Section 425(a) is modified similarly to the following section (428(b))</p> <p>Section 428(b) INSURANCE PROGRAM AGREEMENTS TO QUALIFY LOANS FOR INTEREST SUBSIDIES.— (1) REQUIREMENTS OF INSURANCE PROGRAM.—Any State or any nonprofit private institution or organization may enter into an agreement with the Secretary for the purpose of entitling students who receive loans which are insured under a student loan insurance program of that State, institution, or organization to have made on their behalf the payments provided for in subsection (a) if the Secretary determines that the student loan insurance program— (A) authorizes the insurance in any academic year, as defined in section 481(a)(2), or its equivalent (as determined under</p>	<p>Section 425(a) is modified similarly to the following section (428(b))</p> <p>Section 428(b) INSURANCE PROGRAM AGREEMENTS TO QUALIFY LOANS FOR INTEREST SUBSIDIES.— (1) REQUIREMENTS OF INSURANCE PROGRAM.—Any State or any nonprofit private institution or organization may enter into an agreement with the Secretary for the purpose of entitling students who receive loans which are insured under a student loan insurance program of that State, institution, or organization to have made on their behalf the payments provided for in subsection (a) if the Secretary determines that the student loan insurance program— (A) authorizes the insurance in any academic year, as defined in section 481(a)(2), or its equivalent (as determined under</p>

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<p>regulations of the Secretary) for any student who is carrying at an eligible institution or in a program of study abroad approved for credit by the eligible home institution at which such student is enrolled at least one-half the normal full-time academic workload (as determined by the institution) in any amount up to a maximum of—</p> <p>(i) in the case of a student at an eligible institution who has not successfully completed the first year of a program of undergraduate education—</p> <p>(I) \$2,625, if such student is enrolled in a program whose length is at least one academic year in length; and</p> <p>(II) if such student is enrolled in a program of undergraduate education which is less than 1 academic year, the maximum annual loan amount that such student may receive may not exceed the amount that bears the same ratio to the amount specified in subclause (I) as the length of such program measured in semester, trimester, quarter, or clock hours bears to 1 academic year;</p> <p>(ii) in the case of a student at an eligible institution who has successfully completed such first year but has not successfully completed the remainder of a program of undergraduate education—</p> <p>(I) \$3,500; or</p> <p>(II) if such student is enrolled in a program of undergraduate education, the remainder of which is less than one academic year, the maximum annual loan amount that such student may receive may not exceed the amount that bears the same ratio to the amount specified in subclause (I) as such remainder measured in semester, trimester, quarter, or clock hours bears to one academic year;</p> <p>(iii) in the case of a student at an eligible institution who has successfully completed the first and second years of a program of</p>	<p>regulations of the Secretary) for any student who is carrying at an eligible institution or in a program of study abroad approved for credit by the eligible home institution at which such student is enrolled at least one-half the normal full-time academic workload (as determined by the institution) in any amount up to a maximum of—</p> <p>(i) in the case of a student at an eligible institution who has not successfully completed the first year of a program of undergraduate education—</p> <p>(I) \$2,625 \$7,000, if such student is enrolled in a program whose length is at least one academic year in length; and</p> <p>(II) if such student is enrolled in a program of undergraduate education which is less than 1 academic year, the maximum annual loan amount that such student may receive may not exceed the amount that bears the same ratio to the amount specified in subclause (I) as the length of such program measured in semester, trimester, quarter, or clock hours bears to 1 academic year;</p> <p>(ii) in the case of a student at an eligible institution who has successfully completed such first year but has not successfully completed the remainder of a program of undergraduate education—</p> <p>(I) \$3,500; or</p> <p>(II) if such student is enrolled in a program of undergraduate education, the remainder of which is less than one academic year, the maximum annual loan amount that such student may receive may not exceed the amount that bears the same ratio to the amount specified in subclause (I) as such remainder measured in semester, trimester, quarter, or clock hours bears to one academic year;</p> <p>(iii) in the case of a student at an eligible institution who has successfully completed the first and second years of a program of</p>
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<p>undergraduate education but has not successfully completed the remainder of such program—</p> <p>(I) \$5,500; or</p> <p>(II) if such student is enrolled in a program of undergraduate education, the remainder of which is less than one academic year, the maximum annual loan amount that such student may receive may not exceed the amount that bears the same ratio to the amount specified in subclause (I) as such remainder measured in semester, trimester, quarter, or clock hours bears to one academic year;</p> <p>(iv) in the case of a student who has received an associate or baccalaureate degree and is enrolled in an eligible program for which the institution requires such degree for admission, the number of years that a student has completed in a program of undergraduate education shall, for the purposes of clauses (ii) and (iii), include any prior enrollment in the eligible program of undergraduate education for which the student was awarded such degree;</p> <p>(v) in the case of a graduate or professional student (as defined in regulations of the Secretary) at an eligible institution, \$8,500; and</p> <p>(vi) in the case of a student enrolled in coursework specified in sections 484(b)(3)(B) and 484(b)(4)(B)—</p> <p>(I) \$2,625 for coursework necessary for enrollment in an undergraduate degree or certificate program, and, in the case of a student who has obtained a baccalaureate degree, \$5,500 for coursework necessary for enrollment in a graduate or professional degree or certification program; and</p> <p>(II) in the case of a student who has obtained a baccalaureate degree, \$5,500 for coursework necessary for a professional credential or certification from a State required for employment</p>	<p>undergraduate education but has not successfully completed the remainder of such program—</p> <p>(I) \$5,500; or</p> <p>(II) if such student is enrolled in a program of undergraduate education, the remainder of which is less than one academic year, the maximum annual loan amount that such student may receive may not exceed the amount that bears the same ratio to the amount specified in subclause (I) as such remainder measured in semester, trimester, quarter, or clock hours bears to one academic year;</p> <p>(iv) in the case of a student who has received an associate or baccalaureate degree and is enrolled in an eligible program for which the institution requires such degree for admission, the number of years that a student has completed in a program of undergraduate education shall, for the purposes of clauses (ii) and (iii), include any prior enrollment in the eligible program of undergraduate education for which the student was awarded such degree;</p> <p>(v) in the case of a graduate or professional student (as defined in regulations of the Secretary) at an eligible institution, \$8,500 \$10,000; and</p> <p>(vi) in the case of a student enrolled in coursework specified in sections 484(b)(3)(B) and 484(b)(4)(B)—</p> <p>(I) \$2,625 \$7,000 for coursework necessary for enrollment in an undergraduate degree or certificate program, and, in the case of a student who has obtained a baccalaureate degree, \$5,500 \$7,000 for coursework necessary for enrollment in a graduate or professional degree or certification program; and</p> <p>(II) in the case of a student who has obtained a baccalaureate degree, \$5,500 \$7,000 for coursework necessary for a professional credential or certification from a State required for</p>
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as a teacher in an elementary school or secondary school; except in cases where the Secretary determines, pursuant to regulations, that a higher amount is warranted in order to carry out the purpose of this part with respect to students engaged in specialized training requiring exceptionally high costs of education, but the annual insurable limit per student shall not be deemed to be exceeded by a line of credit under which actual payments by the lender to the borrower will not be made in any years in excess of the annual limit;

No comparable section.

Section 428H(d) LOAN LIMITS.—

(1) IN GENERAL.—Except as provided in paragraphs (2) and (3), the annual and aggregate limits for loans under this section shall be the same as those established under section 428(b)(1), less any amount received by such student pursuant to the subsidized loan program established under section 428.

(2) ANNUAL LIMITS FOR INDEPENDENT, GRADUATE, AND PROFESSIONAL STUDENTS.—The maximum annual amount of loans under this section an independent student (or a student whose parents are unable to borrow under section 428B or the Federal Direct PLUS Loan Program) may borrow in any academic year (as defined in section 481(a)(2)) or its

employment as a teacher in an elementary school or secondary school; except in cases where the Secretary determines, pursuant to regulations, that a higher amount is warranted in order to carry out the purpose of this part with respect to students engaged in specialized training requiring exceptionally high costs of education, but the annual insurable limit per student shall not be deemed to be exceeded by a line of credit under which actual payments by the lender to the borrower will not be made in any years in excess of the annual limit;

Proposed New Section 428(b)(1)(A)(vii)

“Sections 428(b)(1)(A)(i)(I); (vi)(I) & (II) are increased to \$7,500 in Academic Year 2007 and \$8,000 in Academic Year 2009.”

“Section 428(b)(1)(A)(v) is increased to \$11,000 in Academic Year 2007 and \$12,000 in Academic year 2009.”

Section 428H(d) LOAN LIMITS.—

(1) IN GENERAL.—Except as provided in paragraphs (2) and (3), the annual and aggregate limits for loans under this section shall be the same as those established under section 428(b)(1), less any amount received by such student pursuant to the subsidized loan program established under section 428.

