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1 **TITLE IV—STUDENT ASSISTANCE**2 **PART A—GRANTS TO STUDENTS**3 **SEC. 401. PELL GRANTS.**

4 (a) EXTENSION OF AUTHORITY.—Section 401(a) (20  
5 U.S.C. 1070a(a)(1)) is amended—

6 (1) in paragraph (1)—

7 (A) by striking “September 30, 1998” and  
8 inserting “September 30, 2004”; and

9 (B) by striking the second sentence; and

10 (2) in paragraph (2), by striking “the disburse-  
11 ment system required by paragraph (1)” and insert-  
12 ing “the disbursement of Federal Pell Grants”.

13 (b) AMOUNT OF GRANT.—Section 401(b)(2)(A) is  
14 amended to read as follows:

15 “(2)(A) The amount of the Federal Pell Grant for  
16 a student eligible under this part shall be—

17 “(i) \$4,500 for academic year 1999–2000,

18 “(ii) \$4,700 for academic year 2000–2001,

19 “(iii) \$4,900 for academic year 2001–2002,

20 “(iv) \$5,100 for academic year 2002–2003, and

21 “(v) \$5,300 for academic year 2003–2004,

22 less an amount equal to the amount determined to be the

23 expected family contribution with respect to that student

24 for that year.”.

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1 (c) RELATION OF MAXIMUM GRANT TO TUITION AND  
2 EXPENSES.—Section 401(b)(3) is amended—

3 (1) by striking “\$2,400” each place it appears  
4 and inserting “\$3,000”; and

5 (2) by adding at the end the following new sub-  
6 paragraph:

7 “(C) An institution that charged only fees in lieu of  
8 tuition as of January 31, 1997, may include in its deter-  
9 mination of tuition charged, fees that would normally con-  
10 stitute tuition.”.

11 (d) DEPENDENT CARE AND DISABILITY RELATED  
12 EXPENSES.—Section 401(b)(3)(B) is amended by striking  
13 “\$750” and inserting “\$1,500”.

14 (e) INSTITUTIONAL INELIGIBILITY BASED ON DE-  
15 FAULT RATES.—Section 401 is amended by adding at the  
16 end the following new subsection:

17 “(j) INSTITUTIONAL INELIGIBILITY BASED ON DE-  
18 FAULT RATES.—

19 “(1) IN GENERAL.—No institution of higher  
20 education shall be an eligible institution for purposes  
21 of this section if such institution of higher education  
22 is ineligible to participate in a loan program under  
23 this title as a result of a final default rate deter-  
24 mination made by the Secretary under part B or D

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1 of this title, or both, after the final publication of  
2 fiscal year 1996 cohort default rates.

3 “(2) SANCTIONS SUBJECT TO APPEAL OPPOR-  
4 TUNITY.—No institution may be subject to the  
5 terms of this subsection unless it has had the oppor-  
6 tunity to appeal its default rate determination under  
7 regulations issued by the Secretary for the Federal  
8 Family Education Loan or Federal Direct Loan  
9 Program, as applicable. This subsection shall not  
10 apply to an institution that was not participating in  
11 the loan programs authorized under part B or D of  
12 this title on the date of enactment of the Higher  
13 Education Amendments of 1998, unless the institu-  
14 tion subsequently participates in the loan pro-  
15 grams.”.

16 (f) CONFORMING AMENDMENTS.—

17 (1) Section 400(a)(1) (20 U.S.C. 1070(a)(1)) is  
18 amended by striking “basic educational opportunity  
19 grants” and inserting “Federal Pell Grants”.

20 (2) The heading of subpart 1 of part A of title  
21 IV is amended to read as follows:

22 **“Subpart 1—Federal Pell Grants”.**

23 (3) Section 401 is amended—

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1 (A) in the heading of the section, by strik-  
2 ing “**BASIC EDUCATIONAL OPPORTUNITY**”  
3 and inserting “**FEDERAL PELL**”;

4 (B) in subsection (a)(3), by striking  
5 “Basic grants” and inserting “Grants”;

6 (C) by striking “basic grant” each place it  
7 appears and inserting “Federal Pell Grant”;  
8 and

9 (D) by striking “basic grants” each place  
10 it appears and inserting “Federal Pell Grants”.

11 (4) Section 401(f) is amended by striking  
12 “Education and Labor” and inserting “Education  
13 and the Workforce”.

14 (5) Section 452(c) (20 U.S.C. 1087b(c)) is  
15 amended by striking “basic grants” and inserting  
16 “Federal Pell Grants”.

17 (6) Subsections (j)(2) and (k)(3) of section 455  
18 (20 U.S.C. 1087e) are each amended by striking  
19 “basic grants” and inserting “Federal Pell Grants”.

20 **SEC. 402. FEDERAL TRIO PROGRAMS.**

21 (a) PROGRAM AUTHORITY; AUTHORIZATION OF AP-  
22 PROPRIATIONS.—

23 (1) DURATION OF GRANTS.—Section  
24 402A(b)(2) (20 U.S.C. 1070a-11(b)(2)) is amend-  
25 ed—

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1 (A) by striking subparagraph (A);

2 (B) by striking the period at the end of  
3 subparagraph (B) and inserting “; and”;

4 (C) by redesignating subparagraph (B) as  
5 subparagraph (A); and

6 (D) by adding at the end the following new  
7 subparagraph:

8 “(B) grants under section 402H shall be  
9 awarded for a period determined by the Sec-  
10 retary.”.

11 (2) MINIMUM GRANTS.—Section 402A(b)(3) is  
12 amended to read as follows:

13 “(3) MINIMUM GRANTS.—Unless the institution  
14 or agency requests a smaller amount, individual  
15 grants under this chapter shall be no less than—

16 “(A) \$170,000 for programs authorized by  
17 sections 402D and 402G;

18 “(B) \$180,000 for programs authorized by  
19 sections 402B and 402F; and

20 “(C) \$190,000 for programs authorized by  
21 sections 402C and 402E.”.

22 (3) PROCEDURES FOR AWARDING GRANTS AND  
23 CONTRACTS.—Subsection (c) of section 402A is  
24 amended to read as follows:

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1 “(c) PROCEDURES FOR AWARDING GRANTS AND  
2 CONTRACTS.—

3 “(1) APPLICATION REQUIREMENTS.—An eligi-  
4 ble entity that desires to receive a grant or contract  
5 under this chapter shall submit an application to the  
6 Secretary in such manner and form, and containing  
7 such information and assurances, as the Secretary  
8 may reasonably require.

9 “(2) PRIOR EXPERIENCE.—In making grants  
10 under this chapter, the Secretary shall consider each  
11 applicant’s prior experience of service delivery under  
12 the particular program for which funds are sought.  
13 The level of consideration given the factor of prior  
14 experience shall not vary from the level of consider-  
15 ation given such factor during fiscal years 1994  
16 through 1997, except that grants made under sec-  
17 tion 402H shall not be given prior experience consid-  
18 eration.

19 “(3) ORDER OF AWARDS; PROGRAM FRAUD.—  
20 (A) Except with respect to grants made under sec-  
21 tions 402G and 402H and as provided in subpara-  
22 graph (B), the Secretary shall award grants and  
23 contracts under this chapter in the order of the  
24 scores received by the application for such grant or  
25 contract in the peer review process required under

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1 section 110 and adjusted for prior experience in ac-  
2 cordance with paragraph (2) of this subsection.

3 “(B) The Secretary is not required to provide  
4 assistance to a program otherwise eligible for assist-  
5 ance under this chapter, if the Secretary has deter-  
6 mined that such program has involved the fraudu-  
7 lent use of funds under this chapter.

8 “(4) PEER REVIEW PROCESS.—(A) The Sec-  
9 retary shall assure that, to the extent practicable,  
10 members of groups underrepresented in higher edu-  
11 cation, including African Americans, Hispanics, Na-  
12 tive Americans, Alaska Natives, Asian Americans,  
13 Native American Pacific Islanders (including Native  
14 Hawaiians), are represented as readers of applica-  
15 tions submitted under this chapter. The Secretary  
16 shall also assure that persons from urban and rural  
17 backgrounds are represented as readers.

18 “(B) The Secretary shall ensure that each ap-  
19 plication submitted under this chapter is read by at  
20 least 3 readers who are not employees of the Federal  
21 Government (other than as readers of applications).

22 “(5) NUMBER OF APPLICATIONS FOR GRANTS  
23 AND CONTRACTS.—The Secretary shall not limit the  
24 number of applications submitted by an entity under  
25 any program authorized under this chapter if the

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1 additional applications describe programs serving  
2 different populations or campuses.

3 “(6) COORDINATION WITH OTHER PROGRAMS  
4 FOR DISADVANTAGED STUDENTS.—The Secretary  
5 shall encourage coordination of programs assisted  
6 under this chapter with other programs for dis-  
7 advantaged students operated by the sponsoring in-  
8 stitution or agency, regardless of the funding source  
9 of such programs. The Secretary shall not limit an  
10 entity’s eligibility to receive funds under this chapter  
11 because such entity sponsors a program similar to  
12 the program to be assisted under this chapter, re-  
13 gardless of the funding source of such program. The  
14 Secretary shall permit the Director of a program re-  
15 ceiving funds under this chapter to administer one  
16 or more additional programs for disadvantaged stu-  
17 dents operated by the sponsoring institution or agen-  
18 cy, regardless of the funding sources of such pro-  
19 grams.

20 “(7) APPLICATION STATUS.—The Secretary  
21 shall inform each entity operating programs under  
22 this chapter regarding the status of their application  
23 for continued funding at least 8 months prior to the  
24 expiration of the grant or contract. The Secretary,  
25 in the case of an entity that is continuing to operate

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1 a successful program under this chapter, shall en-  
2 sure that the start-up date for a new grant or con-  
3 tract for such program immediately follows the ter-  
4 mination of preceding grant or contract so that no  
5 interruption of funding occurs for such successful re-  
6 applicants. The Secretary shall inform each entity  
7 requesting assistance under this chapter for a new  
8 program regarding the status of their application at  
9 least 8 months prior to the proposed startup date of  
10 such program.”.

11 (4) AUTHORIZATION OF APPROPRIATIONS.—

12 Section 402A(f) is amended—

13 (A) by striking “1993” and inserting  
14 “1999”; and

15 (B) by striking everything after the first  
16 sentence.

17 (b) TALENT SEARCH.—Section 402B(b) (20 U.S.C.  
18 1070a–12(b)) is amended—

19 (1) by striking paragraph (4) and inserting the  
20 following:

21 “(4) guidance on and assistance in secondary  
22 school reentry, entry to general educational develop-  
23 ment (GED) programs, other alternative education  
24 programs for secondary school dropouts, or post-  
25 secondary education;” and

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1 (2) in paragraph (8), by striking “parents” and  
2 inserting “families”.

3 (c) UPWARD BOUND.—Section 402C (20 U.S.C.  
4 1070a-13) is amended—

5 (1) in subsection (b)—

6 (A) in paragraph (2), by striking “personal  
7 counseling” and inserting “counseling and  
8 workshops”;

9 (B) in paragraph (6)—

10 (i) by inserting “work-study and  
11 other” before “activities”; and

12 (ii) by inserting before the semicolon  
13 at the end the following: “, including ca-  
14 reers requiring a postsecondary degree”;

15 (C) in paragraph (9), by striking “and” at  
16 the end;

17 (D) in paragraph (10), by striking  
18 “through (10)” and inserting “through (11)”;

19 (E) by redesignating paragraph (10) as  
20 paragraph (11) and by inserting after para-  
21 graph (9) the following new paragraph:

22 “(10) special services to enable veterans to  
23 make the transition to postsecondary education;  
24 and”; and

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1 (2) in subsection (c), by inserting “, other than  
2 a project a majority of the participants in which are  
3 veterans,” after “this chapter”.

4 (d) STUDENT SUPPORT SERVICES.—Section  
5 402D(c)(6) (20 U.S.C. 1070a-14(c)(6)) is amended by in-  
6 serting before the period at the end the following: “and  
7 minimize the student’s loan burden”.

8 (e) POSTBACCALAUREATE ACHIEVEMENT PRO-  
9 GRAM.—Section 402E (20 U.S.C. 1070a-15) is amend-  
10 ed—

11 (1) in subsection (c)(3), by inserting “or accept-  
12 ed in a graduate program” after “degree program”;  
13 and

14 (2) in subsection (e)(1), by striking “\$2,400”  
15 and inserting “\$3,200”.

16 (f) STAFF DEVELOPMENT ACTIVITIES.—Section  
17 402G(b) (20 U.S.C. 1070a-17(b)) is amended by insert-  
18 ing after paragraph (3) the following new paragraph:

19 “(4) The use of appropriate educational tech-  
20 nology in the operation of projects assisted under  
21 this chapter.”.

22 (g) EVALUATION FOR PROJECT IMPROVEMENT.—  
23 Section 402H(b) (20 U.S.C. 1070a-18(b)) is amended by  
24 adding at the end the following new sentence: “Such eval-  
25 uations shall also investigate the effectiveness of alter-

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1 native and innovative methods within Federal TRIO pro-  
2 grams of increasing access to, and retention of, students  
3 in postsecondary education.”.

4 **SEC. 403. NATIONAL EARLY INTERVENTION AND PARTNER-**  
5 **SHIP PROGRAM.**

6 Section 404G (20 U.S.C. 1070a-26) is amended by  
7 striking “1993” and inserting “1999”.

8 **SEC. 404. REPEALS.**

9 (a) REPEALS OF SUBPART 2 PROVISIONS.—The fol-  
10 lowing provisions of subpart 2 of part A of title IV are  
11 repealed:

12 (1) Chapter 3 (20 U.S.C. 1070a-31 et seq.).

13 (2) Chapter 4 (20 U.S.C. 1070a-41 et seq.).

14 (3) Chapter 5 (20 U.S.C. 1070a-51 et seq.).

15 (4) Chapter 6 (20 U.S.C. 1070a-61 et seq.).

16 (5) Chapter 7 (20 U.S.C. 1070a-71 et seq.).

17 (6) Chapter 8 (20 U.S.C. 1070a-81 et seq.).

18 (b) SUBPART 8.—Subpart 8 of part A of title IV (20  
19 U.S.C. 1070f) is repealed.

20 (c) CONFORMING AMENDMENT.—Section 400(b) (20  
21 U.S.C. 1070(b)) is amended by striking “subparts 1  
22 through 8” and inserting “subparts 1 through 6”.

