TITLE II--STUDENT LOAN BENEFITS, TERMS, AND CONDITIONS

SEC. 201. INTEREST RATE REDUCTIONS.

(a) FFEL Interest Rates-

(1) Section 427A(l) (20 U.S.C. 1077a(l)) is amended by adding at the end the following new paragraph:

`(4) REDUCED RATES FOR UNDERGRADUATE SUBSIDIZED LOANS- Notwithstanding subsection (h) and paragraph (1) of this subsection, with respect to any loan to an undergraduate student made, insured, or guaranteed under this part (other than a loan made pursuant to section 428B, 428C, or 428H) for which the first disbursement is made on or after July 1, 2006, and before July 1, 2012, the applicable rate of interest shall be as follows:

`(A) For a loan for which the first disbursement is made on or after July 1, 2006, and before July 1, 2008, 6.8 percent on the unpaid principal balance of the loan.

`(B) For a loan for which the first disbursement is made on or after July 1, 2008, and before July 1, 2009, 6.0 percent on the unpaid principal balance of the loan.

`(C) For a loan for which the first disbursement is made on or after July 1, 2009, and before July 1, 2010, 5.6 percent on the unpaid principal balance of the loan.

`(D) For a loan for which the first disbursement is made on or after July 1, 2010, and before July 1, 2011, 4.5 percent on the unpaid principal balance of the loan.

`(E) For a loan for which the first disbursement is made on or after July 1, 2011, and before July 1, 2012, 3.4 percent on the unpaid principal balance of the loan.'.

(2) SPECIAL ALLOWANCE CROSS REFERENCE- Section 438(b)(2)(I)(ii)(II) (20 U.S.C. 1087-1(b)(2)(I)(ii)(II)) is amended by striking `section 427A(l)(1)’ and inserting `section 427A(l)(1) or (l)(4)’.

(b) Direct Loan Interest Rates- Section 455(b)(7) (20 U.S.C. 1087e(b)(7)) is amended by adding at the end the following new subparagraph:

`(D) REDUCED RATES FOR UNDERGRADUATE FDSL- Notwithstanding
the preceding paragraphs of this subsection and subparagraph (A) of this paragraph, for Federal Direct Stafford Loans made to undergraduate students for which the first disbursement is made on or after July 1, 2006, and before July 1, 2012, the applicable rate of interest shall be as follows:

`(i) For a loan for which the first disbursement is made on or after July 1, 2006, and before July 1, 2008, 6.8 percent on the unpaid principal balance of the loan.

`(ii) For a loan for which the first disbursement is made on or after July 1, 2008, and before July 1, 2009, 6.0 percent on the unpaid principal balance of the loan.

`(iii) For a loan for which the first disbursement is made on or after July 1, 2009, and before July 1, 2010, 5.6 percent on the unpaid principal balance of the loan.

`(iv) For a loan for which the first disbursement is made on or after July 1, 2010, and before July 1, 2011, 4.5 percent on the unpaid principal balance of the loan.

`(v) For a loan for which the first disbursement is made on or after July 1, 2011, and before July 1, 2012, 3.4 percent on the unpaid principal balance of the loan.'.

SEC. 202. STUDENT LOAN DEFERMENT FOR CERTAIN MEMBERS OF THE ARMED FORCES.

(a) Federal Family Education Loans- Section 428(b)(1)(M)(iii) (20 U.S.C. 1078(b)(1)(M)(iii)) is amended--

(1) in the matter preceding subclause (I), by striking `not in excess of 3 years';

(2) in subclause (II), by striking `; or' and inserting a comma; and

(3) by adding at the end the following:

`and for the 180-day period following the demobilization date for the service described in subclause (I) or (II); or'.