(2) ANNUAL LIMITS FOR INDEPENDENT, GRADUATE, AND PROFESSIONAL STUDENTS.—The maximum annual amount of loans under this section an independent student (or a student whose parents are unable to borrow under section 428B or the Federal Direct PLUS Loan Program) may borrow in any academic year (as defined in section 481(a)(2)) or its

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<p>equivalent shall be the amount determined under paragraph (1), plus—</p> <p>(A) in the case of such a student attending an eligible institution who has not completed such student's first 2 years of undergraduate study—</p> <p>(i) \$4,000, if such student is enrolled in a program whose length is at least one academic year in length; and</p> <p>(ii) if such student is enrolled in a program of undergraduate education which is less than one academic year, the maximum annual loan amount that such student may receive may not exceed the amount that bears the same ratio to the amount specified in clause (i) as the length of such program measured in semester, trimester, quarter, or clock hours bears to one academic year;</p> <p>(B) in the case of a student at an eligible institution who has successfully completed such first and second years but has not successfully completed the remainder of a program of undergraduate education—</p> <p>(i) \$5,000; or</p> <p>(ii) if such student is enrolled in a program of undergraduate education, the remainder of which is less than one academic year, the maximum annual loan amount that such student may receive may not exceed the amount that bears the same ratio to the amount specified in subclause (I) as such remainder measured in semester, trimester, quarter, or clock hours bears to one academic year;</p> <p>(C) in the case of such a student who is a graduate or professional student attending an eligible institution, \$10,000; and</p> <p>(D) in the case of a student enrolled in coursework specified in sections 484(b)(3)(B) and 484(b)(4)(B)—</p> <p>(i) \$4,000 for coursework necessary for enrollment in an undergraduate degree or certificate program, and, in the case of a</p>	<p>equivalent shall be the amount determined under paragraph (1), plus—</p> <p>(A) in the case of such a student attending an eligible institution who has not completed such student's first 2 years of undergraduate study—</p> <p>(i) \$4,000 \$7,000, if such student is enrolled in a program whose length is at least one academic year in length; and</p> <p>(ii) if such student is enrolled in a program of undergraduate education which is less than one academic year, the maximum annual loan amount that such student may receive may not exceed the amount that bears the same ratio to the amount specified in clause (i) as the length of such program measured in semester, trimester, quarter, or clock hours bears to one academic year;</p> <p>(B) in the case of a student at an eligible institution who has successfully completed such first and second years but has not successfully completed the remainder of a program of undergraduate education—</p> <p>(i) \$5,000; or</p> <p>(ii) if such student is enrolled in a program of undergraduate education, the remainder of which is less than one academic year, the maximum annual loan amount that such student may receive may not exceed the amount that bears the same ratio to the amount specified in subclause (I) as such remainder measured in semester, trimester, quarter, or clock hours bears to one academic year;</p> <p>(C) in the case of such a student who is a graduate or professional student attending an eligible institution, \$10,000 \$15,000; and</p> <p>(D) in the case of a student enrolled in coursework specified in sections 484(b)(3)(B) and 484(b)(4)(B)—</p> <p>(i) \$4,000 \$7,000 for coursework necessary for enrollment in an undergraduate degree or certificate program, and, in the case of a</p>
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<p>student who has obtained a baccalaureate degree, \$5,000 for coursework necessary for enrollment in a graduate or professional program; and (ii) in the case of a student who has obtained a baccalaureate degree, \$5,000 for coursework necessary for a professional credential or certification from a State required for employment as a teacher in an elementary or secondary school; except in cases where the Secretary determines, that a higher amount is warranted in order to carry out the purpose of this part with respect to students engaged in specialized training requiring exceptionally high costs of education, but the annual insurable limit per student shall not be deemed to be exceeded by a line of credit under which actual payments by the lender to the borrower will not be made in any years in excess of the annual limit.</p> <p>No comparable section.</p> <p>No comparable section.</p> <p>No comparable section.</p>	<p>student who has obtained a baccalaureate degree, \$5,000 \$7,000 for coursework necessary for enrollment in a graduate or professional program; and (ii) in the case of a student who has obtained a baccalaureate degree, \$5,000 \$7,000 for coursework necessary for a professional credential or certification from a State required for employment as a teacher in an elementary or secondary school; except in cases where the Secretary determines, that a higher amount is warranted in order to carry out the purpose of this part with respect to students engaged in specialized training requiring exceptionally high costs of education, but the annual insurable limit per student shall not be deemed to be exceeded by a line of credit under which actual payments by the lender to the borrower will not be made in any years in excess of the annual limit.</p> <p>Proposed New Section 428(H)(d)(4) “Sections 428H(d)(2)(D)(i) & (ii) are increased to \$7,500 in Academic Year 2007 and \$8,000 in Academic Year 2009.” “Section 428H(d)(2)(C) is increased to \$16,500 in Academic Year 2007 and \$18,000 in Academic year 2009.”</p> <p>Modify legislative vehicle so that effective date is as follows: Loan limit increases described in above sections shall be effective on the first July 1st after the date of enactment.</p> <p>Section 428(b)(1) is amended by adding a new subparagraph that reads as follows: “(Y) Special Rule.--(i) Nothing under this title shall limit the authority of an eligible institution to establish lower annual loan limits than those specified in subparagraph (A), including a loan limit of \$0 under this section, on an</p>
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No comparable section.

appropriate basis as determined by the institution according to the institution's loan limit policy. Such lower limits may include, but are not limited to, lower loan limits made on an institution-wide basis, or by program, or by class year, or by borrower residency.

(ii) An institution that chooses to exercise its authority under division (i) shall not require a student to borrow a loan under section 428H if the student has remaining eligibility to borrow under this subsection.

(iii) If an institution chooses to exercise its authority under division (i), the financial aid administrator may, on a case by case basis, increase the annual loan limits for a borrower up to the levels specified in subparagraph (A).

(iv) Section (b)(1)(Y) shall not apply to section 428B of this title.”

Section 428H(d) is amended by adding a new paragraph that reads as follows:

“(4) Special Rule.--(A) Nothing under this title shall limit the authority of an eligible institution to establish lower annual loan limits, including a loan limit of \$0 under this section, than those specified in paragraph (2) on an institution-wide basis, or by program, or class year.

(B) An institution that chooses to exercise its authority under subparagraph (A) shall not require a student to borrow a loan under this section if the student has remaining eligibility to borrow under section 428(b).

(C) If an institution chooses to exercise its authority under subparagraph (A), the financial aid administrator may, on a case by case basis, increase the annual loan limits for a borrower up to the levels specified in paragraph (2).

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<p>SEC. 455. TERMS AND CONDITIONS OF LOANS.</p> <p>(a) IN GENERAL.—</p> <p>(1) PARALLEL TERMS, CONDITIONS, BENEFITS, AND AMOUNTS.—Unless otherwise specified in this part, loans made to borrowers under this part shall have the same terms, conditions, and benefits, and be available in the same amounts, as loans made to borrowers under sections 428, 428B, and 428H of this title.</p> <p>(2) DESIGNATION OF LOANS.—Loans made to borrowers under this part that, except as otherwise specified in this part, have the same terms, conditions, and benefits as loans made to borrowers under—</p> <p>(A) section 428 shall be known as “Federal Direct Stafford Loans”;</p> <p>(B) section 428B shall be known as “Federal Direct PLUS Loans”; and</p> <p>(C) section 428H shall be known as “Federal Direct Unsubsidized Stafford Loans”.</p>	<p>Retain Section 455(a)(1) unchanged.</p>
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Loan Issue 2: Increased Aggregate Loan Limits [Sections 425(a)(2), 428(b)(1)(B), 428H(d)(1) & (3), & 455(a)]

Aggregate Limits for Stafford Loans*

	<i>Subsidized Loans</i>	<i>Total (subsidized & unsubsidized loans)*</i>
<i>Dependent Undergraduates</i>	\$35,000	Same
<i>Undergraduates without access to PLUS</i>	\$35,000	\$70,000
<i>Graduate & Professional Students</i>	\$85,000	\$195,000

*Does not include certain health profession student annual & aggregate limits which would be added to both categories; there would be no change from current practice for such loans—annual and aggregate.

Recommendation: To reflect the change in annual loan limits change aggregate loan limits to \$35,000 for dependent undergraduate students. Update to \$37,500 in 2007 and to \$40,000 in 2009. Undergraduates without access to PLUS would have an aggregate loan limit of \$70,000 (only \$35,000 of this amount may be in subsidized loans). Such amounts in 2007 and 2009 would increase to reflect changes in the annual limits. Graduate/professional borrowers would have an aggregate limit of \$195,000 of which \$85,000 is subsidized loans. Update in 2007 and in 2009 to reflect changes in the annual limits proposed in those years. It is important to note these limits are statutory limits and do not include certain health profession student annual and aggregate limits which are regulatory and would be included in both categories; there would be no change from current practice for such loans—annual and aggregate.

Rationale: This is a simple additive process derived from the proposed annual loan limits, based on five years of full loan limits.

Current HEA Law	NASFAA Proposed Statutory Language
Section 425(a)(2)	Section 425(a)(2) should be modified as is Section 428(b)(1)(B) as follows.
Section 428(b)(1)(B) provides that the aggregate insured unpaid principal amount for all such insured loans made to any student shall be any amount up to a maximum of—	Section 428(b)(1)(B) provides that the aggregate insured unpaid principal amount for all such insured loans made to any student shall be any amount up to a maximum of—

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<p>(i) \$23,000, in the case of any student who has not successfully completed a program of undergraduate education, excluding loans made under section 428A or 428B; and</p> <p>(ii) \$65,500, in the case of any graduate or professional student (as defined by regulations of the Secretary), and (I) including any loans which are insured by the Secretary under this section, or by a guaranty agency, made to such student before the student became a graduate or professional student, but (II) excluding loans made under section 428A or 428B, except that the Secretary may increase the limit applicable to students who are pursuing programs which the Secretary determines are exceptionally expensive;</p>	<p>(i) \$23,000 \$35,000, in the case of any student who has not successfully completed a program of undergraduate education, excluding loans made under section 428A or 428B; and</p> <p>(ii) \$65,500 \$85,000, in the case of any graduate or professional student (as defined by regulations of the Secretary), and (I) including any loans which are insured by the Secretary under this section, or by a guaranty agency, made to such student before the student became a graduate or professional student, but (II) excluding loans made under section 428A or 428B, except that the Secretary may increase the limit applicable to students who are pursuing programs which the Secretary determines are exceptionally expensive;</p> <p>Retain sections 428H(d)(1) & (3) and 455(a) unchanged.</p>
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Loan Issue 3: Repayment Plans [Sections 428(b)(1)(E)&(9), & 455(d)&(e)]

Recommendation: Modify loan repayment plans to reflect best of the current FFEL/DL loan repayment options i.e., graduated, extended, and income-contingent repayment.