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1 **SEC. 405. FEDERAL SUPPLEMENTAL EDUCATIONAL OPPOR-**  
2 **TUNITY GRANTS.**

3 (a) EXTENSION OF AUTHORITY.—Section  
4 413A(b)(1) (20 U.S.C. 1070b-1(b)(1)) is amended by  
5 striking “1993” and inserting “1999”.

6 (b) USE OF FUNDS FOR LESS-THAN-FULL-TIME  
7 STUDENTS.—Subsection (d) of section 413C (20 U.S.C.  
8 1070b-2(d)) is amended by striking “and if the total fi-  
9 nancial need” and all that follows and inserting the follow-  
10 ing: “, then grant funds shall be made available to such  
11 independent and less-than-full-time students.”.

12 (c) ALLOCATION OF FUNDS.—Section 413D (20  
13 U.S.C. 1070b-3) is amended—

14 (1) by striking subsection (b); and

15 (2) in subsection (c)(1), by striking “three-  
16 quarters of the remainder” and inserting “the re-  
17 mainder”;

18 (3) in subsection (c)(2), by striking “subsection  
19 (d)” and inserting “subsection (c)”;

20 (4) by redesignating subsections (c), (d), and  
21 (e) as subsections (b), (c), and (d), respectively; and

22 (5) by inserting after subsection (d) (as so re-  
23 designated) the following new subsection:

24 “(e) CARRY-OVER/CARRY-BACK AUTHORITY.—

25 “(1) CARRY-OVER AUTHORITY.—

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1           “(A) CARRY-OVER UP TO 10 PERCENT.—  
2           Of the sums granted to an eligible institution  
3           under this subpart for any fiscal year, 10 per-  
4           cent may, at the discretion of the institution,  
5           remain available for expenditure during the suc-  
6           ceeding fiscal year to carry out the program  
7           under this subpart.

8           “(B) REALLOCATION OF EXCESS.—Any of  
9           the sums so granted to an institution for a fis-  
10          cal year which are not needed by that institu-  
11          tion to operate programs under this subpart  
12          during that fiscal year, and which it does not  
13          wish to use during the next fiscal year as au-  
14          thorized in the preceding sentence, shall remain  
15          available to the Secretary for making grants  
16          under section 413B to other institutions in the  
17          same State until the close of the second fiscal  
18          year next succeeding the fiscal year for which  
19          such funds were appropriated.

20          “(2) CARRY-BACK AUTHORITY.—

21                 “(A) CARRY-BACK UP TO 10 PERCENT.—  
22                 Up to 10 percent of the sums the Secretary de-  
23                 termines an eligible institution may receive  
24                 from funds which have been appropriated for a  
25                 fiscal year may be used by the institution for

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1 expenditure during the fiscal year preceding the  
2 fiscal year for which the sums were appro-  
3 priated.

4 “(B) USE OF CARRIED-BACK FUNDS.—An  
5 eligible institution may make grants to students  
6 after the end of the academic year, but prior to  
7 the beginning of the succeeding fiscal year,  
8 from such succeeding fiscal year’s appropria-  
9 tions.”.

10 **SEC. 406. GRANTS TO STATES FOR STATE STUDENT INCEN-**  
11 **TIVES.**

12 (a) AUTHORIZATION OF APPROPRIATIONS.—Section  
13 415A(b) of the Higher Education Act of 1965 (20 U.S.C.  
14 1070c(b)) is amended—

15 (1) in paragraph (1), by striking “1993” and  
16 inserting “1999”;

17 (2) by redesignating paragraph (2) as para-  
18 graph (3); and

19 (3) by inserting after paragraph (1) the follow-  
20 ing:

21 “(2) RESERVATION.—For any fiscal year for  
22 which the amount appropriated under paragraph (1)  
23 exceeds \$25,000,000, the excess shall be available to  
24 carry out section 415E.”.

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1 (b) SPECIAL LEVERAGING EDUCATIONAL ASSIST-  
2 ANCE PARTNERSHIP PROGRAM.—Subpart 4 of part A of  
3 title IV of the Higher Education Act of 1965 (20 U.S.C.  
4 1070c et seq.) is amended—

5 (1) by redesignating section 415E as 415F; and

6 (2) by inserting after section 415D the follow-  
7 ing:

8 **“SEC. 415E. SPECIAL LEVERAGING EDUCATIONAL ASSIST-**  
9 **ANCE PARTNERSHIP PROGRAM.**

10 “(a) IN GENERAL.—From amounts reserved under  
11 section 415A(b)(2) for each fiscal year, the Secretary  
12 shall—

13 “(1) make allotments among States in the same  
14 manner as the Secretary makes allotments among  
15 States under section 415B; and

16 “(2) award grants to States, from allotments  
17 under paragraph (1), to enable the States to pay the  
18 Federal share of the cost of the authorized activities  
19 described in subsection (c).

20 “(b) AUTHORIZED ACTIVITIES.—Each State receiv-  
21 ing a grant under this section may use the grant funds  
22 for—

23 “(1) increasing the dollar amount of grants  
24 awarded under section 415B to eligible students who  
25 demonstrate financial need;

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1           “(2) carrying out transition programs from sec-  
2           ondary school to postsecondary education for eligible  
3           students who demonstrate financial need;

4           “(3) carrying out a financial aid program for  
5           eligible students who demonstrate financial need and  
6           wish to enter teaching or computer-related careers,  
7           or other fields of study determined by the State to  
8           be critical to the State’s workforce needs;

9           “(4) carrying out early intervention programs,  
10          mentoring programs, and career education programs  
11          for eligible students who demonstrate financial need;  
12          and

13          “(5) awarding merit or academic scholarships  
14          to eligible students who demonstrate financial need.

15          “(c) MAINTENANCE OF EFFORT REQUIREMENT.—  
16          Each State receiving a grant under this section for a fiscal  
17          year shall provide the Secretary an assurance that the ag-  
18          gregate amount expended per student or the aggregate ex-  
19          penditures by the State, from funds derived from non-Fed-  
20          eral sources, for the authorized activities described in sub-  
21          section (b) for the preceding fiscal year were not less than  
22          the amount expended per student or the aggregate expend-  
23          itures by the State for the activities for the second preced-  
24          ing fiscal year. The Secretary may waive this subsection  
25          for good cause, as determined by the Secretary.

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1 “(d) FEDERAL SHARE.—The Federal share of the  
2 cost of the authorized activities described in subsection (b)  
3 for any fiscal year shall be 25 percent.”.

4 (c) TECHNICAL AND CONFORMING AMENDMENTS.—

5 (1) PURPOSE.—Subsection (a) of section 415A  
6 of the Higher Education Act of 1965 (20 U.S.C.  
7 1070c(a)) is amended to read as follows:

8 “(a) PURPOSE OF SUBPART.—It is the purpose of  
9 this subpart to make incentive grants available to States  
10 to assist States in—

11 “(1) providing grants to—

12 “(A) eligible students attending institu-  
13 tions of higher education or participating in  
14 programs of study abroad that are approved for  
15 credit by institutions of higher education at  
16 which such students are enrolled; and

17 “(B) eligible students for campus-based  
18 community service work-study; and

19 “(2) carrying out the activities described in sec-  
20 tion 415F.”.

21 (2) ALLOTMENT.—Section 415B(a)(1) of the  
22 Higher Education Act of 1965 (20 U.S.C. 1070c-  
23 1(a)(1)) is amended by inserting “and not reserved  
24 under section 415A(b)(2)” after “415A(b)(1)”.

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1 **SEC. 407. SPECIAL PROGRAMS FOR STUDENTS WHOSE FAM-**  
2 **ILIES ARE ENGAGED IN MIGRANT AND SEA-**  
3 **SONAL FARMWORK.**

4 (a) COORDINATION.—Section 418A(d) (20 U.S.C.  
5 1070d–2(d)) is amended by inserting after “contains as-  
6 surances” the following: “that the grant recipient will co-  
7 ordinate its project, to the extent feasible, with other local,  
8 State, and Federal programs to maximize the resources  
9 available for migrant students, and”.

10 (b) EXTENSION OF AUTHORITY.—Section 418A(g) is  
11 amended by striking “1993” each place it appears and  
12 inserting “1999”.

13 (c) DATA COLLECTION.—Section 418A is amended  
14 by adding at the end the following new subsection:

15 “(h) DATA COLLECTION.—The National Center for  
16 Education Statistics shall collect postsecondary education  
17 data on migrant students.”.

18 (d) TECHNICAL AMENDMENTS.—Section 418A(e) is  
19 amended by striking “authorized by subpart 4 of this part  
20 in accordance with section 417A(b)(2)” and inserting “in  
21 accordance with section 402A(c)(1)”.

22 **SEC. 408. BYRD SCHOLARSHIPS.**

23 (a) ELIGIBILITY.—Section 419G (20 U.S.C. 1070d–  
24 37) is amended by adding at the end the following new  
25 subsection:

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1       “(e) TERMINATION OF ELIGIBILITY.—The eligibility  
2 of students from the Federated States of Micronesia, the  
3 Republic of the Marshall Islands, and Palau shall expire  
4 on September 30, 2001.”.

5       (b) AUTHORIZATION OF APPROPRIATIONS.—Section  
6 419K (20 U.S.C. 1070d-41) is amended by striking  
7 “\$10,000,000 for fiscal year 1993” and inserting  
8 “\$40,000,000 for fiscal year 1999”.

## IV-B-1

1           **PART B—FEDERAL FAMILY EDUCATION**2                           **LOAN PROGRAM**3   **SEC. 411. LIMITATION REPEALED.**

4           Section 421 (20 U.S.C. 1071) is amended by striking  
5 subsection (d).

6   **SEC. 412. ADVANCES TO RESERVE FUNDS.**

7           Section 422 (20 U.S.C. 1072) is further amended—

8                   (1) in subsection (a)(2), by striking  
9 “428(c)(10)(E)” and inserting “428(c)(9)(E)”;

10                   (2) in subsection (c)(6), by striking “handle  
11 written” and inserting “handle written, electronic,”;

12                   (3) in subsection (c)(7)

13                           (A) by striking “to a guaranty agency—”  
14 and everything that follows through “(B) if the  
15 Secretary” and inserting “to a guaranty agen-  
16 cy, if the Secretary”;

17                           (B) by striking “428(c)(10)(F)” and in-  
18 serting “428(c)(9)(F)”;

19                           (C) by inserting “and” after “cash  
20 needs,”; and

21                           (D) by striking “or ensure” and everything  
22 that follows and inserting a period; and

23                   (4) in the first and second sentences of sub-  
24 section (g)(1), by striking “or the program author-  
25 ized by part D of this title” each place it appears.

## IV-B-2

1 **SEC. 413. GUARANTY AGENCY REFORMS.**

2 (a) FEDERAL STUDENT LOAN RESERVE FUND.—

3 Part B of title IV is amended by inserting after section  
4 422 (20 U.S.C. 1072) the following new section:5 **“SEC. 422A. FEDERAL STUDENT LOAN RESERVE FUND.**6 “(a) ESTABLISHMENT.—Each guaranty agency shall,  
7 not later than 60 days after the date of enactment of this  
8 section, deposit all funds, securities, and other liquid as-  
9 sets contained in the reserve fund established pursuant to  
10 section 422 of this part into a Federal Student Loan Re-  
11 serve Fund (in this section and section 422B referred to  
12 as the ‘Federal Fund’) which shall be an account of a type  
13 selected by the agency, with the approval of the Secretary.14 “(b) INVESTMENT OF FUNDS.—Funds maintained in  
15 the Federal Fund shall be invested in obligations issued  
16 or guaranteed by the United States or a State, or in other  
17 similarly low-risk securities selected by the guaranty agen-  
18 cy.19 “(c) ADDITIONAL DEPOSITS.—After the establish-  
20 ment of the Federal Fund, a guaranty agency shall deposit  
21 into the Federal Fund—22 “(1) all amounts received from the Secretary as  
23 payment of reinsurance on loans pursuant to section  
24 428(c)(1);25 “(2) from amounts collected on behalf of the  
26 obligation of a defaulted borrower, a percentage

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1 amount equal to the complement of the reinsurance  
2 percentage in effect when payment under the guar-  
3 anty agreement was made with respect to the de-  
4 faulted loan pursuant to sections 428(c)(6)(A)(i)  
5 and 428F(a)(1)(B); and

6 “(3) insurance premiums collected from borrow-  
7 ers pursuant to sections 428(b)(1)(H) and 428H(h).

8 “(d) USES OF FUNDS.—Subject to subsection (f), the  
9 Federal Fund may only be used by a guaranty agency—

10 “(1) to pay lender claims pursuant to section  
11 428(b)(1)(G), section 428(j), section 437, and sec-  
12 tion 439(q); and

13 “(2) to pay into the Agency Operating Fund es-  
14 tablished pursuant to section 422B a default preven-  
15 tion fee in accordance with section 428(l).

16 “(e) OWNERSHIP OF FEDERAL FUND.—The Federal  
17 Fund of the guaranty agency, regardless of who holds or  
18 controls the reserves or assets, shall be considered to be  
19 the property of the United States to be used in the oper-  
20 ation of the program authorized by this part, as provided  
21 in subsection (d) of this section.

22 “(f) TRANSITION.—

23 “(1) IN GENERAL.—In order to establish the  
24 Agency Operating Fund authorized by section 422B,  
25 each guaranty agency may transfer up to 180 days

## IV-B-4

1 cash expenses for normal operating expenses, as a  
2 working capital reserve as defined in Office of Man-  
3 agement and budget circular A-87 (Cost Accounting  
4 Standards) from the Federal Fund for deposit into  
5 the Agency Operating Fund for use in the perform-  
6 ance of its duties under this part. Such transfers  
7 may occur during the first three years following the  
8 establishment of the Operating Fund. However, no  
9 agency may transfer in excess of 50 percent of the  
10 Federal Fund balance to its Operating Fund during  
11 any fiscal year. In determining the transfer amount,  
12 the agency shall insure that sufficient funds remain  
13 in the Federal Fund to pay lender claims within the  
14 required time periods and to meet the reserve recall  
15 requirements of the Balanced Budget Act of 1997.