(b) Direct Loans- Section 455(f)(2)(C) (20 U.S.C. 1087e(f)(2)(C)) is amended--

(1) in the matter preceding clause (i), by striking `not in excess of 3 years';

(2) in clause (ii), by striking `; or' and inserting a comma; and

(3) by adding at the end the following:

`and for the 180-day period following the demobilization date for the service described in clause (i) or (ii); or'.
(c) Perkins Loans- Section 464(c)(2)(A)(iii) (20 U.S.C. 1087dd(c)(2)(A)(iii)) is amended--
(1) in the matter preceding subclause (I), by striking `not in excess of 3 years';
(2) in subclause (II), by striking the semicolon and inserting a comma; and
(3) by adding at the end the following:
`and for the 180-day period following the demobilization date for the service described in subclause (I) or (II);'.
(d) Applicability- Section 8007(f) of the Higher Education Reconciliation Act of 2005 (20 U.S.C. 1078 note) is amended by striking `loans for which' and all that follows through the period at the end and inserting `all loans under title IV of the Higher Education Act of 1965.'.

SEC. 203. INCOME-BASED REPAYMENT.

(a) Amendment- Part G of title IV (20 U.S.C. 1088 et seq.) is amended by adding at the end the following:

`SEC. 493C. INCOME-BASED REPAYMENT.

(a) Definitions- In this section:

`(1) EXCEPTED PLUS LOAN- The term `excepted PLUS loan' means a loan under section 428B, or a Federal Direct PLUS Loan, that is made, insured, or guaranteed on behalf of a dependent student.

`(2) EXCEPTED CONSOLIDATION LOAN- The term `excepted consolidation loan' means a consolidation loan under section 428C, or a Federal Direct Consolidation Loan, if the proceeds of such loan were used to discharge the liability on an excepted PLUS loan.

`(3) PARTIAL FINANCIAL HARDSHIP- The term `partial financial hardship', when used with respect to a borrower, means that for such borrower--

`(A) the annual amount due on the total amount of loans made, insured, or guaranteed under part B or D (other than an excepted PLUS loan or excepted consolidation loan) to a borrower as calculated under the standard repayment plan under section 428(b)(9)(A)(i) or 455(d)(1)(A), based on a 10-year repayment period; exceeds

`(B) 15 percent of the result obtained by calculating, on at least an annual basis, the amount by which--

`(i) the borrower's, and the borrower's spouse's (if applicable), adjusted gross income; exceeds

`(ii) 150 percent of the poverty line applicable to the borrower's family
size as determined under section 673(2) of the Community Services Block Grant Act (42 U.S.C. 9902(2)).

`(b) Income-Based Repayment Program Authorized-Notwithstanding any other provision of this Act, the Secretary shall carry out a program under which--

`(1) a borrower of any loan made, insured, or guaranteed under part B or D (other than an excepted PLUS loan or excepted consolidation loan) who has a partial financial hardship (whether or not the borrower's loan has been submitted to a guaranty agency for default aversion or is already in default) may elect, during any period the borrower has the partial financial hardship, to have the borrower's aggregate monthly payment for all such loans not exceed the result described in subsection (a)(3)(B) divided by 12;

`(2) the holder of such a loan shall apply the borrower's monthly payment under this subsection first toward interest due on the loan, next toward any fees due on the loan, and then toward the principal of the loan;

`(3) any interest due and not paid under paragraph (2)--

`(A) shall, on subsidized loans, be paid by the Secretary for a period of not more than 3 years after the date of the borrower's election under paragraph (1), except that such period shall not include any period during which the borrower is in deferment due to an economic hardship described in section 435(o); and

`(B) be capitalized--

`(i) in the case of a subsidized loan, subject to subparagraph (A), at the time the borrower--

`(I) ends the election to make income-based repayment under this subsection; or

`(II) begins making payments of not less than the amount specified in paragraph (6)(A); or

`(ii) in the case of an unsubsidized loan, at the time the borrower--

`(I) ends the election to make income-based repayment under this subsection; or

`(II) begins making payments of not less than the amount specified in paragraph (6)(A);

`(4) any principal due and not paid under paragraph (2) shall be deferred;

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

`(6) if the borrower no longer has a partial financial hardship or no longer wishes to
continue the election under this subsection, then--