(a) Keep the 10-year standard repayment plan.

(b) Modify graduated repayment plans so that the maximum repayment period is 15 years; maintain the requirements that no installment may be less than the interest that accrues between payments; and modify the current three times rule.

(c) Modify the extended repayment plans so that any borrower is eligible, that fixed annual or graduated repayment amounts are possible, and use the Direct Loan repayment schedule.

(d) Extend the Direct Loan Program's Income Contingent Repayment plan to FFELP borrowers at the option of the lender; drop the FFELP Income sensitive Repayment plan; and eliminate requirement that after 25 years any cancelled remaining balance is taxable income.

(e) Allow borrowers flexibility to change repayment plans yearly.

(f) Mandate that every five years the holder contacts the borrower to ascertain whether the borrower wishes to change repayment plans to a shorter time period to reduce the total loan repayment amount.

Rationale: With NASFAA recommending increases in annual and aggregate loan limits, we decided that the loan repayment options needed to be carefully examined so that borrowers can tailor a repayment plan that meets their personal and financial needs. Our recommendations for change, in large part, take the best of the current FFELP and Direct Loan repayment plans. It is our intent that borrowers have the same repayment plans no matter whether their Stafford loans are FFELP or Direct Loans. For many borrowers the standard 10-year repayment plan will continue to be the best repayment plan in terms of not extending payments with a consequent increase in total loan debt. Our recommendations merge the best features in the graduated, extended, and income-contingent repayment plans. Borrowers annually will have the option to change plans. We also believe those borrowers in longer-term repayment programs should be contacted every five years to determine if they wish to continue in their current loan repayment plan or if they

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want to switch to another plan that will lower their total loan debt. We believe adoption of NASFAA’s recommendations for revising repayment plans, if done properly, will provide borrowers with sufficient options that the need for loan consolidation is drastically reduced.

Current HEA Law	NASFAA Proposed Statutory Language
<p>Section 428(b)(1)(E)</p> <p>Section 428(b)(9) REPAYMENT PLANS.— (A) DESIGN AND SELECTION.—In accordance with regulations promulgated by the Secretary, the lender shall offer a borrower of a loan made under this part the plans described in this subparagraph for repayment of such loan, including principal and interest thereon. No plan may require a borrower to repay a loan in less than 5 years unless the borrower, during the 6 months immediately preceding the start of the repayment period, specifically requests that repayment be made over of a shorter period.</p> <p>The borrower may choose from—</p> <p>(i) a standard repayment plan, with a fixed annual repayment amount paid over a fixed period of time, not to exceed 10 years;</p> <p>(ii) a graduated repayment plan paid over a fixed period of time, not to exceed 10 years;</p> <p>(iii) an income-sensitive repayment plan, with income-sensitive</p>	<p>Retain Section 428(b)(1)(E) unchanged.</p> <p>Section 428(b)(9) REPAYMENT PLANS.— (A) DESIGN AND SELECTION.—In accordance with regulations promulgated by the Secretary, the lender shall offer a borrower of a loan made under this part the plans described in this subparagraph for repayment of such loan, including principal and interest thereon. No plan may require a borrower to repay a loan in less than 5 years unless the borrower, during the 6 months immediately preceding the start of the repayment period, specifically requests that repayment be made over of a shorter period.</p> <p>The borrower may choose from—</p> <p>(i) a standard repayment plan, with a fixed annual repayment amount paid over a fixed period of time, not to exceed 10 years;</p> <p>(ii) a graduated repayment plan paid over a fixed period of time, not to exceed 10 years;</p> <p>(ii) a graduated repayment plan paid over a fixed period of time, not to exceed 15 years with annual repayment amounts established at 2 or more graduated levels and paid over a fixed or extended period of time, except that the borrower’s scheduled payments shall not be less than 50 percent of what the amortized payment on the amount owed would be if the loan were repaid under the standard repayment plan;</p> <p>(iii) an income-sensitive repayment plan, with income-sensitive</p>

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repayment amounts paid over a fixed period of time, not to exceed 10 years, except that the borrower's scheduled payments shall not be less than the amount of interest due; and

(iv) for new borrowers on or after the date of enactment of the Higher Education Amendments of 1998 who accumulate (after such date) outstanding loans under this part totaling more than \$30,000, an extended repayment plan, with a fixed annual or graduated repayment amount paid over an extended period of time, not to exceed 25 years, except that the borrower shall repay annually a minimum amount determined in accordance with paragraph (1)(L)(i).

(B) LENDER SELECTION OF OPTION IF BORROWER DOES NOT SELECT.—If a borrower of a loan made under this

~~repayment amounts paid over a fixed period of time, not to exceed 10 years, except that the borrower's scheduled payments shall not be less than the amount of interest due;~~

(iii) an eligible lender may offer an eligible borrower an income-contingent loan repayment plan in accordance with section 455(e) and consistent with such regulations promulgated by the Secretary; and

(iv) for new borrowers on or after the date of enactment of the Higher Education Amendments of ~~1998~~ **2004** who accumulate (after such date) outstanding loans under this part ~~totaling more than \$30,000~~, an extended repayment plan, with a fixed annual or graduated repayment amount paid over an extended period of time, not to exceed ~~25~~ **30** years, except that the borrower shall repay annually a minimum amount determined in accordance with paragraph (1)(L)(i) **and according to the following schedule:**

(I) 10 years when total outstanding indebtedness is less than \$7,500;

(II) 12 years when total outstanding indebtedness is at least \$7,500 but less than \$10,000;

(III) 15 years when total outstanding indebtedness is at least \$10,000 but less than \$20,000;

(IV) 20 years when total outstanding indebtedness is at least \$20,000 but less than \$40,000;

(V) 25 years when total outstanding indebtedness is at least \$40,000 but less than \$60,000;

(VI) 30 years when total outstanding indebtedness is \$60,000 or more.

(B) LENDER SELECTION OF OPTION IF BORROWER DOES NOT SELECT.—If a borrower of a loan made under this

part does not select a repayment plan described in subparagraph (A), the lender shall provide the borrower with a repayment plan described in subparagraph (A)(i).

No comparable provision.

Section 455(d) REPAYMENT PLANS.—
(1) DESIGN AND SELECTION.—Consistent with criteria

part does not select a repayment plan described in subparagraph (A), the lender shall provide the borrower with a repayment plan described in subparagraph (A)(i).

(C) CHANGES IN SELECTIONS.—The borrower of a loan made under this part may change the borrower’s selection of a repayment plan under subparagraph (A), or the Secretary’s selection of a plan for the borrower under subparagraph (B), as the case may be, not less than annually or under such terms and conditions as may be established by the Secretary.

(D) ALTERNATIVE REPAYMENT PLANS.—The Secretary may provide, on a case by case basis, an alternative repayment plan to a borrower of a loan made under this part who demonstrates to the satisfaction of the Secretary that the terms and conditions of the repayment plans available under subparagraph (A) are not adequate to accommodate the borrower’s exceptional circumstances. In designing such alternative repayment plans, the Secretary shall ensure that such plans do not exceed the cost to the Federal Government, as determined on the basis of the present value of future payments by such borrowers, of loans made using the plans available under paragraph (1).

(E) A holder of a loan shall contact the borrower each year after five years has passed from the date that a borrower first selected either a graduated, extended, or income contingent repayment plan to ascertain if the borrower wished to select a repayment plan for a shorter repayment period that would reduce the total interest paid on the borrower’s loan or loans under this part.