16 “(2) REPAYMENT PROVISIONS.—Each guaranty  
17 agency shall begin repayment of sums transferred  
18 pursuant to this subsection no later than the start  
19 of the fourth year after the establishment of the  
20 Agency Operating Fund, and shall repay all  
21 amounts transferred no later than 5 years from the  
22 date of the establishment of the Agency Operating  
23 Fund. Each guaranty agency shall provide to the  
24 Secretary, on an annual basis, a financial analysis  
25 demonstrating its ability to repay all outstanding

## IV-B-5

1 amounts while any transferred amounts are owned  
2 to the Federal Fund.

3 “(3) SPECIAL RULE.—In applying the minimum  
4 reserve level required by section 428(c)(9)(A), the  
5 Secretary shall include all amounts owed to the Fed-  
6 eral Fund by the agency due to transfers allowed  
7 under paragraph (1) in the calculation.”.

8 (b) AGENCY OPERATING FUND ESTABLISHED.—Part  
9 B of title IV is further amended by inserting after section  
10 422A (as added by subsection (a)) the following new sec-  
11 tion:

12 **“SEC. 422B. AGENCY OPERATING FUND.**

13 “(a) ESTABLISHMENT.—Each guaranty agency shall,  
14 not later than 60 days after the date of enactment of this  
15 section, establish a fund designated as the Agency Operat-  
16 ing Fund (hereinafter referred to as the ‘Operating  
17 Fund’).

18 “(b) INVESTMENT OF FUNDS.—Funds deposited into  
19 the Operating Fund shall be invested at the discretion of  
20 the guaranty agency.

21 “(c) ADDITIONAL DEPOSITS.—After the establish-  
22 ment of the Operating Fund, the guaranty agency shall  
23 deposit into the Operating Fund—

24 “(1) the loan processing and issuance fee paid  
25 by the Secretary pursuant to section 428(f);

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1           “(2) the portfolio maintenance fee paid by the  
2           Secretary pursuant to section 458;

3           “(3) the default prevention fee paid in accord-  
4           ance with section 428(l);

5           “(4) amounts retained by the guaranty agency  
6           pursuant to section 428(c)(6)(A)(ii) from collection  
7           on defaulted loans held by the agency, after payment  
8           of the Secretary’s equitable share, excluding  
9           amounts deposited in the Federal Fund pursuant to  
10          section 422A(c)(2); and

11          “(5) interest earned on the Federal Fund dur-  
12          ing the first 3 years after the date of enactment of  
13          this section, but only to the extent permitted by reg-  
14          ulations prescribed by the Secretary to permit a lim-  
15          ited number of guaranty agencies (not to exceed 10)  
16          essential resources to maintain sufficient operating  
17          funds and to restructure their operations in accord-  
18          ance with the requirements of this section and sec-  
19          tion 422B.

20          “(d) USES OF FUNDS.—

21          “(1) IN GENERAL.—Funds in the Operating  
22          Fund shall be used for activities related to student  
23          financial aid, including application processing, loan  
24          disbursement, enrollment and repayment status  
25          management, default prevention activities, default

## IV-B-7

1 collection activities, school and lender training, fi-  
2 nancial awareness and outreach activities, compli-  
3 ance monitoring, other loan program related activi-  
4 ties in support of postsecondary education and other  
5 student financial aid related activities as determined  
6 by the guaranty agency.

7 “(2) SPECIAL RULE.—The guaranty agency  
8 may, in its discretion, transfer funds from the Oper-  
9 ating Fund to the Federal Student Loan Reserve  
10 Fund for use in accordance with section 422A. Such  
11 transfer shall be irrevocable, and any funds so trans-  
12 ferred shall become the property of the United  
13 States.

14 “(3) DEFINITIONS.—For purposes of this sub-  
15 section:

16 “(A) The term ‘default collection activities’  
17 means activities of a guaranty agency which are  
18 directly related to the collection of the loan on  
19 which a default claim has been paid to the par-  
20 ticipating lender, including the due diligence ac-  
21 tivities required pursuant to regulations of the  
22 Secretary.

23 “(B) The term ‘default prevention activi-  
24 ties’ means activities of a guaranty agency  
25 which are directly related to providing collection

## IV-B-8

1 assistance to the lender on a delinquent loan,  
2 prior to the loan's being legally in a default sta-  
3 tus, including due diligence activities required  
4 pursuant to regulations of the Secretary.

5 “(C) The term ‘enrollment and repayment  
6 status management’ means activities of a guar-  
7 anty agency which are directly related to  
8 ascertaining the student’s enrollment status, in-  
9 cluding prompt notification to the lender of  
10 such status, an audit of the note or written  
11 agreement to determine if the provisions of that  
12 note or agreement are consistent with the  
13 records of the guaranty agency as to the prin-  
14 cipal amount of the loan guaranteed, and an ex-  
15 amination of the note or agreement to assure  
16 that the repayment provisions are consistent  
17 with the provisions of this part.

18 “(e) OWNERSHIP OF OPERATING FUND.—The Oper-  
19 ating Fund of the guaranty agency shall be considered to  
20 be the property of the guaranty agency. The Secretary  
21 may regulate the uses or expenditure of moneys in the  
22 Operating Fund with respect to activities required under  
23 guaranty agency agreements under subsections (b) and (c)  
24 of section 428 until such time as a guaranty agency has  
25 repaid to the Federal Fund all reserve funds transferred

## IV-B-9

1 under section 422A(f). During any period in which funds  
2 are owed to the Federal Fund as a result of a transfer  
3 under 422A(f), moneys in the Operating Fund may only  
4 be used for expenses related to the student loan programs  
5 authorized under this part. The Secretary may require  
6 such necessary reports and audits as provided in section  
7 428(b)(2).”.

8 (c) ADDITIONAL RECALL OF RESERVES.—Section  
9 422 (as amended by section 412) is further amended by  
10 adding at the end the following new subsection:

11 “(i) ADDITIONAL RECALL OF RESERVES.—

12 “(1) IN GENERAL.—Notwithstanding any other  
13 provision of law, the Secretary shall recall  
14 \$30,000,000 for each of the fiscal years 1999, 2000,  
15 2001, 2002, and 2003 from the reserve funds held  
16 by guaranty agencies.

17 “(2) DEPOSIT.—Funds recalled by the Sec-  
18 retary under this subsection shall be deposited in the  
19 Treasury.

20 “(3) REQUIRED SHARE.—The Secretary shall  
21 require each guaranty agency to return annually re-  
22 serve funds under paragraph (1) based on one-fifth  
23 of the agency’s required share. For purposes of this  
24 paragraph, a guaranty agency’s required share shall  
25 be determined as follows:

## IV-B-10

1           “(A) The Secretary shall impose on each  
2           guaranty agency an equal percentage reduction  
3           in the amount of the agency’s reserve funds  
4           held as of September 30, 1996.

5           “(B) The equal percentage reduction shall  
6           be the percentage obtained by dividing—

7                   “(i) \$150,000,000 by

8                   “(ii) the total amount of all such  
9                   agencies’ reserve funds held as of Septem-  
10                  ber 30, 1996.

11           “(4) OFFSET OF REQUIRED SHARES.—If any  
12           guaranty returns to the Secretary any reserves in  
13           excess of the amount required under this subsection  
14           or subsection (h), the total amount required to be  
15           returned under paragraph (1) shall be reduced by  
16           the amount of such additional reserve return.

17           “(5) DEFINITION OF RESERVE FUNDS.—The  
18           term ‘reserve funds’ when used with respect to a  
19           guaranty agency—

20                   “(A) includes any reserve funds in cash or  
21                   liquid assets held by the guaranty agency, or  
22                   held by, or under the control of, any other en-  
23                   tity; and

24                   “(B) does not include building, equipment,  
25                   or other nonliquid assets.”.

## IV-B-11

1 (d) CONFORMING AMENDMENTS.—

2 (1) REINSURANCE PAYMENTS.—

3 (A) AMENDMENTS.—Section 428(c)(1) (20  
4 U.S.C. 1078(c)(1)) is amended—

5 (i) in subparagraph (A), by striking  
6 “98 percent” and inserting “95 percent”;

7 (ii) in subparagraph (B)(i), by strik-  
8 ing “88 percent” and inserting “85 per-  
9 cent”; and

10 (iii) in subparagraph (B)(ii), by strik-  
11 ing “78 percent” and inserting “75 per-  
12 cent”;

13 (iv) in subparagraph (E)—

14 (I) by striking “for ‘98 percent’;”  
15 and inserting “for 95 percent’;”;

16 (II) by striking “for ‘88 per-  
17 cent’;” and inserting “for 85 per-  
18 cent’;”; and

19 (III) by striking “for ‘78 per-  
20 cent’;” and inserting “for 75 per-  
21 cent’;”;

22 (v) in subparagraph (F)—

23 (I) by striking “for ‘98 percent’;”  
24 and inserting “for 95 percent’;”;

## IV-B-12

1 (II) by striking “for ‘88 per-  
2 cent’;” and inserting “for 85 per-  
3 cent’;”; and

4 (III) by striking “for ‘78 per-  
5 cent’;” and inserting “for 75 per-  
6 cent’;”;

7 (vi) by striking subparagraph (D) and  
8 redesignating subparagraphs (E) and (F)  
9 as subparagraph (D) and (E), respectively.

10 (B) EFFECTIVE DATE.—The amendments  
11 made by subparagraph (A) of this paragraph  
12 apply to loans for which the first disbursement  
13 is made on or after October 1, 1998.

14 (2) EQUITABLE SHARE.—Section 428(c)(6) is  
15 amended—

16 (A) in subparagraph (A)—

17 (i) by striking “(A) For the purpose”  
18 and inserting “For the purpose”;

19 (ii) by striking clause (ii) and insert-  
20 ing the following:

21 “(ii) an amount equal to 24 percent of  
22 such payments for use in accordance with sec-  
23 tion 422B.”; and

24 (B) by striking subparagraphs (B) and  
25 (C).

## IV-B-13

1           (3) GUARANTY AGENCY RESERVE LEVEL.—Sec-  
2           tion 428(c)(9)(C) is amended—

3                   (A) by striking “80 percent pursuant to  
4                   section 428(c)(1)(B)(ii)” and inserting “85 per-  
5                   cent pursuant to paragraph (1)(B)(i) of this  
6                   subsection”; and

7                   (B) by striking “30 working days” and in-  
8                   serting “45 working days”.

9           (4) PAYMENT OF CERTAIN COSTS.—Section  
10           428(f) is amended—

11                   (A) by striking paragraph (1)(A) and in-  
12                   serting the following:

13                   “(1) PAYMENT FOR CERTAIN ACTIVITIES.—(A)  
14                   The Secretary shall, in accordance with the provi-  
15                   sions of this paragraph, pay to each guaranty agen-  
16                   cy for each fiscal year a loan processing and issu-  
17                   ance fee equal to 0.65 percent of the total principal  
18                   amount of the loans on which insurance was issued  
19                   under this part during such fiscal year by such  
20                   agency.”; and

21                   (B) in subparagraph (B), by striking the  
22                   first sentence and inserting the following: “The  
23                   payment required by subparagraph (A) shall be  
24                   paid on a quarterly basis.”.

## IV-B-14

1           (5) DEFAULT AVERSION ASSISTANCE.—Section  
2           428(l) is amended to read as follows:

3           “(1) DEFAULT AVERSION ASSISTANCE.—

4           “(1) ASSISTANCE REQUIRED.—Upon receipt of  
5           a proper request from a lender received not earlier  
6           than the 60th day of delinquency, a guaranty agency  
7           having an agreement with the Secretary under sub-  
8           section (c) of this section shall engage in default  
9           aversion activities designed to prevent the default by  
10          a borrower on a loan covered by such agreement.

11          “(2) REIMBURSEMENT.—(A) A guaranty agen-  
12          cy may, in accordance with the provisions of this  
13          paragraph, transfer from the Federal Student Loan  
14          Reserve Account to the Operating Account a default  
15          aversion fee. Such fee shall be paid for any loan on  
16          which a claim for default has not been presented  
17          that the guaranty agency successfully brings into  
18          current repayment status on or before the 210th day  
19          after the loan becomes 60 days delinquent.

20          “(B) The default aversion fee shall be equal to  
21          1 percent of the total unpaid principal and accrued  
22          interest on the loan at the time the request is sub-  
23          mitted by the lender. Such fee shall not be paid  
24          more than once on any loan for which the guaranty  
25          agency averts the default unless the borrower re-

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1       mained current in payments for at least 12 months  
2       prior to the subsequent delinquency. A guaranty  
3       agency may transfer such fees earned under this  
4       subsection no more frequently than monthly.

5               “(C) For the purpose of earning the default  
6       aversion fee, the term ‘current repayment status’  
7       means that the borrower is not delinquent in the  
8       payment of any principal or interest on the loan.”.

9       **SEC. 414. SCOPE AND DURATION OF PROGRAM.**

10       Section 424(a) (20 U.S.C. 1074(a)) is amended—

11               (1) by striking “October 1, 1998” and inserting  
12       “October 1, 2004”; and

13               (2) by striking “September 30, 2002” and in-  
14       serting “September 30, 2008”.

15       **SEC. 415. LIMITATIONS ON INDIVIDUAL FEDERALLY IN-**  
16               **SURED LOANS AND FEDERAL LOAN INSUR-**  
17               **ANCE.**

18       Section 425(a)(1)(A) (20 U.S.C. 1075(a)(1)(A)) is  
19       amended—

20               (1) in clause (i)—

21                       (A) by inserting “and” after the semicolon  
22       at the end of subclause (I); and

23                       (B) by striking subclauses (II) and (III)  
24       and inserting the following:

## IV-B-16

1                   “(II) if such student is enrolled in a  
2                   program of undergraduate education which  
3                   is less than one academic year, the maxi-  
4                   mum annual loan amount that such stu-  
5                   dent may receive may not exceed the  
6                   amount that bears the same ratio to the  
7                   amount specified in subclause (I) as the  
8                   length of such program measured in se-  
9                   mester, trimester, quarter, or clock hours  
10                  bears to one academic year;” and

11                  (2) by inserting “and” after the semicolon at  
12                  the end of clause (iii).

**13 SEC. 416. APPLICABLE INTEREST RATES.**

14                  (a) APPLICABLE INTEREST RATES.—

15                  (1) AMENDMENT.—Section 427A is amended to  
16                  read as follows:

**17 “SEC. 427A. APPLICABLE INTEREST RATES.**

18                  “(a) INTEREST RATES FOR NEW LOANS ON OR  
19                  AFTER JULY 1, 1998.—

20                  “(1) IN GENERAL.—Subject to paragraph (2),  
21                  with respect to any loan made, insured, or guaran-  
22                  teed under this part (other than a loan made pursu-  
23                  ant to section 428B or 428C) for which the first dis-  
24                  bursement is made on or after July 1, 1998, the ap-  
25                  plicable rate of interest shall, during any 12-month

## IV-B-17

1 period beginning on July 1 and ending on June 30,  
2 be determined on the preceding June 1 and be equal  
3 to—

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

7 “(B) 2.3 percent,  
8 except that such rate shall not exceed 8.25 percent.

9 “(2) IN SCHOOL AND GRACE PERIOD RULES.—  
10 With respect to any loan under this part (other than  
11 a loan made pursuant to section 428B or 428C) for  
12 which the first disbursement is made on or after  
13 July 1, 1998, the applicable rate of interest for in-  
14 terest which accrues—

15 “(A) prior to the beginning of the repay-  
16 ment period of the loan; or

17 “(B) during the period in which principal  
18 need not be paid (whether or not such principal  
19 is in fact paid) by reason of a provision de-  
20 scribed in section 428(b)(1)(M) or  
21 427(a)(2)(C),

22 shall be determined under paragraph (1) by sub-  
23 stituting ‘1.7 percent’ for ‘2.3 percent’.

24 “(3) PLUS LOANS.—With respect to any loan  
25 under section 428B for which the first disbursement

## IV-B-18

1 is made on or after July 1, 1998, the applicable rate  
2 of interest shall be determined under paragraph  
3 (1)—

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

6 “(B) by substituting ‘9.0 percent’ for ‘8.25  
7 percent’.

8 “(4) CONSOLIDATION LOANS.—With respect to  
9 any loan made under section 428C for which the  
10 first disbursement is made on or after July 1, 1998,  
11 the applicable rate of interest shall be determined  
12 under paragraph (1) by substituting ‘3.1 percent’  
13 for ‘2.3 percent’.

14 “(b) LESSER RATES PERMITTED.—Nothing in this  
15 section or section 428C shall be construed to prohibit a  
16 lender from charging a borrower interest at a rate less  
17 than the rate which is applicable under this part.

18 “(c) CONSULTATION.—The Secretary shall determine  
19 the applicable rate of interest under this section after con-  
20 sultation with the Secretary of the Treasury and shall  
21 publish such rate in the Federal Register as soon as prac-  
22 ticable after the date of determination.”.

23 (2) CONFORMING AMENDMENTS.—

24 (A) PLUS LOANS.—Section 428B(d)(4)  
25 (20 U.S.C. 1078-2(d)(4)) is amended by strik-

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1 ing “section 427A(c)” and inserting “section  
2 427A(a)(3)”.

3 (B) CONSOLIDATION LOANS.—Section  
4 428C(e) (20 U.S.C. 1078-3) is amended by  
5 striking paragraph (1) and inserting the follow-  
6 ing:

7 “(1) INTEREST RATE.—With respect to any  
8 loan made under this section for which the first dis-  
9 bursement is made on or after July 1, 1998, the ap-  
10 plicable interest rate shall be determined under sec-  
11 tion 427A(a)(4).”.

12 (b) SPECIAL ALLOWANCES.—

13 (1) AMENDMENT.—Section 438(b)(2)(F) (20  
14 U.S.C. 1087-1(b)(2)(F)) is amended to read as fol-  
15 lows:

16 “(F) LOANS DISBURSED AFTER JULY 1,  
17 1998.—

18 “(i) IN GENERAL.—Subject to paragraph  
19 (4) and clauses (ii), (iii), and (iv) of this sub-  
20 paragraph, the special allowance paid pursuant  
21 to this subsection on loans for which the first  
22 disbursement is made on or after July 1, 1998,  
23 shall be computed—

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1                   “(I) by determining the average of the  
2                   bond equivalent rates of 91-day Treasury  
3                   bills auctioned for such 3-month period;

4                   “(II) by subtracting the applicable in-  
5                   terest rates on such loans from such aver-  
6                   age bond equivalent rate;

7                   “(III) by adding 2.8 percent to the re-  
8                   sultant percent; and

9                   “(IV) by dividing the resultant per-  
10                  cent by 4.

11                  “(ii) IN SCHOOL AND GRACE PERIOD.—In  
12                  the case of any loan for which the first dis-  
13                  bursement is made on or after July 1, 1998,  
14                  and for which the applicable rate of interest is  
15                  described in section 427A(a)(2), clause (i)(III)  
16                  of this subparagraph shall be applied by sub-  
17                  stituting ‘2.2 percent’ for ‘2.8 percent’.

18                  “(iii) PLUS LOANS.—In the case of any  
19                  loan for which the first disbursement is made  
20                  on or after July 1, 1998, and for which the ap-  
21                  plicable rate of interest is described in section  
22                  427A(a)(3), clause (i)(III) of this subparagraph  
23                  shall be applied by substituting ‘3.1 percent’ for  
24                  ‘2.8 percent’, subject to clause (v) of this sub-  
25                  paragraph.”.

## IV-B-21

1           “(iv) CONSOLIDATION LOANS.—In the case  
2           of any loan for which the first disbursement is  
3           made on or after July 1, 1998, and for which  
4           the applicable rate of interest is described in  
5           section 427A(a)(4), clause (i)(III) of this sub-  
6           paragraph shall be applied by substituting ‘3.1  
7           percent’ for ‘2.8 percent’, subject to clause (v)  
8           of this subparagraph.

9           “(v) LIMITATION ON SPECIAL ALLOW-  
10          ANCES FOR PLUS AND CONSOLIDATION  
11          LOANS.—In the case of loans disbursed on or  
12          after July 1, 1998, for which the interest rate  
13          is determined under 427A(a)(3) or 427A(a)(4),  
14          a special allowance shall not be paid—

15                 “(I) for a loan made under section  
16                 428B unless the rate determined for any  
17                 12-month period under section 427A(a)(3)  
18                 exceeds 9 percent; and

19                 “(II) for a loan made under section  
20                 428C unless the rate determined for any  
21                 12-month period under section 427A(a)(4)  
22                 exceeds 8.25 percent.”.

23          (2) CONFORMING AMENDMENT.—Section  
24          438(b)(2)(C)(ii) is amended by striking “In the

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1 case” and inserting “Subject to subparagraph (F),  
2 in the case”.

3 (d) EFFECTIVE DATE.—The amendments made by  
4 this section shall apply with respect to any loan made, in-  
5 sured, or guaranteed under part B of title IV of the High-  
6 er Education Act of 1965 for which the first disbursement  
7 is made on or after July 1, 1998.

8 **SEC. 417. FEDERALLY GUARANTEED STUDENT LOANS.**

9 (a) REQUIREMENTS FOR FEDERAL INTEREST SUB-  
10 SIDIES.—Section 428(a)(2) (20 U.S.C. 1078(a)(2)) is  
11 amended by striking everything preceding subparagraph  
12 (D) and inserting the following:

13 “(2) ADDITIONAL REQUIREMENTS TO RECEIVE  
14 SUBSIDY.—(A) Each student qualifying for a portion  
15 of an interest payment under paragraph (1) shall  
16 provide to the lender a statement from the eligible  
17 institution, at which the student has been accepted  
18 for enrollment, or at which the student is in attend-  
19 ance, which certifies the eligibility of the student to  
20 receive a loan under this part and the amount of the  
21 loan for which such student is eligible.

22 “(B) A student shall qualify for a portion of an  
23 interest payment under paragraph (1) if the eligible  
24 institution has provided the lender with a statement  
25 that—

## IV-B-23

1           “(i) at the lender’s request, sets forth such  
2           student’s estimated cost of attendance (as de-  
3           termined under section 472);

4           “(ii) sets forth such student’s estimated fi-  
5           nancial assistance; and

6           “(iii) sets forth a schedule for disburse-  
7           ment of the proceeds of the loan in install-  
8           ments, consistent with the requirements of sec-  
9           tion 428G.

10          “(C) For the purpose of clause (ii) of subpara-  
11          graph (B), a student shall qualify for a portion of  
12          an interest payment under paragraph (1) if the eligi-  
13          ble institution has provided the lender with a state-  
14          ment evidencing a determination of need for a loan  
15          (as determined under part F of this title) and the  
16          amount of such need, subject to the provisions of  
17          subparagraph (D).”.

18          (b) DURATION OF AUTHORITY.—Section 428(a)(5) is  
19          amended—

20                 (1) by striking “September 30, 2002” and in-  
21                 serting “September 30, 2004”; and

22                 (2) by striking “September 30, 2006” and in-  
23                 serting “September 30, 2008”.

24          (c) ANNUAL LOAN LIMITS.—Section 428(b)(1)(A) is  
25          amended—

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1 (1) in clause (i)—

2 (A) by inserting “and” after the semicolon  
3 at the end of subclause (I); and

4 (B) by striking subclauses (II) and (III)  
5 and inserting the following:

6 “(II) if such student is enrolled in a  
7 program of undergraduate education which  
8 is less than one academic year, the maxi-  
9 mum annual loan amount that such stu-  
10 dent may receive may not exceed the  
11 amount that bears the same ratio to the  
12 amount specified in subclause (I) as the  
13 length of such program measured in se-  
14 mester, trimester, quarter, or clock hours  
15 bears to one academic year;” and

16 (2) by inserting “and” after the semicolon at  
17 the end of clause (iii).

18 (d) SELECTION OF REPAYMENT PLANS.—Section  
19 428(b)(1)(D) is amended by striking “and (iii)” and in-  
20 serting the following: “(iii) the student borrower may an-  
21 nually change the selection of a repayment plan under this  
22 part, and (iv)”.

23 (e) COINSURANCE.—Section 428(b)(1)(G) is amend-  
24 ed by striking “not less than”.

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1 (f) DEFERMENTS.—Section 428(b)(1)(M) is amend-  
2 ed—

3 (1) in clause (i)(I), by inserting before the semi-  
4 colon the following: “, except that no borrower, not-  
5 withstanding the provisions of the promissory note,  
6 shall be required to borrow an additional loan under  
7 this title in order to be eligible to receive a  
8 deferment under this clause”; and

9 (2) in clause (ii), by inserting before the semi-  
10 colon the following: “, except that no borrower who  
11 qualifies for unemployment benefits shall be required  
12 to provide any additional paperwork for a deferment  
13 under this clause”.

14 (g) LIMITATION, SUSPENSION, AND TERMINATION.—  
15 Section 428(b)(1)(U) is amended—

16 (1) by striking “emergency action,,” each place  
17 it appears and inserting “emergency action,”; and

18 (2) by striking “a compliance audit of each  
19 lender” and inserting the following: “in the case of  
20 any lender that originates or holds more than  
21 \$5,000,000 in loans made under this title during an  
22 annual audit period, a compliance audit of such  
23 lender”.

24 (h) ADDITIONAL INSURANCE PROGRAM REQUIRE-  
25 MENTS.—Section 428(b)(1) is further amended—

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1           (1) by striking “and” at the end of subpara-  
2 graph (W);

3           (2) in subparagraph (X), by striking  
4 “428(e)(10)” and inserting “428(e)(9)”; and

5           (3) by adding at the end the following new sub-  
6 paragraph:

7           “(Y) provides that the lender shall deter-  
8 mine the eligibility of a borrower for a  
9 deferment described in subparagraph (M)(i)  
10 based on receipt of (i) a request for deferment  
11 from the borrower, (ii) a newly completed loan  
12 application that documents the borrower’s eligi-  
13 bility for a deferment, or (iii) student status in-  
14 formation received by the lender that the bor-  
15 rower is enrolled on at least a half-time basis.”.

16       (i) RESTRICTIONS ON INDUCEMENTS.—Section  
17 428(b)(3) is amended—

18           (1) by striking subparagraph (C) and inserting  
19 the following:

20           “(C) conduct unsolicited mailings of stu-  
21 dent loan application forms to students enrolled  
22 in secondary school or a postsecondary institu-  
23 tion, or to parents of such students, except that  
24 applications may be mailed to students who

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1           have previously received loans guaranteed under  
2           this part by the guaranty agency; or”; and

3           (2) by adding at the end the following new sen-  
4           tence:

5           “‘It shall not be a violation of this paragraph for a  
6           guaranty agency to provide assistance to institutions  
7           of higher education comparable to the kinds of as-  
8           sistance provided to institutions of higher education  
9           by the Department of Education.’”.

10          (j) GUARANTY AGENCY INFORMATION TO ELIGIBLE  
11 INSTITUTIONS.—Section 428(c)(2)(H)(ii) is amended to  
12 read as follows:

13                           “(ii) the guaranty agency shall not re-  
14                           quire the payment from the institution of  
15                           any fee for such information; and”.

16          (k) FORBEARANCE.—Section 428(c)(3) is amended—

17           (1) in subparagraph (A)(i), by striking “writ-  
18           ten”;

19           (2) in subparagraph (B), by inserting “, includ-  
20           ing forbearance granted after consideration of a bor-  
21           rower’s total debt burden,”; and

22           (3) in the last sentence—

23                           (A) by striking “and (ii)” and inserting  
24                           “(ii)”; and

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1 (B) by inserting before the period at the  
2 end the following: “, and (iii) forbearance for  
3 periods not to exceed 60 days if the lender rea-  
4 sonably determines that such suspensions are  
5 necessary to research or process information  
6 relative to such loan or to collect appropriate  
7 documentation relating to the borrower’s re-  
8 quest for a deferment or forbearance”.

9 (l) ASSIGNMENT.—Section 428(c)(8) is amended—

10 (1) by striking “(A)”; and

11 (2) by striking subparagraph (B).

12 (m) AGENCY TERMINATION.—Section 428(c)(9) is  
13 amended—

14 (1) in subparagraph (E)—

15 (A) by inserting “or” at the end of clause  
16 (iv);

17 (B) by striking “; or” at the end of clause  
18 (v) and inserting a period; and

19 (C) by striking clause (vi);

20 (2) in subparagraph (F)(vii), by striking “to  
21 avoid disruption” and everything that follows and in-  
22 serting “and to avoid disruption of the student loan  
23 program.”;

24 (3) in subparagraph (I), by inserting “on the  
25 record” after “for a hearing”; and

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1 (4) in subparagraph (K)—

2 (A) by striking “Labor” and inserting “the  
3 Workforce”; and

4 (B) by striking everything after “guaranty  
5 agency system” and inserting a period.