Section 455(d) REPAYMENT PLANS.—
(1) DESIGN AND SELECTION.—Consistent with criteria

established by the Secretary, the Secretary shall offer a borrower of a loan made under this part a variety of plans for repayment of such loan, including principal and interest on the loan. The borrower shall be entitled to accelerate, without penalty, repayment on the borrower's loans under this part. The borrower may choose—

(A) a standard repayment plan, with a fixed annual repayment amount paid over a fixed period of time, consistent with subsection (a)(1) of this section;

(B) an extended repayment plan, with a fixed annual repayment amount paid over an extended period of time, except that the borrower shall annually repay a minimum amount determined by the Secretary in accordance with section 428(b)(1)(L);

established by the Secretary, the Secretary shall offer a borrower of a loan made under this part a variety of plans for repayment of such loan, including principal and interest on the loan. The borrower shall be entitled to accelerate, without penalty, repayment on the borrower's loans under this part. The borrower may choose—

(A) a standard repayment plan, with a fixed annual repayment amount paid over a fixed period of time, consistent with subsection (a)(1) of this section;

~~(B) an extended repayment plan, with a fixed annual repayment amount paid over an extended period of time, except that the borrower shall annually repay a minimum amount determined by the Secretary in accordance with section 428(b)(1)(L);~~

(B) for new borrowers on or after the date of enactment of the Higher Education Amendments of 2004 who accumulate (after such date) outstanding loans under this part, an extended repayment plan, with a fixed annual or graduated repayment amount paid over an extended period of time, not to exceed 30 years, except that the borrower shall repay annually a minimum amount determined in accordance with paragraph (1)(L)(i) and according to the following schedule:

(I) 10 years when total outstanding indebtedness is less than \$7,500;

(II) 12 years when total outstanding indebtedness is at least \$7,500 but less than \$10,000;

(III) 15 years when total outstanding indebtedness is at least \$10,000 but less than \$20,000;

(IV) 20 years when total outstanding indebtedness is at least \$20,000 but less than \$40,000;

(C) a graduated repayment plan, with annual repayment amounts established at 2 or more graduated levels and paid over a fixed or extended period of time, except that the borrower's scheduled payments shall not be less than 50 percent, nor more than 150 percent, of what the amortized payment on the amount owed would be if the loan were repaid under the standard repayment plan; and

(D) an income contingent repayment plan, with varying annual repayment amounts based on the income of the borrower, paid over an extended period of time prescribed by the Secretary, not to exceed 25 years, except that the plan described in this subparagraph shall not be available to the borrower of a Federal Direct PLUS loan.

(2) SELECTION BY SECRETARY.—If a borrower of a loan made under this part does not select a repayment plan described in paragraph (1), the Secretary may provide the borrower with a repayment plan described in subparagraph (A), (B), or (C) of paragraph (1).

(3) CHANGES IN SELECTIONS.—The borrower of a loan

(V) 25 years when total outstanding indebtedness is at least \$40,000 but less than \$60,000;

(VI) 30 years when total outstanding indebtedness is \$60,000 or more, and

~~(C) a graduated repayment plan, with annual repayment amounts established at 2 or more graduated levels and paid over a fixed or extended period of time, except that the borrower's scheduled payments shall not be less than 50 percent, nor more than 150 percent, of what the amortized payment on the amount owed would be if the loan were repaid under the standard repayment plan; and~~

(ii) a graduated repayment plan paid over a fixed period of time, not to exceed 15 years with annual repayment amounts established at 2 or more graduated levels and paid over a fixed or extended period of time, except that the borrower's scheduled payments shall not be less than 50 percent of what the amortized payment on the amount owed would be if the loan were repaid under the standard repayment plan;

(D) an income contingent repayment plan, with varying annual repayment amounts based on the income of the borrower, paid over an extended period of time prescribed by the Secretary, not to exceed 25 years, except that the plan described in this subparagraph shall not be available to the borrower of a Federal Direct PLUS loan.

(2) SELECTION BY SECRETARY.—If a borrower of a loan made under this part does not select a repayment plan described in paragraph (1), the Secretary may provide the borrower with a repayment plan described in subparagraph (A), (B), or (C) of paragraph (1).

(3) CHANGES IN SELECTIONS.—The borrower of a loan

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made under this part may change the borrower's selection of a repayment plan under paragraph (1), or the Secretary's selection of a plan for the borrower under paragraph (2), as the case may be, under such terms and conditions as may be established by the Secretary.

(4) ALTERNATIVE REPAYMENT PLANS.—The Secretary may provide, on a case by case basis, an alternative repayment plan to a borrower of a loan made under this part who demonstrates to the satisfaction of the Secretary that the terms and conditions of the repayment plans available under paragraph (1) are not adequate to accommodate the borrower's exceptional circumstances. In designing such alternative repayment plans, the Secretary shall ensure that such plans do not exceed the cost to the Federal Government, as determined on the basis of the present value of future payments by such borrowers, of loans made using the plans available under paragraph (1).

made under this part may change the borrower's selection of a repayment plan under paragraph (1), or the Secretary's selection of a plan for the borrower under paragraph (2), as the case may be, **not less than annually or** under such terms and conditions as may be established by the Secretary.

(4) ALTERNATIVE REPAYMENT PLANS.—The Secretary may provide, on a case by case basis, an alternative repayment plan to a borrower of a loan made under this part who demonstrates to the satisfaction of the Secretary that the terms and conditions of the repayment plans available under paragraph (1) are not adequate to accommodate the borrower's exceptional circumstances. In designing such alternative repayment plans, the Secretary shall ensure that such plans do not exceed the cost to the Federal Government, as determined on the basis of the present value of future payments by such borrowers, of loans made using the plans available under paragraph (1).

Loan Issue 4: Interest Rates [Sections 427A(l) & 455(b)(7)]

Recommendation: a) On July 1, 2006, lower the maximum cap on interest rates from 8.25 to 6.8% for subsidized and unsubsidized loans. Continue variable interest rate, rather than fixed rate. Lower the PLUS maximum cap to 7.5% on that date.

Rationale: President Bush in 2001 signed a bill requiring that on July 1, 2006, the interest rate on Stafford Loans be set at 6.8%. No longer would interest rates be variable as they are now. NASFAA’s recommendation would lower the cap on the maximum interest rate from the current 8.25% for Stafford loans to 6.8% and lower the PLUS maximum interest rate cap to 7.5% on that date too. We believe borrowers should have the best interest rate available and that a variable rate is the best option presently rather than a fixed 6.8% interest rate that goes into effect in 2006.

Current HEA Law	NASFAA Proposed Statutory Language
<p>Section 427A(l) INTEREST RATES FOR NEW LOANS ON OR AFTER JULY 1, 2006-</p> <p>(1) IN GENERAL- Notwithstanding subsection (h), with respect to any loan made, insured, or guaranteed under this part (other than a loan made pursuant to section 428B or 428C) for which the first disbursement is made on or after July 1, 2006, the applicable rate of interest shall be 6.8 percent on the unpaid principal balance of the loan. Etc, etc.</p>	<p>Insert a new Section 427A(m) and renumber current (m) as (n) Section 427A(l) INTEREST RATES FOR NEW LOANS ON OR AFTER JULY 1, 2006.—</p> <p>(1) IN GENERAL.—Notwithstanding any other provision of this section and subject to paragraph (2) of this subsection, with respect to any loan made, insured, or guaranteed under this part (other than a loan made pursuant to section 428B or 428C) for which the first disbursement is made on or after July 1, 2006, the applicable rate of interest shall, 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— (A) the bond equivalent rate of 91-day Treasury bills auctioned at the final auction held prior to such June 1; plus (B) 2.3 percent, except that such rate shall not exceed 8.25 6.8 percent.</p> <p>(2) IN SCHOOL AND GRACE PERIOD RULES.—</p>

<p>Direct Loans</p>	<p>Notwithstanding subsection (h), with respect to any loan under this part (other than a loan made pursuant to section 428B or 428C) for which the first disbursement is made on or after July 1, 2006, the applicable rate of interest for interest which accrues—</p> <p>(A) prior to the beginning of the repayment period of the loan; or</p> <p>(B) during the period in which principal need not be paid (whether or not such principal is in fact paid) by reason of a provision described in section 427(a)(2)(C) or 428(b)(1)(M), shall be determined under paragraph (1) by substituting “1.7 percent” for “2.3 percent”.</p> <p>(3) PLUS LOANS.—Notwithstanding subsection (h), with respect to any loan under section 428B for which the first disbursement is made on or after July 1, 2006. the applicable rate of interest shall be 7.5 percent on the unpaid balance of the loan.</p> <p>Make same conforming changes as above in Direct Loan Program.</p>
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Loan Issue 5: Loan Subsidies [Sections 427A(g), 428(a) & (b), 455(a) & (b), 438, 428(f) & Various Other Sections]

Recommendation: a) All borrower subsidies are continued, including but not limited to, the grace and in-school periods. b) Loan subsidies for lenders and guaranty agencies are reduced to prevent a windfall from higher loan limits and extended repayment plans

Rationale: NASFAA believes the loan subsidies borrowers receive are important benefits and should remain in place. NASFAA further recognizes that its recommendations for increases in loan limits and modification of loan repayment options so that longer payment periods could be more attractive to borrowers results, if the current subsidies remain in place for the lending community, in larger payments to those lending partners. Our recommendation to reduce such subsidies should not be construed as a wish to destabilize the industry or remove a fair profit from their participation in the federal loan programs. However, we recognize that a number of the changes we propose would lead to an increased profitability of their student loan portfolios with little additional work performed by the industry. We propose that NASFAA work with interested parties to develop a new payment or reimbursement system. We do not intend that changes in loan limits or repayment terms result in a windfall profit for little additional work. We further recognize a restructuring of these subsidies would help pay the cost of the some of the changes we seek.