6 (n) LENDER REFERRAL.—Section 428(e) is amend-  
7 ed—

8 (1) in paragraph (1)(B)(ii), by striking “during  
9 the transition” and everything that follows through  
10 “part D of this title”; and

11 (2) in paragraph (3), by striking “for costs of  
12 transition”.

13 (o) ACTION ON AGREEMENTS.—Section 428(g)(2) is  
14 amended by striking “Labor” and inserting “the  
15 Workforce”.

16 (p) LENDERS-OF-LAST RESORT.—Section 428(j) is  
17 amended by striking paragraph (3).

18 (q) INCOME CONTINGENT REPAYMENT.—Section  
19 428(m) is amended by striking “shall require at least 10  
20 percent of the borrowers” and inserting “may require bor-  
21 rowers”.

22 (r) STATE SHARE OF DEFAULT COSTS.—Subsection  
23 (n) of section 428 is repealed.

## IV-B-30

1 (s) BLANKET CERTIFICATE OF GUARANTY.—Section  
2 428 of the Act is amended by adding at the end the follow-  
3 ing new subsection:

4 “(n) BLANKET CERTIFICATE OF LOAN GUARANTY.—

5 “(1) IN GENERAL.—Any guaranty agency that  
6 has or enters into any insurance program agreement  
7 with the Secretary under this part may—

8 “(A) offer eligible lenders participating in  
9 the agency’s guaranty program blanket certifi-  
10 cates of loan guaranty that permit the lender to  
11 make loans without receiving prior approval  
12 from the guaranty agency of individual loans  
13 for eligible borrowers enrolled in eligible pro-  
14 grams at eligible institutions; and

15 “(B) provide eligible lenders with the abil-  
16 ity to transmit electronically data to the agency  
17 concerning loans the lender has elected to make  
18 under the agency’s insurance program via  
19 standard reporting formats, such reporting to  
20 occur at reasonable, mutually acceptable inter-  
21 vals.

22 “(2) LIMITATIONS ON BLANKET CERTIFICATE  
23 OF GUARANTY.—A guaranty agency and eligible  
24 lender may establish by mutual agreement limita-  
25 tions or restrictions on the number or volume of

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1 loans issued by a lender under the blanket certificate  
2 of guaranty.”.

3 **SEC. 418. VOLUNTARY AGREEMENTS WITH GUARANTY**  
4 **AGENCIES.**

5 Part B is amended by inserting after section 428 (20  
6 U.S.C. 1078) the following new section:

7 **“SEC. 428A. VOLUNTARY FLEXIBLE AGREEMENTS WITH**  
8 **GUARANTY AGENCIES.**

9 “(a) VOLUNTARY AGREEMENTS.—

10 “(1) AUTHORITY.—Notwithstanding any other  
11 provision of law, the Secretary may enter into a vol-  
12 untary, flexible agreement with not more than 6  
13 guaranty agencies under this section, in lieu of  
14 agreements with a guaranty agency under sections  
15 428(b) and (c), under which the Secretary may  
16 waive or modify any requirement under this title ap-  
17 plicable to the responsibilities of the Secretary and  
18 a guaranty agency.

19 “(2) ELIGIBILITY.—Any guaranty agency that  
20 had one or more agreements with the Secretary  
21 under section 428(b) and (c) as of the day before  
22 the date of enactment of this section may enter into  
23 an agreement with the Secretary under this sub-  
24 section.

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1           “(b) TERMS OF AGREEMENT.—An agreement be-  
2 tween the Secretary and a guaranty agency under this sec-  
3 tion—

4           “(1) shall be developed by the Secretary, in con-  
5 sultation with the guaranty agency;

6           “(2) shall be for a period not to exceed five  
7 years, and may be renewed upon the agreement of  
8 the parties;

9           “(3) may include provisions—

10           “(A) specifying the responsibilities of the  
11 guaranty agency under the agreement, such  
12 as—

13           “(i) administering the issuance of in-  
14 surance on loans made under this part on  
15 behalf of the Secretary;

16           “(ii) monitoring insurance commit-  
17 ments made under this part;

18           “(iii) default prevention activities;

19           “(iv) review of default claims made by  
20 lenders;

21           “(v) payment of default claims;

22           “(vi) collection of defaulted loans;

23           “(vii) adoption of internal systems of  
24 accounting and auditing that are accept-  
25 able to the Secretary, and reporting the re-

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1                   sult thereof to the Secretary on a timely,  
2                   accurate, and auditable basis;

3                   “(viii) timely and accurate collection  
4                   and reporting of such other data as the  
5                   Secretary may require to carry out the  
6                   purposes of the programs under this title;

7                   “(ix) monitoring of institutions and  
8                   lenders participating in the program under  
9                   this part; and

10                  “(x) the performance of other pro-  
11                  gram functions by the guaranty agency.

12                  “(B) regarding the fees the Secretary shall  
13                  pay, in lieu of revenues that the guaranty agen-  
14                  cy may otherwise receive under this part, to the  
15                  guaranty agency under the agreement, and  
16                  other funds that the guaranty agency may re-  
17                  ceive or retain under the agreement, except that  
18                  in no case may the cost to the Secretary of the  
19                  agreement, as reasonably projected by the Sec-  
20                  retary, exceed the cost to the Secretary, as  
21                  similarly projected, in the absence of the agree-  
22                  ment;

23                  “(C) regarding the use of net revenues, as  
24                  described in the agreement under this section,  
25                  for such other activities in support of post-

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1 secondary education as may be agreed to by the  
2 Secretary and the guaranty agency;

3 “(D) regarding the standards by which the  
4 guaranty agency’s performance of its respon-  
5 sibilities under the agreement will be assessed,  
6 and the consequences for a guaranty agency’s  
7 failure to achieve a specified level of perform-  
8 ance on 1 or more performance standards;

9 “(E) regarding the circumstances in which  
10 a guaranty agency’s agreement under this sec-  
11 tion may be ended in advance of its expiration  
12 date;

13 “(F) regarding such other businesses, pre-  
14 viously purchased or developed with reserve  
15 funds, that relate to the program under this  
16 part and in which the Secretary permits the  
17 guaranty agency to engage; and

18 “(G) such other provisions as the Sec-  
19 retary may determine to be necessary to protect  
20 the United States from the risk of unreasonable  
21 loss and to promote the purposes of this part;  
22 and

23 “(4) shall provide for uniform lender participa-  
24 tion with the guaranty agency under the terms of  
25 the agreement.

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1           “(c) TERMINATION.—At the expiration or early ter-  
2 mination of an agreement under this section, the Sec-  
3 retary shall reinstate the guaranty agency’s prior agree-  
4 ments under sections 428(b) and (c), subject only to such  
5 additional requirements as the Secretary determines to be  
6 necessary in order to ensure the efficient transfer of re-  
7 sponsibilities between the agreement under this section  
8 and the agreements under sections 428(b) and (c), includ-  
9 ing the guaranty agency’s compliance with reserve require-  
10 ments under sections 422 and 428.”.

11 **SEC. 419. FEDERAL CONSOLIDATION LOANS.**

12           (a) AGREEMENTS WITH LENDERS.—Section 428C(a)  
13 (20 U.S.C. 1078-3(a) is amended—

14                 (1) by striking subclause (II) of paragraph  
15                 (3)(B)(i) and inserting the following:

16                         “(II) that loans received during the 180-  
17                         day period following the making of the consoli-  
18                         dation loan may be added to the consolidation  
19                         loan.”; and

20                 (2) by striking subparagraph (C) of paragraph  
21                 (4) and inserting the following:

22                         “(C) made under part D of this title;”.

23           (b) CONTENTS OF AGREEMENTS.—Section 428C(b)  
24 is amended—

25                 (1) in paragraph (4)(C)(ii)—

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1 (A) by redesignating subclause (II) as sub-  
2 clause (III); and

3 (B) by inserting after subclause (I) the fol-  
4 lowing new clause:

5 “(II) by the Secretary, in the  
6 case of a consolidation loan for which  
7 the application is received by an eligi-  
8 ble lender on or after October 1,  
9 1998, except that the Secretary shall  
10 pay such interest only on that portion  
11 of the loan that repays Federal Staf-  
12 ford Loans for which the student bor-  
13 rower received an interest subsidy  
14 under section 428 or Federal Direct  
15 Stafford Loans for which the bor-  
16 rower received an interest subsidy  
17 under section 455; or”;

18 (2) in paragraph (6)(A) by inserting before the  
19 semicolon at the end of subparagraph (A) the follow-  
20 ing: “except that (i) a lender is not required to con-  
21 solidate loans described in subparagraph (D) or (E)  
22 of subsection (a)(4); and (ii) a lender is not prohib-  
23 ited from establishing a minimum loan balance for  
24 which it will process a consolidation loan applica-  
25 tion”.

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1 (c) EXTENSION OF AUTHORITY.—Section 428C(e) is  
2 amended by striking “September 30, 2002” and inserting  
3 “September 30, 2004”.

4 **SEC. 420. DISBURSEMENT.**

5 (a) REQUIREMENTS.—Section 428G(a)(1) (20  
6 U.S.C. 1078-7(a)(1)) is amended by inserting “greater  
7 than one semester, one trimester, one quarter, or four  
8 months” after “period of enrollment”.

9 (b) DISBURSEMENT.—Section 428G(b)(1) is amend-  
10 ed by adding at the end the following new sentence: “An  
11 institution whose cohort default rate (as determined under  
12 section 435(a)) for each of the three most recent fiscal  
13 years for which data are available is less than 10 percent  
14 shall be exempt from the requirements of this para-  
15 graph.”.

16 (c) WITHHOLDING OF SECOND DISBURSEMENT.—  
17 Section 428G(d)(2) is amended by inserting “by more  
18 than \$300” after “under this title”.

19 **SEC. 421. UNSUBSIDIZED STAFFORD LOANS.**

20 (a) ELIGIBLE BORROWERS.—Section 428H(b) (20  
21 U.S.C. 1078-8(b)) is amended—

22 (1) by striking “Any student meeting” and in-  
23 serting the following:

24 “(1) CERTIFICATION.—Any student meeting”;

25 and

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1           (2) by striking “which—” and everything that  
2 follows and inserting the following:

3           “which certifies the eligibility of the student to re-  
4 ceive a loan under this part and the amount of the  
5 loan for which such student is eligible. A student  
6 shall qualify for a loan if the eligible institution has  
7 provided the lender with a statement that—

8           “(A) at the lender’s request, sets forth such  
9 student’s estimated cost of attendance (as deter-  
10 mined under section 472);

11           “(B) sets forth such student’s estimated finan-  
12 cial assistance, including a loan which qualifies for  
13 subsidy payments under section 428; and

14           “(C) sets forth a schedule for disbursement of  
15 the proceeds of the loan in installments, consistent  
16 with the requirements of section 428G.”.

17           (b) LOAN LIMITS.—Section 428H(d)(2)(A) is amend-  
18 ed

19           (1) by inserting “and” after the semicolon at  
20 the end of clause (i); and

21           (2) by striking clauses (ii) and (iii) and insert-  
22 ing the following:

23                           “(ii) if such student is enrolled in a  
24                           program of undergraduate education which  
25                           is less than one academic year, the maxi-

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1                   mum annual loan amount that such stu-  
2                   dent may receive may not exceed the  
3                   amount that bears the same ratio to the  
4                   amount specified in clause (i) as the length  
5                   of such program measured in semester, tri-  
6                   mester, quarter, or clock hours bears to  
7                   one academic year;”.

8           (c) **QUALIFICATION.**—Section 428H(e) is amended  
9 by adding at the end the following new paragraph:

10                   “(7) **QUALIFICATION FOR FORBEARANCE,**  
11           **DEFERMENT, AND INCOME-SENSITIVE REPAY-**  
12           **MENT.**—A borrower of a loan made under this sec-  
13           tion may qualify for a forbearance or deferment, or  
14           an income-sensitive repayment plan for which the  
15           borrower is eligible, immediately upon receipt by the  
16           lender or holder of a request from the borrower. Any  
17           necessary supporting documentation shall be secured  
18           by the lender or holder within 30 days of the request  
19           in order to continue the forbearance, deferment, or  
20           income-sensitive repayment plan.

21           (d) **REPEAL.**—Section 428H(f) is repealed.

22 **SEC. 422. REPEAL OF LOAN FORGIVENESS.**

23           Section 428J (20 U.S.C. 1078-10) is repealed.

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1 **SEC. 423. LEGAL POWERS AND RESPONSIBILITIES.**

2 (a) AUDIT OF FINANCIAL TRANSACTIONS.—Section  
3 432(f) (20 U.S.C. 1082(f)) is amended—

4 (1) in subparagraph (B), by striking “section  
5 435(d)(1) (D), (F), or (H);” and inserting “section  
6 435(d)(1); and”;

7 (2) in subparagraph (C)—

8 (A) by striking “Labor” and inserting “the  
9 Workforce”; and

10 (B) by striking “; and” and inserting a pe-  
11 riod; and

12 (3) by striking subparagraph (D).

13 (b) PROGRAM OF ASSISTANCE.—Section 432(k)(3) is  
14 amended by striking “Within 1 year” and everything that  
15 follows through “1992, the” and inserting “The”.

16 (c) COMMON FORMS AND FORMATS.—Section  
17 432(m) is amended—

18 (1) in paragraph (1)(A), by striking “The Sec-  
19 retary” and inserting “Subject to paragraph (2), the  
20 Secretary”;

21 (2) by striking subparagraph (C) of paragraph  
22 (1);

23 (3) in subparagraph (D), by striking “Nothing”  
24 and inserting “Subject to paragraph (2), nothing”;

25 (4) by redesignating subparagraph (D) of such  
26 paragraph as subparagraph (C);

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1           (5) by redesignating paragraphs (2) and (3) as  
2 paragraphs (3) and (4), respectively;

3           (6) by inserting after paragraph (1) the follow-  
4 ing new paragraph:

5           “(2) FREE APPLICATION FOR FEDERAL STU-  
6 DENT AID.—For academic year 1999–2000 and  
7 thereafter, the Secretary shall prescribe the Free  
8 Application for Federal Student Aid as the applica-  
9 tion form under this part (other than sections 428B  
10 and 428C).”;

11          (7) by adding at the end the following new  
12 paragraph:

13          “(5) MASTER PROMISSORY NOTE.—

14           “(A) DEVELOPMENT AND APPROVAL.—  
15           Within 180 days of enactment of this Act, the  
16           Secretary, in cooperation with representatives of  
17           guaranty agencies, eligible lenders, institutions,  
18           students, and organizations involved in student  
19           financial assistance, shall develop and approve a  
20           master promissory note that will allow for a  
21           multiyear line of credit. Such note shall address  
22           the needs of participants in the programs under  
23           this part. The Secretary shall also develop and  
24           approve a corresponding master promissory  
25           note for use under part D of this title that ad-

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1 dresses the needs of participants in the pro-  
2 grams under such part.

3 “(B) SALE AND ASSIGNMENT; ENFORCE-  
4 MENT.—Notwithstanding the preceding provi-  
5 sions of this section, each loan made under a  
6 master promissory note providing for a line of  
7 credit may be sold and assigned independently  
8 of any other loan made under the same promis-  
9 sory note, and each such loan shall be sepa-  
10 rately enforceable in all State and Federal  
11 courts on the basis of an original or copy of the  
12 master promissory note with its terms.”.

13 (d) DEFAULT REDUCTION MANAGEMENT.—Section  
14 432(n) is amended—

15 (1) in paragraph (1), by striking “1993” and  
16 inserting “1999”; and

17 (2) in paragraph (3), by striking “Labor” and  
18 inserting “the Workforce”.

19 (e) REPORTING REQUIREMENT.—Section 432(p) is  
20 amended by striking “State postsecondary reviewing enti-  
21 ties designated under subpart 1 of part H,”.

22 **SEC. 424. STUDENT LOAN INFORMATION.**

23 33 (20 U.S.C. 1083) is amended—

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1 (1) in the first sentence of subsection (a), by in-  
2 sserting “in simple and understandable terms” after  
3 “to the borrower”; and

4 (2) in the first sentence of subsection (b), by in-  
5 sserting “in simple and understandable terms” after  
6 “under this subsection”.

7 **SEC. 425. DEFINITIONS.**

8 (a) COHORT DEFAULT RATE.—Section 435(a) (20  
9 U.S.C. 1085(a)) is amended—

10 (1) in subparagraph (A) of paragraph (2)—

11 (A) by striking “or” at the end of clause  
12 (i); and

13 (B) by striking clause (ii) and inserting the  
14 following:

15 “(ii) there are exceptional mitigating cir-  
16 cumstances within the meaning of paragraph  
17 (4); or

18 “(iii) there are, in the judgment of the  
19 Secretary, other exceptional mitigating cir-  
20 cumstances that would make the application of  
21 this paragraph inequitable.”.

22 (2) in subparagraph (C) of paragraph (2), by  
23 striking “July 1, 1998,” and inserting “July 1,  
24 1999”;

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1           (3) in subparagraph (C) of paragraph (3), by  
2           inserting “or, at the request of the institution, a  
3           complete copy of the records” after “and loan  
4           servicers,”; and

5           (4) by adding at the end the following new  
6           paragraphs:

7           “(4) DEFINITION OF MITIGATING CIR-  
8           CUMSTANCES.—For purposes of paragraph (2), an  
9           institution shall be treated as having **[exceptional]**  
10          mitigating circumstances that make application of  
11          that paragraph inequitable if such institution is cer-  
12          tified by a certified public accountant to meet each  
13          of the following criteria:

14                 “(A) at least two-thirds of the students en-  
15                 rolled on at least a half-time basis at the insti-  
16                 tution—

17                         “(i) are eligible to receive a Federal  
18                         Pell Grant award that is at least equal to  
19                         one-half the maximum Federal Pell Grant  
20                         award for which the student would be eligi-  
21                         ble based on his or her enrollment status;  
22                         or

23                         “(ii) have an adjusted gross income of  
24                         the student, and his or her parents (unless  
25                         the student is an independent student), of

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1 less than the poverty level, as determined  
2 under criteria established by the Depart-  
3 ment of Health and Human Services;

4 “(B) at least two-thirds of the students en-  
5 rolled on a full-time basis at the institution in  
6 any 12-month period ending not more than six  
7 months prior to the date the institution submits  
8 its appeal, and who remain enrolled beyond the  
9 point at which the student would be entitled to  
10 a tuition refund of 100 percent—

11 “(i) complete the educational program  
12 in which they are enrolled within the time  
13 normally required to complete that pro-  
14 gram, as specified in the institution’s en-  
15 rollment contract, catalog, or other mate-  
16 rials; or

17 “(ii) continue to be enrolled and are  
18 making satisfactory academic progress to-  
19 ward completion of their program; or

20 “(iii) have entered active duty in the  
21 armed forces of the United States; and

22 “(C) at least two-thirds of the students en-  
23 rolled on a full-time basis at the institution who  
24 complete the educational program in which they  
25 are enrolled within any 12-month period ending

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1 not more than six months prior to the date the  
2 institution submits its appeal are placed for at  
3 least 13 weeks in an employment position for  
4 which they have been trained, or are enrolled  
5 for at least 13 weeks in higher level education  
6 program for which the educational program of  
7 the institution provided substantial preparation,  
8 or have entered active duty in the armed forces  
9 of the United States.

10 “(5) REDUCTION OF DEFAULT RATES AT CER-  
11 TAIN MINORITY INSTITUTIONS.—

12 “(A) BENEFICIARIES OF EXCEPTION RE-  
13 QUIRED TO ESTABLISH MANAGEMENT PLAN.—

14 After July 1, 1998, any institution that has a  
15 cohort default rate that equals or exceeds 25  
16 percent for each of the three most recent fiscal  
17 years for which data are available and that re-  
18 lies on the exception in paragraph (2)(C) of this  
19 subsection to continue to be an eligible institu-  
20 tion shall—

21 “(i) submit to the Secretary a default  
22 management plan which the Secretary, in  
23 his discretion, after consideration of the in-  
24 stitution’s history, resources, dollars in de-  
25 fault, and targets for default reduction, de-

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1           termines is acceptable and provides reason-  
2           able assurance that the institution will, by  
3           July 1, 2001, have a cohort default rate  
4           that is less than 25 percent;

5           “(ii) engage an independent third  
6           party (which may be paid with funds re-  
7           ceived under part B of title III) to provide  
8           technical assistance in implementing such  
9           default management plan; and

10           “(iii) provide to the Secretary, on an  
11           annual basis or at such other intervals as  
12           the Secretary may require, evidence of co-  
13           hort default rate improvement and success-  
14           ful implementation of such default man-  
15           agement plan.

16           “(B) DISCRETIONARY ELIGIBILITY CONDI-  
17           TIONED ON IMPROVEMENT.—Notwithstanding  
18           the expiration of the exception in paragraph  
19           (2)(C), the Secretary may, in his discretion,  
20           continue to treat an institution described in  
21           subparagraph (A) of this paragraph as an eligi-  
22           ble institution for each of the one-year periods  
23           beginning on July 1, 1999, and July 1, 2000,  
24           only if the institution submits by the beginning

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1 of such period evidence satisfactory to the Sec-  
2 retary that—

3 “(i) such institution has complied and  
4 is continuing to comply with the require-  
5 ments of subparagraph (A); and

6 “(ii) such institution has made sub-  
7 stantial improvement, during each of the  
8 preceding one-year periods, in its cohort  
9 default rate.

10 “(6) SPECIAL RULE BASED ON PARTICIPATION  
11 RATE INDICES.—(A) An institution that dem-  
12 onstrates to the Secretary that its participation rate  
13 index (as defined in regulations in effect on July 1,  
14 1996) is equal to or less than .0375 for any of the  
15 three most recent fiscal years for which data are  
16 available shall not be subject to paragraph (2).

17 “(B) An institution shall provide the Secretary  
18 with sufficient data to determine its participation  
19 rate index within 30 days after receiving an initial  
20 notification of its draft cohort default rate.

21 “(C) Prior to publication of a final cohort de-  
22 fault rate for an institution that provides the data  
23 under subparagraph (B), the Secretary shall notify  
24 the institution of its compliance or noncompliance  
25 with subparagraph (A).”

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1 (b) ELIGIBLE LENDER.—Section 435(d) is amend-  
2 ed—

3 (1) in paragraph (1)(A)(ii)—

4 (A) by striking “or” at the end of sub-  
5 clause (I); and

6 (B) by inserting before the semicolon at  
7 the end of subclause (II) the following: “, or  
8 (III) it is a bank that is a wholly owned sub-  
9 sidiary of a nonprofit foundation, the founda-  
10 tion is described in section 501(c)(3) of the In-  
11 ternal Revenue Code of 1986 and exempt from  
12 taxation under section 501(a) of such Code and  
13 has been participating in the program author-  
14 ized by this part for three years as of the date  
15 of enactment of the Higher Education Amend-  
16 ments of 1998 and only makes loans to under-  
17 graduate students who are 22 years of age or  
18 younger and has a portfolio of not more than  
19 \$10,000,000; and in determining whether the  
20 making or holding of loans to students and par-  
21 ents under this part is the primary consumer  
22 credit function of the eligible lender, all loans  
23 (including student loans and other consumer  
24 loans) made or held as trustee or in a trust ca-

## IV-B-50

1           capacity for the benefit of a third party shall be  
2           considered”;

3           (2) in paragraph (1)—

4                 (A) by striking “and” at the end of sub-  
5           paragraph (J);

6                 (B) by striking the period at the end of  
7           subparagraph (K) and inserting “; and”; and

8                 (C) by adding at the end the following new  
9           subparagraph:

10                 “(K) a wholly owned subsidiary of a pub-  
11           licly held holding company which, for the three  
12           years preceding the date of enactment of this  
13           subparagraph, through one or more subsidiaries  
14           (i) acts as a finance company, and (ii) partici-  
15           pates in the program authorized by this part  
16           pursuant to subparagraph (C).”; and

17           (3) in paragraph (5), by adding at the end the  
18           following new sentence:

19           “‘It shall not be a violation of this paragraph for a  
20           lender to provide assistance to institutions of higher  
21           education comparable to the kinds of assistance pro-  
22           vided to institutions of higher education by the De-  
23           partment of Education.’”.

24           (c) **LINE OF CREDIT.**—Section 435(e) is amended to  
25           read as follows:

## IV-B-51

1           “(e) LINE OF CREDIT.—The term ‘line of credit’  
2 means an agreement between the lender and the borrower  
3 pursuant to a master promissory note under which the  
4 lender may make and disburse, in addition to the initial  
5 loan, additional loans in subsequent years.”.

6 **SEC. 426. DISCHARGE.**

7           (a) DOCUMENTATION.—Section 437(a) (20 U.S.C.  
8 1087(a)) is amended by adding at the end the following:  
9 “A certification of permanent and total disability from a  
10 Veteran’s Hospital shall be acceptable documentation for  
11 discharge under this subsection.”.

12           (b) DISCHARGE.—Section 437(c)(1) is amended—

13                 (1) by inserting after “falsely certified by the  
14 eligible institution” the following: “, or if the institu-  
15 tion failed to make a refund of loan proceeds which  
16 it owed to such student’s lender,”; and

17                 (2) by adding at the end the following new sen-  
18 tences: “In the case of a discharge based upon a  
19 failure to refund, the amount of the discharge shall  
20 not exceed that portion of the loan which should  
21 have been refunded. The Secretary shall report to  
22 the Committee on Education and the Workforce of  
23 the House of Representatives and the Committee on  
24 Labor and Human Resources of the Senate annually

## IV-B-52

1 as to the dollar amount of loan discharges attrib-  
2 utable to failures to make refunds.”.

3 **SEC. 427. DEBT MANAGEMENT OPTIONS.**

4 Section 437A (20 U.S.C. 1087-O) is repealed.

5 **SEC. 428. SPECIAL ALLOWANCES.**

6 (a) COMPUTATION.—Section 438(b)(2) (20 U.S.C.  
7 1087-1(b)(2) is amended—

8 (1) in subparagraph (A), by striking “(E), and  
9 (F)” and inserting “and (E)”; and

10 (2) in subparagraph (B)(iv), by striking “, (E),  
11 or (F)” and inserting “or (E)”.

12 (b) ORIGINATION FEES.—Section 438(c) is amend-  
13 ed—

14 (1) in paragraph (2)—

15 (A) by striking “(other than” and inserting  
16 “(including loans made under section 428H,  
17 but excluding”; and

18 (B) by adding at the end the following new  
19 sentence: “Except as provided in paragraph (8),  
20 a lender is not authorized to assess an origina-  
21 tion fee under this paragraph unless the lender  
22 assesses the same fee to all student borrow-  
23 ers.”; and

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

## IV-B-53

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

6           (c) LENDING FROM PROCEEDS OF TAX EXEMPT OB-  
7           LIGATIONS.—Section 438 is amended—

8           (1) by striking subsection (e); and

9           (2) by redesignating subsection (f) as sub-  
10          section (e).

11          (d) STUDY.—Section 438 is amended by adding at  
12          the end the following new subsection:

13          “(f) STUDY.—The Comptroller General shall conduct  
14          a statistical analysis of the subsidized and unsubsidized  
15          student loan programs under part B to gather data on  
16          lenders’ policies on charging origination fees and to deter-  
17          mine if there are any anomalies that would indicate any  
18          institutional, programmatic, or socioeconomic discrimina-  
19          tion in the assessing or waiving of such fees. The Comp-  
20          troller General shall report to the appropriate committees  
21          of Congress within two years after the date of enactment  
22          of the Higher Education Amendments of 1998.”.

## IV-C-1

1 **PART C—FEDERAL WORK-STUDY PROGRAMS**2 **SEC. 431. AMENDMENTS TO PART C.**

## 3 (a) EXTENSION OF AUTHORITY; DEFINITION.

4 (1) ELIGIBLE STUDENTS.—Section 441(a) (20  
5 U.S.C. 2751(a)) is amended by after “professional  
6 students” the following: “, including students par-  
7 ticipating in an internship or practicum, or as a re-  
8 search assistant, as determined by the Secretary,”.

9 (2) EXTENSION OF AUTHORITY.—Section  
10 441(b) is amended by striking “\$800,000,000 for  
11 fiscal year 1993” and inserting “\$1,000,000,000 for  
12 fiscal year 1999”.

13 (3) DEFINITION OF COMMUNITY SERVICE.—  
14 Section 441(c) is amended by striking “which are”  
15 and inserting “that are performed off-campus or on-  
16 campus and that are”.