Current HEA Law	NASFAA Proposed Statutory Language
Section 427A(g), 428(a)&(b), and 455(a)&(b)	Retain Section 427A(g), 428(a)&(b), and 455(a)&(b)
Section 438 and 428(f)	<p>We believe increased loan limits and extensions of repayment time periods may result in margins of profit for the lending industry that are unnecessary to ensure continued and broad participation in the program, but NASFAA is not prepared to recommend a specific amount of reduction of loan industry subsidies without an independent, fair analysis of the issue. Depending on the changes in borrower’s terms and conditions this issue needs to be negotiated among interested parties.</p>

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Loan Issue 6: Borrower benefits [Sections 427(a)(2); 427A(g), (j)(2), (k)(2), 428(a)(3), (b)(1)(C), (D), (E), (L), (M), (7), (9), (c)(3), 428B(a)(2), 428H(e)(2), 428J, 428K, 430(c), 437, 451(b)(2), 455(a), (b)(2), (7), 9d), (e), (f), 460 & various other sections]

Recommendation: Deferments, forbearance, cancellation and other such student benefits are maintained as in current law. However NASFAA recommends merging the best of such benefits between the Stafford and Perkins Loan Programs so that such benefits in each program mirror the benefits of the other program.

Rationale: NASFAA recommends that various student benefits continue and that the benefits should be equalized between those offered in the Stafford Loan and Perkins Loan programs.

Current HEA Law	NASFAA Proposed Statutory Language
427(a)(2); 427A(g), (j)(2), (k)(2), 428(a)(3), (b)(1)(C), (D), (E), (L), (M), (7), (9), (c)(3), 428B(a)(2), 428H(e)(2), 428J, 428K, 430(c), 437, 451(b)(2), 455(a), (7), 9d), (e), (f), 460	Retain these benefits unchanged, but merge best of benefits between Parts B and E.

Loan Issue 7: Eliminate Origination Fee [Sections 433(a)(4), 438(c), 455(c), & 472(12)]

Recommendation: Eliminate the loan origination fee currently charged to students. Transfer responsibility for payment of the insurance premium from the student to the federal government.

Rationale: The origination fee should be eliminated and if there is a need for an insurance premium that should be paid by the federal government rather than by students. It is appropriate that the federal government make such a payment to support and finance guaranty agencies. NASFAA firmly suggests that the origination fee was intended to be temporary when it was imposed on student borrowers in the early 1980s, and it has continued far too long to the detriment of student borrowers. While a federal budget convenience, the origination fee and insurance premium in both programs is a major handicap for student borrowers, denying them all the loans funds they qualify for and that are necessary to finance their education. As students graduate with increasingly higher student loan debt, NASFAA believes that elimination of the origination fee for all federal student loans is in the best interests of students.

Current HEA Law	NASFAA Proposed Statutory Language
<p>Sections 433(a)(4), 438(c), 455(c) 472(12)</p> <p>Section 428(b)(1)(H) provides for collection of a single insurance premium equal to not more than 1.0 percent of the principal amount of the loan, by deduction proportionately from each installment payment of the proceeds of the loan to the borrower, and insures that the proceeds of the premium will not be used for incentive payments to lenders;</p> <p>Section 428H(h)INSURANCE PREMIUM.—Each State or</p>	<p>Strike these provisions 433(a)(4), 438(c), 455(c) 472(12).</p> <p>428(b)(1)(H) provides for collection of a single insurance premium equal to not more than 1.0 percent of the principal amount of the loan, by deduction proportionately from each installment payment of the proceeds of the loan to the borrower, and insures that the proceeds of the premium will not be used for incentive payments to lenders; . The authority under this subparagraph to charge a borrower an insurance premium shall expire on the date of enactment of these Amendments. The Secretary shall reimburse each State or nonprofit private institution or organization having an agreement with the Secretary under section 428(b)(1) an amount to be determined by the Secretary.</p> <p>428H(h)INSURANCE PREMIUM.—Each State or nonprofit</p>

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nonprofit private institution or organization having an agreement with the Secretary under section 428(b)(1) may charge a borrower under this section an insurance premium equal to not more than 1.0 percent of the principal amount of the loan, if such premium will not be used for incentive payments to lenders.

private institution or organization having an agreement with the Secretary under section 428(b)(1) may charge a borrower under this section an insurance premium equal to not more than 1.0 percent of the principal amount of the loan, if such premium will not be used for incentive payments to lenders; ~~.~~ **The authority under this subparagraph to charge a borrower an insurance premium shall expire on the date of enactment of these Amendments. The Secretary shall reimburse each State or nonprofit private institution or organization having an agreement with the Secretary under section 428(b)(1) an amount to be determined by the Secretary.**

Loan Issue 8: Student Loan Terms and Conditions [Section 427A(m), 428(b)(1)(H), 438(c)(2), 455(a)(1), & 455(g)]

Recommendation: Equalize FFEL and DL student terms and conditions. Write into law mandatory student benefits such as on-time repayment and automatic, electronic payment, etc.

Rationale: Provisions of the Higher Education Act are contradictory. A provision of law governing the Direct Loan Program, Section 455(a)(1), requires that “Unless otherwise specified in this part, loans made to borrowers under this part shall have the same terms, conditions, and benefits, and be available in the same amounts, as loans made to borrowers under sections 428, 428B and 428H of this title.” While this is straightforward language mandating, unless otherwise specified, that Direct Loan borrowers have the same terms, conditions, and benefits as FFELP borrowers, contradictory law is evident in other HEA provisions. For example, Section 438(c)(2) authorizes lenders to charge an origination fee “not to exceed 3.0% of the principal amount of the loan...” Section 428(b)(1)(H) allows guaranty agencies to collect “a single insurance premium equal to not more than 1.0% of the principal amount of the loan...” A further example, Section 427A(j) permits a lender to charge a borrower an “interest rate less than the rate which is applicable under this part.” The meaning of Section 455(a)(1) is contradicted by Sections 438(c)(2), 428(b)(1)(H), and 427A(j) which allow lenders, or other parties to the lending process, to offer benefits to FFELP borrowers that are not available to Direct Loan borrowers since such Direct Loan borrower benefits are not authorized by statute. Direct Loan borrowers have an advantage over FFELP borrowers since they can consolidate their loans while in school.

NASFAA firmly believes it is time to equalize the terms and conditions of student loans so that all borrowers no matter what loan delivery system (FFELP or Direct Loans) have the same loan terms and conditions. At the same time, NASFAA wishes to continue popular student FFELP benefits, but make them available to all borrowers regardless of loan delivery system, school choices, or by inequities among student benefit offerings by the lending community, e.g. lenders, guaranty agencies, secondary markets, et. al.

Consequently, no longer would there be disparities in student loan benefit terms and conditions. Every student would pay the same interest rate, same origination fee (if it is not eliminated per NASFAA's recommendation), the same insurance premium (if it continues to be paid by the student and not the federal government per NASFAA's recommendation). NASFAA suggests there is not a need in either FFELP or Direct Loans for an in-school consolidation benefit and so would eliminate it from the DL program. NASFAA suggests that inequities in the treatment of borrowers need to be eliminated in the current loan program. This recommendation would do so treating all borrowers alike. At the same time, NASFAA recognizes that a number of the FFELP borrower benefits are creative and help reduce student debt. We recommend that these benefits, such as incentives for on-time repayment or for automatic loan

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repayment deduction from a borrower’s checking account, should be made available to all borrowers regardless of the source of their loans. Consequently, NASFAA recommends writing such benefits into the law so all borrowers may take advantage of the above named benefits and any others that NASFAA staff may identify.

Current HEA Law	NASFAA Proposed Statutory Language
<p>Section 427A(m) LESSER RATES PERMITTED.—Nothing in this section or section 428C shall be construed to prohibit a lender from charging a borrower interest at a rate less than the rate which is applicable under this part.</p> <p>Section 428(b)(1)(H) provides for collection of a single insurance premium equal to not more than 1.0 percent of the principal amount of the loan, by deduction proportionately from each installment payment of the proceeds of the loan to the borrower, and insures that the proceeds of the premium will not be used for incentive payments to lenders;</p> <p>Section 428(m) LESSER RATES PERMITTED.—Nothing in this section or section 428C shall be construed to prohibit a lender from charging a borrower interest at a rate less than the rate which is applicable under this part.</p> <p>Section 438(c) ORIGINATION FEES FROM STUDENTS.— (2) AMOUNT OF ORIGINATION FEES.—Subject to paragraph (6) of this subsection, with respect to any loan (including loans made under section 428H, but excluding loans made under sections 428C and 439(o)) for which a completed</p>	<p>Strike Section 427A(m).</p> <p>Section 428(b)(1)(H) provides for collection of a single insurance premium equal to not more than 1.0 percent of the principal amount of the loan, by deduction proportionately from each installment payment of the proceeds of the loan to the borrower, and insures that the proceeds of the premium will not be used for incentive payments to lenders; Adopt this change if NASFAA recommendation to eliminate charging of insurance premium to students is not eliminated and, instead, is paid by the federal government</p> <p>Strike Section 428(m).</p> <p>Section 438(c) ORIGINATION FEES FROM STUDENTS.— (2) AMOUNT OF ORIGINATION FEES.—Subject to paragraph (6) of this subsection, with respect to any loan (including loans made under section 428H, but excluding loans made under sections 428C and 439(o)) for which a completed note or other</p>

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note or other written evidence of the loan was sent or delivered to the borrower for signing on or after 10 days after the date of enactment of the Postsecondary Student Assistance Amendments of 1981, each eligible lender under this part is authorized to charge the borrower an origination fee in an amount not to exceed 3.0 percent of the principal amount of the loan, to be deducted proportionately from each installment payment of the proceeds of the loan prior to payment to the borrower. Except as provided in paragraph (8), a lender that charges an origination fee under this paragraph shall assess the same fee to all student borrowers.

(8) EXCEPTION.—Notwithstanding paragraph (2), a lender may assess a lesser origination fee for a borrower demonstrating greater financial need as determined by such borrower’s adjusted gross family income.

No comparable provision

written evidence of the loan was sent or delivered to the borrower for signing on or after 10 days after the date of enactment of the Postsecondary Student Assistance Amendments of 1981, each eligible lender under this part is authorized to charge the borrower an origination fee in an amount ~~of not to exceed~~ **(Note adopt this change if origination fee is not eliminated)** 3.0 percent of the principal amount of the loan, to be deducted proportionately from each installment payment of the proceeds of the loan prior to payment to the borrower. Except as provided in paragraph (8), a lender that charges an origination fee under this paragraph shall assess the same fee to all student borrowers.

~~(8) EXCEPTION.—Notwithstanding paragraph (2), a lender may assess a lesser origination fee for a borrower demonstrating greater financial need as determined by such borrower’s adjusted gross family income.~~

New Section unnumbered. (a) The Secretary shall provide each borrower of a part B, D, or E loan with loan repayment benefits. Each borrower of loan under parts B, D, or E shall receive—

(1) shall receive a .25 percent interest rate reduction when the borrower makes a direct, on-time loan payment automatically deducted from their checking or savings account, and

(2) shall receive a 2 percent interest rate reduction for on-time repayment of their loans if—(i) the borrower makes 48 consecutive on-time loan payments, and (ii) continues to make such on-time payments.

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Sections 455(a)(1) & (g)	(b) The Secretary shall implement this borrower incentive program not later than 18 months after the date of enactment of these Amendments. Retain Sections 455(a)(1) & (g)
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Loan Issue 9: Loan Consolidation [Sections 428C, 47A(k)(4), 455(b)(6)(D), & 455(g)]

Recommendation: Continue loan consolidation program, but return to first principles. Allow consolidation so that borrowers with multiple loans may have a single holder. Allow consolidation to prevent borrower defaults. Change interest rate from a fixed rate to a variable one to conform to recommendation that all interest rates are variable capped at a maximum rate of 6.8%. Clarify single holder rule. Consider consolidation loans to carry a higher interest rate.

Rationale: NASFAA believes that loan consolidation is an appropriate option so that borrowers with multiple loans may consolidate with one holder and that such loans are a useful tool to keep a borrower from entering into default. Consequently, we propose maintaining loan consolidation as an option for borrowers; continuing consolidation for borrowers with loans from multiple holders; conforming all interest rates; modifying the single holder rule to clarify the relationship of a Perkins Loan and Direct Loans in consolidation, and having borrowers pay an add-on for the ability to consolidate and to reduce subsidy costs. NASFAA is very concerned about the abusive and misleading recent marketing of consolidation loans, loans that increase total student repayment debt.

As a result of this framework, we recommend returning loan consolidation to first principles, the understanding of the uses of consolidation when the program was first adopted by the Congress, e.g., to help ease the confusion and paperwork of having multiple holders and to prevent default. NASFAA suggests too many borrowers are being seduced by sophisticated marketing of loan consolidation options without realizing the consequences of such an action (e.g. higher total loan debt and the loss of eligibility for some loan benefits). NASFAA is also concerned with questions of generational equity, e.g. some students consolidate to receive a lower interest rate—a rate, determined by the economy, which is not available to another borrower. For example, a borrower may consolidate their loan today and receive a historically low interest rate. The borrower's sister or brother five years from now because of the state of the economy then might have to pay a considerably higher rate. That is a generational inequity. NASFAA suggests that convenience loan refinancing should be prohibited. Nowhere in setting up the loan consolidation program years ago did Congress contemplate using the system as a means of refinance.

Controversy is rampant over the single holder rule. Our recommendation would maintain the rule and clarify the position of a Perkins Loan or Direct Loans in consolidation, i.e. Perkins Loans and Direct Loans can be consolidated, but are not considered to be held by another holder in order to get around the single holder rule. This proposal would also include certain health loans made by the school. Many knowledgeable observers suggest elimination of the single holder rule would grossly distort and destabilize, perhaps, cripple the student loan market. This, they say, would occur when the lender who estimates and depends on a certain revenue stream coming from

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a loan in order to stay competitive, indeed, stay in the student loan business, would not be able to do so if a loan can be consolidated by any competitor with the marketing savvy or high pressure tactics to “steal” that loan away.

NASFAA proposes that the interest rate for consolidation loans track the interest rate for Stafford Loans. NASFAA recommends all loans, including consolidation loans, have a variable interest with Stafford Loans capped at a maximum interest rate of 6.8%. We suggest further study and consideration of applying a premium, a modest basis point increase, be applied to consolidation loans to help reduce the consolidation loan subsidy that might be better used to offset costs to gain other benefits, such as increased loan limits or elimination of the origination fee, in the zero sum budget game that will be played in this HEA reauthorization.

NASFAA further believes that its recommendations for changes in repayment plans and options, if adopted, will go a long way in providing borrowers with attractive, sensitive, and fair terms that will obviate the need for the high level of loan consolidation activities over the last several years. NASFAA’s loan consolidation recommendations are intended to bring some common sense, promote consumer protections and awareness, maintain some semblance of FFELP industry stability, and reduce unnecessary increases in loan debt.

Current HEA Law	NASFAA Proposed Statutory Language
<p>Section 428C(a) (4) DEFINITION OF ELIGIBLE STUDENT LOANS.—For the purpose of paragraph (1), the term “eligible student loans” means loans—</p> <p>(A) made, insured, or guaranteed under this part, including loans on which the borrower has defaulted (but has made arrangements to repay the obligation on the defaulted loans satisfactory to the Secretary or guaranty agency, whichever insured the loans);</p> <p>(B) made under part E of this title;</p> <p>(C) made under part D of this title;</p> <p>(D) made under subpart II of part A of title VII of the Public Health Service Act; or</p> <p>(E) made under subpart II of part B of title VIII of the Public Health Service Act.</p>	<p>Section 428C(a) (4) DEFINITION OF ELIGIBLE STUDENT LOANS.—For the purpose of paragraph (1), the term “eligible student loans” means loans—</p> <p>(A) made, insured, or guaranteed under this part, including loans on which the borrower has defaulted (but has made arrangements to repay the obligation on the defaulted loans satisfactory to the Secretary or guaranty agency, whichever insured the loans);</p> <p>(B) made under part E of this title, except that part E or part D loans shall not be considered to be held by a separate holder for purposes of section 428C(b)(1)(A)(i);</p> <p>(C) made under part D of this title;</p> <p>(D) made under subpart II of part A of title VII of the Public Health Service Act; or</p> <p>(E) made under subpart II of part B of title VIII of the Public Health Service Act.</p>

Section 428C(b) CONTENTS OF AGREEMENTS,
CERTIFICATES OF INSURANCE,
AND LOAN NOTES.—

(1) AGREEMENTS WITH LENDERS.—Any lender described in subparagraph (A), (B), or (C) of subsection (a)(1) who wishes to make consolidation loans under this section shall enter into an agreement with the Secretary or a guaranty agency which provides—

(A) that, in the case of all lenders described in subsection (a)(1), the lender will make a consolidation loan to an eligible borrower (on request of that borrower) only if the borrower certifies that the borrower has no other application

pending for a loan under this section and

(i) the lender holds an outstanding loan of that borrower which is selected by the borrower for consolidation under this section, except that this clause shall not apply in the case of a borrower with multiple holders of loans under this part,

or

(ii) the borrower certifies that the borrower has sought and has been unable to obtain a consolidation loan with income-sensitive repayment terms from the holders of the outstanding loans of that borrower (which are so selected for consolidation);

No comparable provision.

Retain Section 428C(b)(1)(A)(i) unchanged

Section 427A(k)(4) is revised to read as follows:

(4) CONSOLIDATION LOANS—

(A) With respect to any consolidation loan under section 428(C) for which the application is received by

<p>Section 455(b)(6)(D)</p>	<p>an eligible lender on or after October 1, 1998, and before [the date of enactment of this legislation], or on or after July 1, 2006, the applicable rate of interest shall be at an annual rate on the unpaid principal balance of the loan that is equal to the lesser of—</p> <ul style="list-style-type: none">(i) the weighted average of the interest rates on the loans consolidated, rounded to the nearest higher one-eighth of 1 percent; or(ii) 6.8 percent. <p>(B) With respect to any consolidation loan under section 428(C) for which the application is received by an eligible lender on or after [the date of enactment of this legislation] and before July 1, 2006, the applicable rate of interest shall, during any 12-month period beginning on July 1 and ending on June 30, be determined on the preceding June 1, and be determined by--</p> <ul style="list-style-type: none">(i) calculating the weighted average of the interest rates on the loans consolidated, rounded to the nearest higher one-eighth of 1 percent, and(ii) adding the bond equivalent rate of 91 day Treasury bills auctioned at the final auction held prior such June 1, and(iii) subtracting the bond equivalent rate of 91-day Treasury bills auctioned at the final auction held prior to the June 1 preceding the date such application was received. <p>(C) The rate determined under paragraph (B) shall not exceed 6.8 percent.</p> <p>Make similar change to Direct Consolidation Loans Section</p>
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	455(b)(6)(D) as above.
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Loan Issue 10: School as Lender [Section 435(d)(2)]

Recommendation: Maintain school as lender provision. Clarify proceeds beyond administrative expenses are to be used only for need-based student aid at the school.

Rationale: NASFAA recommends maintaining this provision and clarifying that proceeds, after subtraction of administrative costs, be used exclusively for need-based student aid programs at the institution.