17 (b) ALLOCATION OF FUNDS.—Section 442 (20  
18 U.S.C. 2752) is amended—

19 (1) by striking subsection (b);

20 (2) in subsection (c)(1), by striking “three-  
21 quarters of the remainder” and inserting “the re-  
22 mainder”;

23 (3) in subsection (c)(2)(A)(i), by striking “sub-  
24 section (d)” and inserting “subsection (c)”;

25 (4) in subsection (e)(1), by striking “subsection  
26 (c)” and inserting “subsection (b); and

## IV-C-2

1           (5) by redesignating subsections (c), (d), (e),  
2           and (f) as subsections (b), (c), (d), and (e), respec-  
3           tively.

4           (c) TUTORING AND LITERACY ACTIVITIES.—

5           Section 443 of the Higher Education Act of 1965 (42  
6 U.S.C. 2753) is amended—

7           (1) in subsection (b)(2)—

8                 (A) by striking “and” at the end of sub-  
9                 paragraph (A)

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

12                (C) by inserting after subparagraph (A)  
13                the following new subparagraph:

14                   “(B) in academic year 1999 and succeed-  
15                   ing academic years, an institution shall use at  
16                   least 2 percent of the total amount of funds  
17                   granted to such institution under this section  
18                   for such academic year in accordance with sub-  
19                   section (d); and”;

20           (2) by adding at the end the following new sub-  
21           section:

22           “(d) TUTORING AND LITERACY ACTIVITIES.—

23                 “(1) USE OF FUNDS.—In any academic year to  
24                 which subsection (b)(2)(B) applies, an institution  
25                 shall use the amount required to be used in accord-

## IV-C-3

1           ance with this subsection to compensate (including  
2           compensation for time spent in directly related train-  
3           ing and travel) students—

4                   “(A) employed as a reading tutor for chil-  
5                   dren who are in preschool through elementary  
6                   school; or

7                   “(B) employed in family literacy projects.

8           “(2) PRIORITY FOR SCHOOLS.—An institution  
9           shall—

10                   “(A) give priority, in using such funds, to  
11                   the employment of students in the provision of  
12                   tutoring services in schools that—

13                           “(i) are identified for school improve-  
14                           ment under section 1116(c) of the Elemen-  
15                           tary and Secondary Education Act of  
16                           1965; or

17                           “(ii) are selected by a local edu-  
18                           cational agency under section 15104(a)(2)  
19                           of such Act; and

20                   “(B) ensure that any student compensated  
21                   with such funds who is employed in a school se-  
22                   lected under section 15104(a)(2) of the Ele-  
23                   mentary and Secondary Education Act of 1965  
24                   is trained in the instructional practices based

## IV-C-4

1           on reliable, replicable research on reading used  
2           by the school pursuant to such section 15104.

3           “(3) FEDERAL SHARE.—The Federal share of  
4           the compensation of work study students com-  
5           pensated under this subsection may exceed 75 per-  
6           cent.

7           “(4) WAIVER.—The Secretary may waive the  
8           requirements of this subsection if the Secretary de-  
9           termines that enforcing such requirements would  
10          cause a hardship for students at the institution.

11          “(5) RETURN OF FUNDS.—Any institution that  
12          does not use the amount required under this sub-  
13          section, and that does not request and receive a  
14          waiver from the Secretary under paragraph (4),  
15          shall return to the Secretary, at such time as the  
16          Secretary may require for reallocation under para-  
17          graph (6), any balance of such amount that is not  
18          used as so required.

19          “(6) REALLOCATION.—The Secretary shall  
20          reallot any amounts returned pursuant to paragraph  
21          (5) among institutions that used at least 4 percent  
22          of the total amount of funds granted to such institu-  
23          tion under this section to compensate students em-  
24          ployed in tutoring and literacy activities in the pre-  
25          ceding academic year. Such funds shall be reallotted

## IV-C-5

1 among such institutions on the same basis as excess  
2 eligible amounts are allocated to institutions pursu-  
3 ant to section 442(c). Funds received by institutions  
4 pursuant to this paragraph shall be used in the  
5 same manner as amounts required to be used in ac-  
6 cordance with this subsection.”.

7 (d) GRANT REQUIREMENTS.—

8 (1) COMMUNITY SERVICE.—Section  
9 443(b)(2)(A) (20 U.S.C. 2753(b)(2)(A) is amend-  
10 ed—

11 (A) by striking “in fiscal year 1994 and  
12 succeeding fiscal years,”; and

13 (B) by inserting (including time spent in  
14 travel or training, or both, directly related to  
15 such community service)” after “community  
16 service”.

17 (2) USE OF FUNDS FOR INDEPENDENT AND  
18 LESS-THAN-FULL-TIME STUDENTS.—Section  
19 443(b)(3) (20 U.S.C. 2753(b)(3)) is amended to  
20 read as follows:

21 “(3) provide that in the selection of students  
22 for employment under such work-study program,  
23 only students, who demonstrate financial need in ac-  
24 cordance with part F of this title, and who meet the  
25 requirements of section 484 will be assisted, except

## IV-C-6

1 that if the institution's grant under this part is di-  
2 rectly or indirectly based in part on the financial  
3 need demonstrated by students who are (A) attend-  
4 ing the institution less than full time, or (B) inde-  
5 pendent students, then grant funds shall be made  
6 available to such less than full-time and independent  
7 students;”.

8 (3) AVAILABILITY OF EMPLOYMENT.—Section  
9 443(b)(6) is amended by striking everything after  
10 “in need thereof” and inserting a semicolon.

11 (4) ACADEMIC RELEVANCE.—Section 443(c)(4)  
12 is amended by inserting before the semicolon at the  
13 end the following: “, to the maximum extent prac-  
14 ticable”.

15 (e) FLEXIBLE USE OF FUNDS.—Section 445(b) (20  
16 U.S.C. 2755(b)) is amended by adding at the end the fol-  
17 lowing new paragraph:

18 “(3) An eligible institution may, with the permission  
19 of a student, make payments to the student under this  
20 part by crediting the student's account at the institution  
21 or by making a direct deposit to the student's account at  
22 a depository institution. An eligible institution may only  
23 credit the student's account at the institution for (A) tui-  
24 tion and fees, (B) in the case of institutionally owned

## IV-C-7

1 housing, room and board, and (C) other institutionally  
2 provided goods and services.”.

3 (f) JOB LOCATION AND DEVELOPMENT PRO-  
4 GRAMS.—Section 446 (20 U.S.C. 2756) is amended—

5 (1) in subsection (a)(1)—

6 (A) by striking “\$50,000” and inserting  
7 “\$60,000”; and

8 (B) by striking “community service jobs,  
9 for currently enrolled students” and inserting  
10 “community service jobs and cooperative edu-  
11 cation jobs, for currently enrolled students, in-  
12 cluding students participating in work-study  
13 programs under this part”; and

14 (2) in subsection (b)—

15 (A) by redesignating paragraphs (4)  
16 through (6) as paragraphs (5) through (7);

17 (B) by inserting after paragraph (3) the  
18 following new paragraph:

19 “(4) provide that the institution will notify the  
20 Secretary if the institution will use funds under this  
21 section to develop cooperative education jobs and will  
22 provide assurances that—

23 “(A) the funds provided under this para-  
24 graph will supplement and not supplant any co-

## IV-C-8

1           operative education funds available to the insti-  
2           tution;

3           “(B) in the case of 2-year programs, funds  
4           will be used to develop and expand cooperative  
5           education, jobs for associate degree or certifi-  
6           cate students only;

7           “(C) the work portion of a cooperative edu-  
8           cation job developed or expanded under this  
9           paragraph will be related to a student’s aca-  
10          demic program; and

11          “(D) the institution will furnish the Sec-  
12          retary a report on cooperative education jobs  
13          expanded and developed under this paragraph,  
14          including—

15                  “(i) how the funds were used;

16                  “(ii) a list of employers and whether  
17                  the employer is a for-profit or not-for-prof-  
18                  it entity; and

19                  “(iii) the employers’ role in the coop-  
20                  erative education job.”.

21          (g) WORK COLLEGES EXTENSION OF AUTHORITY.—  
22          Section 448(f) (20 U.S.C. 2756b(f)) is amended by strik-  
23          ing “1993” and inserting “1999”.

## IV-D-1

1     **PART D—WILLIAM D. FORD FEDERAL DIRECT**2                     **LOAN PROGRAM**3     **SEC. 436. SELECTION OF INSTITUTIONS.**

4         (a) GENERAL AUTHORITY.—Section 453(a) (20  
5 U.S.C. 1087c(a)) is amended—

6             (1) by striking “PHASE-IN” and everything that  
7 follows through “GENERAL AUTHORITY.—” and in-  
8 serting “GENERAL AUTHORITY.—”; and

9             (2) by striking paragraphs (2), (3), and (4).

10         (b) SELECTION CRITERIA.—Section 453(b)(2) is  
11 amended by striking “prescribe,” and everything that fol-  
12 lows through the end of subparagraph (B) and inserting  
13 “prescribe.”.

14         (c) ORIGINATION.—Section 453(c) is amended—

15             (1) in paragraph (2)—

16                 (A) in the heading, by striking “TRANSI-  
17 TION SELECTION CRITERIA” and inserting “SE-  
18 LECTION CRITERIA”;

19                 (B) by striking “For academic year 1994–  
20 1995, the Secretary” and inserting “The Sec-  
21 retary”; and

22                 (C) by striking subparagraph (A);

23                 (D) in subparagraph (E), by striking ev-  
24 erything after “deficiencies” and inserting a  
25 semicolon; and

## IV-D-2

1 (E) by redesignating subparagraphs (B)  
2 through (H) as subparagraphs (A) through (G);  
3 and

4 (2) in paragraph (3)—

5 (A) in the heading, by striking “AFTER  
6 TRANSITION”; and

7 (B) by striking “For academic year 1995–  
8 1996 and subsequent academic years, the Sec-  
9 retary” and inserting “the Secretary”.

10 **SEC. 437. TERMS AND CONDITIONS.**

11 (a) INTEREST RATES.—

12 (1) AMENDMENT.—Section 455(b) (20 U.S.C.  
13 1087e(b)) is amended to read as follows:

14 “(b) INTEREST RATE.—

15 “(1) RATES FOR FDSL AND FDUSL.—For Fed-  
16 eral Direct Stafford Loans and Federal Direct  
17 Unsubsidized Stafford Loans for which the first dis-  
18 bursement is made on or after July 1, 1998, the ap-  
19 plicable rate of interest shall, during any 12-month  
20 period beginning on July 1 and ending on June 30,  
21 be determined on the preceding June 1 and be equal  
22 to—

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

## IV-D-3

1                   “(B) 2.3 percent,  
2                   except that such rate shall not exceed 8.25 percent.

3                   “(2) IN SCHOOL AND GRACE PERIOD RULES.—  
4                   With respect to any Federal Direct Stafford Loan or  
5                   Federal Direct Unsubsidized Stafford Loan for  
6                   which the first disbursement is made on or after  
7                   July 1, 1995, the applicable rate of interest for in-  
8                   terest which accrues—

9                   “(A) prior to the beginning of the repay-  
10                  ment period of the loan; or

11                  “(B) during the period in which principal  
12                  need not be paid (whether or not such principal  
13                  is in fact paid) by reason of a provision de-  
14                  scribed in section 428(b)(1)(M) or  
15                  427(a)(2)(C),

16                  shall be determined under paragraph (1) by sub-  
17                  stituting ‘1.7 percent’ for ‘2.3 percent’.

18                  “(3) PLUS LOANS.—With respect to Federal  
19                  Direct PLUS Loan for which the first disbursement  
20                  is made on or after July 1, 1998, the applicable rate  
21                  of interest shall be determined under paragraph  
22                  (1)—

23                  “(A) by substituting ‘3.1 percent’ for ‘2.3  
24                  percent’; and

## IV-D-4

1                   “(B) by substituting ‘9.0 percent’ for ‘8.25  
2                   percent’.

3                   “(4) CONSOLIDATION LOANS.—With respect to  
4                   any Federal Direct Consolidation Loan for which the  
5                   first disbursement is made on or after July 1, 1998,  
6                   the applicable rate of interest shall be determined  
7                   under paragraph (1) by substituting ‘3.1 percent’  
8                   for ‘2.3 percent’.

9                   “(5) PUBLICATION.—The Secretary shall deter-  
10                  mine the applicable rates of interest under this sub-  
11                  section after consultation with the Secretary of the  
12                  Treasury and shall publish such rate in the Federal  
13                  Register as soon as practicable after the date of de-  
14                  termination.”.

15                  (2) EFFECTIVE DATE.—The amendments made  
16                  by this section shall apply with respect to any loan  
17                  made under part D of title IV of the Higher Edu-  
18                  cation Act of 1965 for which the first disbursement  
19                  is made on or after July 1, 1998.

20                  (b) CONSOLIDATION LOANS.—The first sentence of  
21                  section 455(g) is amended by striking everything after  
22                  “section 428C(a)(4)” and inserting a period.

23                  **SEC. 438. CONTRACTS.**

24                  Section 456(b) (20 U.S.C. 1087f(b)) is amended—

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1           (1) by inserting “and” after the semicolon at  
2           the end of paragraph (3);

3           (2) by striking paragraph (4); and

4           (3) by redesignating paragraph (5) as para-  
5           graph (4).

6 **SEC. 439. FUNDS FOR ADMINISTRATIVE EXPENSES.**

7           Section 458 (20 U.S.C. 1087h) is amended—

8           (1) in subsection (a)(1), by striking subpara-  
9           graph (B) and everything that follows and inserting  
10          the following:

11                   “(B) account maintenance fees payable to  
12                   guaranty agencies under part B and calculated  
13                   in accordance with paragraph (2),  
14                   not to exceed (from such funds not otherwise appro-  
15                   priated) \$626,000,000 in fiscal year 1999,  
16                   \$726,000,000 in fiscal year 2000, \$770,000,000 in  
17                   fiscal year 2001, \$780,000,000 in fiscal year 2002,  
18                   and \$795,000,000 in fiscal year 2003. Account  
19                   maintenance fees under subparagraph (B) of this  
20                   paragraph shall be paid quarterly and deposited in  
21                   the Operating Fund established under 422B. The  
22                   Secretary may carry over funds available under this  
23                   section to a subsequent fiscal year.”;

24           (2) by striking paragraph (2) of subsection (a)  
25           and inserting the following:

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1           “(2) CALCULATION BASIS.—Account mainte-  
2           nance fees payable to guaranty agencies under para-  
3           graph (1)(B) shall be calculated for fiscal year 1999  
4           and fiscal year 2000, on the basis of 0.12 percent  
5           of the original principal amount of outstanding loans  
6           on which insurance was issued under part B, and for  
7           fiscal years 2001 and succeeding fiscal years, shall  
8           be calculated on the basis of 0.10 percent of the  
9           original principal amount of outstanding loans on  
10          which insurance was issued under part B.”; and

11           (3) by striking subsection (d).