Current HEA Law	NASFAA Proposed Statutory Language
<p>Section 435(d)(2) ADDITIONAL REQUIREMENTS OF ELIGIBLE INSTITUTIONS. —To be an eligible lender under this part, an eligible institution—</p> <p>(F) shall use the proceeds from special allowance payments and interest payments from borrowers for need based grant programs, except for reasonable reimbursement for direct administrative expenses; except that the requirements of subparagraphs (C) and (D) shall not apply with respect to loans made, and loan commitments made, after the date of enactment of the Higher Education Amendments of 1986 and prior to July 1, 1987.</p>	<p>Retain Section 435(d)(2)(A)-(E) with one modification below:</p> <p>(F) shall use the proceeds from special allowance payments and, interest payments from borrowers, proceeds from selling of such loans, and all other such proceeds furnished to the institution or an entity affiliated directly or indirectly with such eligible institution for need based grant programs, except for reasonable reimbursement for direct administrative expenses; except that the requirements of subparagraphs (C) and (D) shall not apply with respect to loans made, and loan commitments made, after the date of enactment of the Higher Education Amendments of 1986 and prior to July 1, 1987.</p>

Loan Issue 11: In-school Deferments [Section 428(b)(1)(Y)]

Recommendation: Permit lenders to automatically provide an in-school deferment for individuals who have outstanding loans and return to their studies.

Rationale: Many borrowers who return to school do not realize that re-enrolling in school does not automatically place them in deferment. They fail to realize that there may be additional paper work to make this possible. If the school was allowed to submit an automatic in-school deferment to the NSLDS, the lender would receive notification that the student has returned to school. Upon receiving this notification the lender could contact the student to determine if he/she wishes to continue to make payments or enter into a deferred status. This change in the statute would amend the current confusing process and ensure that borrowers who return to school do not end up in technical default while waiting to file for their deferments.

Current HEA Law	NASFAA Proposed Statutory Language
<p>Section 428(b)(1)(Y) provides that—</p> <p>(i) the lender shall determine the eligibility of a borrower for a deferment described in subparagraph (M)(i) based on receipt of—</p> <p>(I) a request for deferment from the borrower and documentation of the borrower’s eligibility for the deferment;</p> <p>(II) a newly completed loan application that documents the borrower’s eligibility for a deferment; or</p> <p>(III) student status information received by the lender that the borrower is enrolled on at least a half-time basis; and</p>	<p>Section 428(b)(1)(Y) provides that—</p> <p>(i) the lender shall determine the eligibility of a borrower for a deferment described in subparagraph (M)(i) based on receipt of—</p> <p>(I) a request for deferment from the borrower and documentation of the borrower’s eligibility for the deferment;</p> <p>(II) a newly completed loan application that documents the borrower’s eligibility for a deferment; or</p> <p>(III) student status information received by the lender that the borrower is enrolled on at least a half-time basis; and or</p> <p>(IV) if requested by the school, the lender shall confirm of such half-time enrollment status through use of the National Student Loan Data System; and</p>

Loan Issue 12: Loan Certification [Section 428(a)(2), 428H(b)(2), & 454(a)(1)(C)]

Recommendation: Allow schools the ability to certify loans up to 30 days after the student's last date of enrollment.

Rationale: This recommendation would give flexibility to schools to deal with students who were unable to complete the loan application process prior to ceasing enrollment or who anticipated resources that did not materialize.

Current HEA Law	NASFAA Proposed Statutory Language
<p>Section 428(a) (2) ADDITIONAL REQUIREMENTS TO RECEIVE SUBSIDY.—(A) Each student qualifying for a portion of an interest payment under paragraph (1) shall— (i) have provided to the lender a statement from the eligible institution, at which the student has been accepted for enrollment, or at which the student is in attendance, which—</p> <p>Section 428H (b) (2) provided the lender a statement— (A) certifying the eligibility of the student to receive a loan under this section and the amount of the loan for which such student is eligible, in accordance with subsection (c); and</p> <p>Section 454(a)(1)(C) provide a statement that certifies the eligibility of any student to receive a loan under this part that is not in excess of the annual or aggregate limit applicable to such loan, except that the institution may, in exceptional circumstances identified by the Secretary, refuse to certify a statement that permits a student to receive a loan under this part, or certify a loan amount that is less than the student’s determination of need (as determined under part F of this title), if the reason for such action is documented and provided in written form to such student;</p>	<p>Section 428(a) (2) ADDITIONAL REQUIREMENTS TO RECEIVE SUBSIDY.—(A) Each student qualifying for a portion of an interest payment under paragraph (1) shall— (i) have provided to the lender, not later than 30 days after the student's last date of enrollment, a statement from the eligible institution, at which the student has been accepted for enrollment, or at which the student is in attendance, which—</p> <p>Section 428H (b)(2) provided the lender, not later than 30 days after the student's last date of enrollment, a statement— (A) certifying the eligibility of the student to receive a loan under this section and the amount of the loan for which such student is eligible, in accordance with subsection (c); and</p> <p>Section 454(a)(1)(C) provide a statement, not later than 30 days after the student's last date of enrollment, that certifies the eligibility of any student to receive a loan under this part that is not in excess of the annual or aggregate limit applicable to such loan, except that the institution may, in exceptional circumstances identified by the Secretary, refuse to certify a statement that permits a student to receive a loan under this part, or certify a loan amount that is less than the student’s determination of need (as determined under part F of this title), if the reason for such action</p>

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	is documented and provided in written form to such student;
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Loan Issue 13: Loan Disbursement [Section 428G(a)(3), (b)(1)]

Recommendation: Eliminate the 30-day delay for first-time students and multiple disbursements for single term loans.

Rationale: The two provisions that allowed waivers of these requirements recently expired and efforts to renew them continue unabated. They should be permanently extended in reauthorization if this is not accomplished before then.

Current HEA Law	NASFAA Proposed Statutory Language
<p>Section 428G(a)(3) SPECIAL RULE.—An institution whose cohort default rate (as determined under section 435(m)) for each of the 3 most recent fiscal years for which data are available is less than 10 percent may disburse any loan made, insured, or guaranteed under this part in a single installment for any period July of enrollment that is not more than 1 semester, 1 trimester, 1 quarter, or 4 months.</p> <p>Section 428G(b)(1) FIRST YEAR STUDENTS.—The first installment of the proceeds of any loan made, insured, or guaranteed under this part that is made to a student borrower who is entering the first year of a program of undergraduate education, and who has not previously obtained a loan under this part, shall not (regardless of the amount of such loan or the duration of the period of enrollment) be presented by the institution to the student for endorsement until 30 days after the borrower begins a course of study, but may be delivered to the eligible institution prior to the end of that 30-day period. An institution whose cohort default rate (as determined under section 435(m)) for each of the three most recent fiscal years for which data are available is less than 10 percent shall be exempt from the requirements of this paragraph.</p>	<p>Retain both Section 428G(a)(3) and (b)(1) unchanged</p> <p>Strike the footnote that reads as follows: “Section 422(b) of Public Law 105–244 added a new sentence at the end. Section 422(d) of such Act states the amendments made by subsections (a) and (b) shall be effective during the period beginning on October 1, 1998, and ending on September 30, 2002.”</p>

Loan Issue 14: Loan Proration [Section 435 new subsection]

Recommendation: Eliminate loan proration for student borrowers enrolled in programs of at least one academic year in length. Retain proportional proration for student borrowers enrolled in undergraduate programs of less than an academic year in length.

Rationale: Currently, Stafford loan limits must be prorated if (1) the student is enrolled in a program which is shorter than one academic year, or (2) the student is enrolled in a program that is one academic year or longer but the individual student is borrowing for a final period of enrollment that is less than a full academic year in length.

The latter circumstance may occur when the program itself is not an even multiple of academic years (e.g., a program spanning three semesters where two semesters comprise an academic year, or a 1500-clock hour program where the academic year is 900 clock hours). It can also occur when the student is taking longer than the normal time to complete; for example, a student in a 4-year (8 semester) program needs one additional semester to graduate. In either case, loan limits for the student's final ("remaining") period of enrollment must be prorated. Proration is not required for loan periods that are shorter than an academic year if that period does not represent the student's final period of enrollment in the program; for example, a student who "stopped out" for the fall term of his junior year but re-enrolls for the spring term of that year may borrow up to the full loan limit.

Loan proration for remaining periods is proportional; the maximum amount the student may borrow is directly related to the number of credit or clock hours for which the student is enrolled.

Proration of loans for remaining periods is complex and burdensome to administer. It also creates hardship for students who have already incurred at least one year's worth of educational expenses and have need for a greater amount than proration currently allows. Retaining loan proration only for programs that are less than an academic year in length most effectively targets borrower populations that are more likely to find repayment of higher loan debt difficult.

Current HEA Law	NASFAA Proposed Statutory Language
No comparable section.	Section 435 is amended by adding a new subsection that reads as follows: (q) Loan proration under this title shall apply only to a program of study that is less than one academic year in length. No eligible postsecondary institution shall be

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	required to prorate loans under this title if its program of study is greater than one academic year in length.
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Loan Issue 15: Borrower Rights and Protections [New HEA Section 433(f)]

Recommendation: Lenders, guaranty agencies, secondary markets, credit bureaus and/or servicers should be prohibited from releasing and/or selling student information for any purpose not related to the processing and servicing of student loans.

Rationale: Strong language needs to be part of the statute to prevent the use of student information for anything other than the disbursement and collection of student loans. Some borrowers are receiving certain reduction benefits for their loans in exchange for permission to a lending entity to release or sell, for example, their E-mail address to parties outside the student loan processes. NASFAA recommends prohibiting this invasion of privacy in the guise of providing some minor benefit. Student information should only be used in the processing and servicing of student loans and not for marketing of unrelated lender products and services.

Current HEA Law	NASFAA Proposed Statutory Language
No comparable provision.	<p>Insert after 433(e) a new subsection (f) BORROWER INFORMATION AND PRIVACY. Each eligible lender, guaranty agency, secondary market, credit bureau or student loan servicer is prohibited from using, releasing, selling, transferring, or giving any student information, including, but not limited to, the borrower’s or borrower’s parent’s name, address, social security number, or amount borrowed, for any purpose not related to the processing or servicing of loans under this title</p>

Loan Issue 16: Borrower Rights and Protections Disclosures [New HEA Section 433 unnumbered]

Recommendation: Require lenders, holders and loan servicers to provide individual borrowers and potential borrowers full disclosure on borrower benefits. The language of these marketing and disclosure pieces must be clear and easy to understand. In addition to outlining student rights and responsibilities, all potential repayment options and benefits must be provided, including statistics on how many borrowers actually benefit from each option and benefit.

Rationale: Borrowers many times do not understand the type and scope of benefits available to them. They may believe that they are entering into a repayment program that will provide them flexibility but in the long run costs them more money and is more restrictive than another option.

Current HEA Law	NASFAA Proposed Statutory Language
No comparable section.	<p>Insert after 433(e) a new subsection unnumbered LOAN BENEFIT DISLOSURES. All eligible loan lenders, holders, and servicers shall provide a borrower with information on loan benefit repayment options they offer, including but not limited to, information on reductions in interest rate by repaying a title IV loan by automatic payroll or checking account deduction or by completing a program of on-time repayment and other such benefit programs. Such consumer information shall include:</p> <ul style="list-style-type: none"> (1) any limitations on such plans; (2) explicit information on the reasons a borrower may lose eligibility for such a benefit; and, (3) clear statistical information for each of the most recent five years describing for each benefit plan offered: <ul style="list-style-type: none"> (A) the number of borrowers enrolling in such a plan; (B) the number of borrowers failing to fulfill the terms of each plan; (C) the number of borrowers who receive the full benefit of a

	<p>plan (D) the percentage in each plan who successfully complete the terms and conditions of the plan and receive the benefit.</p>
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Loan Issue 17: Consumer Information and Education [New HEA Section perhaps 433A]

Recommendation: Direct the Secretary to develop and distribute consumer information to student loan borrowers and potential student borrowers concerning debt management and student loan related information. Lenders, guarantors, servicers and secondary markets will be responsible for the distribution of this material.

Rationale: The Secretary has the ability to design materials that address the needs of the student borrower. In addition, schools may not have the resources available to develop and deliver the comprehensive materials required by the Secretary or needed by the student. It seems more practical for the Secretary and the Department to be responsible for this issue.

Likewise, the points of time at which the borrower needs these materials are generally beyond the scope of control of the school. These points generally involve the borrower and the lender and include, but may not be limited to: time the loan is requested, time the borrower enters repayment, times when the borrower is experiencing difficulties in meeting his/her payment obligations, and times when the borrower may be seeking new repayment terms and possible consolidation. It is at these points in time that the borrower needs “just-in-time” counseling on what options are available, something the schools have no control over.

Current HEA Law	NASFAA Proposed Statutory Language
No comparable language.	<p>New section unnumbered perhaps 433A</p> <p>433A CONSUMER EDUCATION INFORMATION. The Secretary shall consult with students, schools, higher education associations, consumer credit counseling entities, lenders, loan servicers, secondary markets, and other groups or associations to further development of a quality educational program and materials. The Secretary shall develop such an educational program that includes both a financial literacy and a debt management counseling components. The Secretary shall make available such an educational program for distribution to title IV recipients and prospective recipients by eligible lenders, guarantors, loan</p>

	<p>servicers, secondary markets, and other appropriate entities. Such an educational program shall provide long-term training in budgeting and other aspects of financial management, including debt management and other aspects of financial literacy. The Secretary shall make such a program and materials available not later than 30 months after the date of enactment of these Amendments.</p>
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Loan Issue 18: Disbursements [Section 428G(a)(1)]

Recommendation: Schools should be allowed the ability to request uneven disbursements during a loan period. This should be allowed for undergraduate and graduate level loans.

Rationale: Students often have significantly greater expenses in some terms than in others. With even disbursements they are often unable to meet their expenses in some terms, yet have excess funds in others.

Current HEA Law	NASFAA Proposed Statutory Language
Section 428G(a) MULTIPLE DISBURSEMENT REQUIRED.— (1) TWO DISBURSEMENTS REQUIRED.—The proceeds of any loan made, insured, or guaranteed under this part that is made for any period of enrollment shall be disbursed in 2 or more installments, none of which exceeds one-half of the loan.	Section 428G(a) MULTIPLE DISBURSEMENT REQUIRED.— (1) TWO DISBURSEMENTS REQUIRED.—The proceeds of any loan made, insured, or guaranteed under this part that is made for any period of enrollment shall be disbursed in 2 or more installments, none of which exceeds one-half of the loan, except an institution may, on a case-by-case basis, make an uneven disbursement with proper documentation.

Loan Issue 19: Loan Forgiveness [Sections 428J, 428K, 460, & 465]

Recommendation: The loan forgiveness provisions for subsidized Stafford loans should be the same as those provided in the Perkins Loan Program and vice versa.

Rationale: Loan forgiveness provisions in the Perkins and Stafford loan programs should be the same to provide borrower equity in loan terms and conditions. The more favorable provisions of the Perkins Loan Program should be retained and applied as well to Stafford.

Current HEA Law	NASFAA Proposed Statutory Language
Section 428J, 428K, 460 and Section 465	Substitute Section 465 cancellation provisions by taking the most liberal in the FFEL and DL programs and make Part B, D, and E loan cancellation programs mandatory spending.

Loan Issue 20: Master Promissory Note (MPN) [Section 432(m)(1)(D)]

Recommendation: Direct the Secretary to review and revise the Master Promissory Note (MPN) provisions to allow two-year colleges and proprietary institutions the ability to use the multi-year feature provisions of the MPN.

Rationale: Not allowing these schools the ability to use the continuation provisions is disruptive to the student's borrowing and slows the student's access to education.

Current HEA Law	NASFAA Proposed Statutory Language
<p>Section 432(m) COMMON FORMS AND FORMATS.— (1) COMMON GUARANTEED STUDENT LOAN APPLICATION FORM AND PROMISSORY NOTE.— (A) IN GENERAL.—The Secretary, in cooperation with representatives of guaranty agencies, eligible lenders, and organizations involved in student financial assistance, shall prescribe common application forms and promissory notes, or master promissory notes, to be used for applying for loans under part B of this title.</p>	<p>Section 432(m) COMMON FORMS AND FORMATS.— (1) COMMON GUARANTEED STUDENT LOAN APPLICATION FORM AND PROMISSORY NOTE.— (A) IN GENERAL.—The Secretary, in cooperation with representatives of guaranty agencies, eligible lenders, and organizations involved in student financial assistance, shall prescribe common application forms and promissory notes, or master promissory notes, to be used for applying for loans under part B of this title. Unless otherwise notified by the Secretary, each eligible postsecondary institution may use a master promissory note for its borrowers.</p>

Loan Issue 21: Overaward Provisions [Sections 428(G)(d)(2), & 443(b)(4)]

Recommendation: Establish consistent overaward provisions across all Title IV programs.

Rationale: The suggested amendment would allow an overaward tolerance of \$500 in the FFEL and Direct Loan Programs.

Given the many circumstances under which an overaward may be created, and the fact that modest overawards are permitted in other Title IV programs, NASFAA recommends that similar treatment be permitted in the loan programs. NASFAA believes that a \$500 overaward is low enough to prevent the borrower from incurring unreasonable excess debt, but sufficient to avert costly and inconvenient administrative burdens for students, lenders, and schools.

Current HEA Law	NASFAA Proposed Statutory Language
Several sections	See General Provisions Recommendation Issue #1.

Loan Issue 22: Voluntary Flexible Agreements (VFA) [Section 428A]

Recommendation: Maintain statutory VFA authority and urges future consideration of new models for guaranty agency services.

Rationale: Voluntary Flexible Agreement statutory language was included in the last HEA reauthorization. The purpose of VFAs is to experiment with new ways to deliver and pay for services provided by guaranty agencies. Several agencies have taken advantage of this authority, including ASA, Great Lakes, and the Texas agencies. NASFAA believes that several of the current VFA experiments hold considerable promise for reorienting not only the structure of the current payment system for guaranty agencies, but, more importantly, refocusing their activities and services provided in reducing default claims. NASFAA urges further investigation and further consideration in the future of a new system of service and payment based on one or more of the current VFA experiments. We do not urge adoption of such a model at this time, since we believe certain outstanding questions remain and there is a need for the current VFA experiments to mature before we are ready to urge a wholesale reform of guaranty agency functions.

Current HEA Law	NASFAA Proposed Statutory Language
Section 428A	Retain Section 428A authority.