12 **SEC. 440. AUTHORITY TO SELL LOANS.**

13          Part D (20 U.S.C. 1087a et seq.) is amended by add-  
14          ing at the end the following new section:

15 **“SEC. 459. AUTHORITY TO SELL LOANS.**

16          The Secretary, in consultation with the Secretary of  
17          the Treasury, is authorized to sell loans made under this  
18          part on such terms as the Secretary determines are in the  
19          best interest of the United States, except that any such  
20          sale shall not result in any cost to the Federal Govern-  
21          ment. Notwithstanding any other provision of law, the pro-  
22          ceeds of any such sale may be used by the Secretary to  
23          offer reductions in the interest rate paid by a borrower  
24          of a loan made under this part as the Secretary deter-  
25          mines appropriate to encourage on-time repayment. Such

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- 1 reductions may be offered only if the Secretary determines
- 2 they are in the best financial interests of the Federal Gov-
- 3 ernment.”.

## IV-E-1

1           **PART E—FEDERAL PERKINS LOANS**2   **SEC. 441. AMENDMENTS TO PART E.**

3           (a) EXTENSION OF AUTHORITY.—Section 461(b) (20  
4 U.S.C. 1087aa(b)) is amended—

5                 (1) in paragraph (1), by striking “1993” and  
6                 inserting “1999”; and

7                 (2) in paragraph (2), by striking “1997” and  
8                 inserting “2003”.

9           (b) ALLOCATION OF FUNDS.—Section 462 (20  
10 U.S.C. 1087bb) is amended—

11                 (1) by striking subsection (b);

12                 (2) in subsection (c)(1), by striking “three-  
13                 quarters of the remainder” and inserting “the re-  
14                 mainder”;

15                 (3) in subsection (c)(2), by striking “subsection  
16                 (g)” and inserting “subsection (f)”;

17                 (4) in subsection (c)(3)—

18                         (A) by striking “subsection (d)” and in-  
19                         serting “subsection (e);

20                         (B) by striking “subsection (f)” and insert-  
21                         ing “subsection (e); and

22                         (C) by striking subsection (g)” and insert-  
23                         ing “subsection (f);

24                 (5) in subsection (f), by striking “subsection  
25                 (g)” and inserting “subsection (f)”;

## IV-E-2

1 (6) in subsection (j)(2), by striking “subsection  
2 (c)” each place it appears and inserting “subsection  
3 (b)”;

4 (7) by redesignating subsections (c) through (j)  
5 as subsections (b) through (i), respectively.

6 (c) DEFAULT REDUCTION PENALTIES.—Section  
7 462(f)(2)(A) (20 U.S.C. 1087bb(f)(2)(A)) is amended by  
8 inserting before the semicolon at the end the following:  
9 “, except that a plan shall not be required with respect  
10 to any such institution that has a default rate of less than  
11 20 percent and has less than 100 students who have loans  
12 under this part in any academic year”.

13 (d) DEFINITIONS FOR DEFAULT RATE CALCULA-  
14 TIONS.—Section 462(h) is amended by adding at the end  
15 the following new paragraph:

16 “(5) For the purpose of this subsection, the term  
17 ‘satisfactory arrangements to resume payment’ includes—

18 “(A) receipt of voluntary monthly payments for  
19 three consecutive months after the time periods  
20 specified in paragraph (4);

21 “(B) receipt of voluntary payments sufficient to  
22 bring the loan current prior to the calculation being  
23 made for any award year under paragraph (3);

24 “(C) obtaining any deferment, postponement,  
25 rehabilitation, forbearance, or cancellation of the

## IV-E-3

1 loan after the time periods specified in paragraph  
2 (4), but prior to the calculation being made for any  
3 award year under paragraph (3);

4 “(D) receipt of the full amount due on the loan  
5 after the time periods specified in paragraph (4),  
6 but prior to the calculation being made for any  
7 award year under paragraph (3); or

8 “(E) any other arrangements to resume pay-  
9 ment which the Secretary determines to be satisfac-  
10 tory.”.

11 (e) REPORTS TO CREDIT BUREAUS OF PAYMENT RE-  
12 SUMPTIONS.—Section 463(c) (20 U.S.C. 1087cc)(c) is  
13 amended by adding at the end the following new para-  
14 graph:

15 “(5) Each institution of higher education shall notify  
16 the appropriate credit bureau organizations whenever a  
17 borrower of a loan that is made and held by the institution  
18 and that is in default makes 12 consecutive monthly pay-  
19 ments on such loan, for the purpose of encouraging such  
20 organizations to update the status of information main-  
21 tained with respect to that borrower.”.

22 (f) INCENTIVE REPAYMENT PROGRAMS.—Section  
23 463 is amended by adding at the end the following new  
24 subsection:

25 “(f) INCENTIVE REPAYMENT PROGRAMS.—

## IV-E-4

1           “(1) PROGRAM AUTHORIZED.—Any institution  
2 of higher education participating in the program  
3 under this part may establish, with the approval of  
4 the Secretary, an incentive repayment program de-  
5 signed to reduce defaults on loans under this part  
6 and to assist in replenishing the student loan fund  
7 established under this part.

8           “(2) CONTENTS OF PROGRAM.—An incentive  
9 repayment program under this part may contain  
10 provisions that—

11           “(A) offer a reduction in the interest rate  
12 on a loan on which the borrower has made 48  
13 consecutive monthly payments, but in no event  
14 may the interest rate be reduced by more than  
15 one percent;

16           “(B) provide for a discount on the balance  
17 owed on a loan on which the borrower pays the  
18 principal and interest in full prior to the end of  
19 the applicable repayment period, but in no  
20 event shall such discount exceed 5 percent of  
21 the unpaid principal balance due on the loan at  
22 the time the early repayment is made; and

23           “(C) include such other incentive repay-  
24 ment options as the institution determines, with

## IV-E-5

1 the approval of the Secretary, will carry out the  
2 objectives of this subsection.

3 “(3) NO NET COST TO THE GOVERNMENT.—No  
4 incentive option contained in a program authorized  
5 by this subsection may be charged to the Federal  
6 Government.”.

7 (g) TERMS OF LOANS.—

8 (1) AGGREGATE AMOUNT.—Section  
9 464(a)(2)(B) (20 U.S.C. 1087dd(a)(2)(B)) is  
10 amended by striking “the aggregate of the loans for  
11 all years” and inserting “the aggregate unpaid prin-  
12 cipal amount for all loans”.

13 (2) ALLOCATION TO LESS-THAN-FULL-TIME  
14 STUDENTS.—Section 464(b) is amended—

15 (A) by striking “(1)”; and

16 (B) by striking paragraph (2).

17 (3) QUALIFICATION FOR DEFERMENTS.—Sec-  
18 tion 464(c)(2) is amended by adding at the end the  
19 following new subparagraph:

20 “(C) An individual with an outstanding loan balance  
21 who meets the eligibility criteria for a deferment described  
22 in subparagraph (A) as in effect on the date of enactment  
23 of this subparagraph shall be eligible for deferment under  
24 this paragraph notwithstanding any contrary provision of  
25 the promissory note under which the loan or loans were

## IV-E-6

1 made, and notwithstanding any amendment (or effective  
2 date provision relating to any amendment) to this section  
3 made prior to the date of such deferment.”.

4 (3) CLERICAL AMENDMENT.—The matter fol-  
5 lowing clause (iv) of section 464(c)(2)(A) is amend-  
6 ed by striking “subparagraph (B)” and inserting  
7 “subparagraph (A) of paragraph (1)”.

8 (h) REHABILITATION AND DISCHARGE OF LOANS.—  
9 Section 464 is further amended by adding at the end the  
10 following new subsections:

11 “(g) REHABILITATION OF LOANS.—(1)(A) If the bor-  
12 rower of a loan made under this part who has defaulted  
13 on the loan makes 12 on-time, consecutive, monthly pay-  
14 ments of amounts owed on the loan, the loan shall be con-  
15 sidered rehabilitated, and the institution that made the  
16 loan (or the Secretary, in the case of a loan held by the  
17 Secretary) shall instruct any credit reporting organization  
18 to which the default was reported to remove the default  
19 from the borrower’s credit history.

20 “(B) As long as the borrower continues to make  
21 scheduled repayments on a loan rehabilitated under this  
22 paragraph, the rehabilitated loan shall be subject to the  
23 same terms and conditions, and qualify for the same bene-  
24 fits and privileges, as other loans made under this part.

## IV-E-7

1       “(C) The borrower of a rehabilitated loan shall not  
2 be precluded by section 484 from receiving additional  
3 grant, loan, or work assistance under this title (for which  
4 he or she is otherwise eligible) on the basis of defaulting  
5 on the loan prior to such rehabilitation.

6       “(D) A borrower may obtain the benefit of this para-  
7 graph with respect to rehabilitating the loan only once.

8       “(2) If the borrower of loan made under this part  
9 who has defaulted on that loan makes 6 on-time, consecu-  
10 tive, monthly payments of amounts owed on such loan, the  
11 borrower’s eligibility for grant, loan, or work assistance  
12 under this title shall be restored. A borrower may obtain  
13 the benefit of this paragraph with respect to restored eligi-  
14 bility only once.

15       “(h) DISCHARGE.—

16           “(1) IN GENERAL.—If a student borrower who  
17 received a loan made under this part on or after  
18 January 1, 1986, is unable to complete the program  
19 in which such student is enrolled due to the closure  
20 of the institution, then the Secretary shall discharge  
21 the borrower’s liability on the loan (including inter-  
22 est and collection fees) by repaying the amount owed  
23 on the loan and shall subsequently pursue any claim  
24 available to such borrower against the institution

## IV-E-8

1 and its affiliates and principals, or settle the loan  
2 obligation.

3 “(2) ASSIGNMENT.—A borrower whose loan has  
4 been discharged pursuant to this subsection shall be  
5 deemed to have assigned to the United States the  
6 right to a loan refund up to the amount discharged  
7 against the institution and its affiliates and prin-  
8 cipals.

9 “(3) ELIGIBILITY FOR ADDITIONAL ASSIST-  
10 ANCE.—The period of a student’s assistance at an  
11 institution at which the student was unable to com-  
12 plete a course of study due to the closing of the in-  
13 stitution shall not be considered for purposes of cal-  
14 culating the student’s period of eligibility for addi-  
15 tional assistance under this title.

16 “(4) SPECIAL RULE.—A borrower whose loan  
17 has been discharged pursuant to this subsection  
18 shall not be precluded, because of that discharge,  
19 from receiving additional grant, loan, or work assist-  
20 ance under this title for which the borrower would  
21 be otherwise eligible (but for the default on the dis-  
22 charged loan). The amount discharged under this  
23 subsection shall be treated the same as loans under  
24 section 465(a)(5).

## IV-E-9

1           “(5) REPORTING.—The Secretary or institu-  
2           tion, as the case may be, shall report to credit bu-  
3           reaus with respect to loans that have been dis-  
4           charged pursuant to this subsection.”.

5           (i) CANCELLATION.—Section 465 (20 U.S.C. 1087ee)  
6 is amended—

7           (1) in subsection (a)—

8                   (A) in paragraph (2)(C), by striking “sec-  
9                   tion 676(b)(9)” and inserting “635(a)(10)”;

10                   (B) by striking subparagraph (H) of para-  
11                   graph (2) and inserting the following:

12                   “(H) as a full-time nurse or medical technician  
13                   providing health care services;”;

14                   (C) by striking the period at the end of  
15                   subparagraph (I) of such paragraph and insert-  
16                   ing a semicolon;

17                   (D) by adding at the end of such para-  
18                   graph the following new subparagraphs:

19                   “(J) as a member of the Commissioned Corps  
20                   of the Public Health Service of the United States;  
21                   or

22                   “(K) as a non-physician mental health profes-  
23                   sional providing health care services in a health pro-  
24                   fessional shortage area designated under section 332  
25                   of the Public Health Service Act.”;

## IV—E—10

1 (E) in the last sentence of paragraph (2),  
2 by striking “section 602(a)(1)” and inserting  
3 “section 602(3)”; and

4 (F) by adding at the end the following new  
5 paragraph:

6 “(7) An individual with an outstanding loan obliga-  
7 tion who performs service of any type that is described  
8 in paragraph (2) as in effect on the date of enactment  
9 of this paragraph shall be eligible for cancellation under  
10 this section for such service notwithstanding any contrary  
11 provision of the promissory note under which the loan or  
12 loans were made, and notwithstanding any amendment (or  
13 effective date provision relating to any amendment) to this  
14 section made prior to the date of such service.”; and

15 (2) in subsection (b), by adding at the end the  
16 following new sentence: “To the extent feasible, the  
17 Secretary shall pay the amounts for which any insti-  
18 tution qualifies under this subsection no later than  
19 three months after the institution files an institu-  
20 tional application for campus-based funds.”.

21 (j) DISTRIBUTION OF ASSETS.—Section 466 (20  
22 U.S.C. 1087ff) is amended—

23 (1) by striking “1996” each place it appears  
24 and inserting “2003”; and

## IV—E—11

1           (2) by striking “1997” each place it appears  
2           and inserting “2004”.

3           (k) PERKINS REVOLVING FUND.—

4           (1) REPEAL.—Section 467 (20 U.S.C. 1087gg)  
5           is repealed.

6           (2) TRANSFER OF BALANCE.—Any funds in the  
7           Perkins Revolving Loan Fund on the date of enact-  
8           ment of this Act shall be transferred to and depos-  
9           ited in the Treasury.

10          (l) STATUS CONFIRMATION REPORTS.—Section 468  
11          (20 U.S.C. 1087ii) is amended—

12           (1) by inserting “(a) IN GENERAL.—” before  
13           “In carrying out”; and

14           (2) by adding at the end the following new sub-  
15           section:

16          “(b) STUDENT STATUS CONFIRMATION REPORTS.—  
17          The Secretary shall ensure that borrowers under this part  
18          are included in the student status confirmation report re-  
19          quired by the Secretary in the same manner as borrowers  
20          under parts B and D of this title.”.