`(A) the maximum monthly payment required to be paid for all loans made to
the borrower under part B or D (other than an excepted PLUS loan or
excepted consolidation loan) shall not exceed the monthly amount calculated
under section 428(b)(9)(A)(i) or 455(d)(1)(A), based on a 10-year repayment
period, when the borrower first made the election described in this subsection; and

`(B) the amount of time the borrower is permitted to repay such loans may
exceed 10 years;

`(7) the Secretary shall repay or cancel any outstanding balance of principal and
interest due on all loans made under part B or D (other than a loan under section 428B
or a Federal Direct PLUS Loan) to a borrower who--

`(A) at any time, elected to participate in income-based repayment under
paragraph (1); and

`(B) for a period of time prescribed by the Secretary, not to exceed 25 years,
meets 1 or more of the following requirements:

`(i) has made reduced monthly payments under paragraph (1) or
paragraph (6);

`(ii) has made monthly payments of not less than the monthly amount
calculated under section 428(b)(9)(A)(i) or 455(d)(1)(A), based on a
10-year repayment period, when the borrower first made the election
described in this subsection;

`(iii) has made payments of not less than the payments required under a
standard repayment plan under section 428(b)(9)(A)(i) or 455(d)(1)(A)
with a repayment period of 10 years;

`(iv) has made payments under an income-contingent repayment plan
under section 455(d)(1)(D);

`(v) has been in deferment due to an economic hardship described in
section 435(o);

`(8) a borrower who is repaying a loan made under part B or D pursuant to income-
based repayment may elect, at any time, to terminate repayment pursuant to income-
based repayment and repay such loan under the standard repayment plan; and

`(9) the special allowance payment to a lender calculated under section 438(b)(2)(I),
when calculated for a loan in repayment under this section, shall be calculated on the
principal balance of the loan and on any accrued interest unpaid by the borrower in
accordance with this section.
(c) Eligibility Determinations- The Secretary shall establish procedures for annually determining the borrower's eligibility for income-based repayment, including verification of a borrower's annual income and the annual amount due on the total amount of loans made, insured, or guaranteed under part B or D (other than an excepted PLUS loan or excepted consolidation loan), and such other procedures as are necessary to effectively implement income-based repayment under this section. The Secretary shall consider, but is not limited to, the procedures established in accordance with section 455(e)(1) or in connection with income sensitive repayment schedules under section 428(b)(9)(A)(iii) or 428C(b)(1)(E).

(b) Conforming Amendments-

(1) Section 428C (20 U.S.C. 1078-3) is amended--

(A) in subsection (a)(3)(B)(i), by amending subclause (V) to read as follows:

`\(V\) an individual may obtain a subsequent consolidation loan under section 455(g) only--

\(\text{(aa) for the purposes of obtaining an income contingent repayment plan, and only if the loan has been submitted to the guaranty agency for default aversion; or}

\(\text{(bb) for the purposes of using the public service loan forgiveness program under section 455(m).} \)';

(B) in the first sentence of subsection (b)(5), by inserting `or chooses to obtain a consolidation loan for the purposes of using the public service loan forgiveness program offered under section 455(m), after `from such a lender,'; and

(C) in the second sentence of such subsection, by inserting before the period the following: `` except that if a borrower intends to be eligible to use the public service loan forgiveness program under section 455(m), such loan shall be repaid using one of the repayment options described in section 455(m)(1)(A).''

(2) Section 428C (20 U.S.C. 1078-3) (as amended by paragraph (1) of this subsection) is amended--

(A) in subsection (a)(3)(B)(i)(V)(aa)--

(i) by striking `an income contingent repayment plan,' and inserting `income contingent repayment or income-based repayment,'; and

(ii) by inserting `or if the loan is already in default' before the semicolon;

(B) in the first sentence of subsection (b)(5), by inserting `or income-based repayment terms' after `income-sensitive repayment terms'; and
(C) in the second sentence of such subsection, by inserting , pursuant to income-based repayment under section 493C,' after `part D of this title'.

(3) Section 455(d)(1)(D) (20 U.S.C. 1087e(d)(1)(D)) is amended by inserting `made on behalf of a dependent student' after `PLUS loan'.

c) Effective Date-

(1) IN GENERAL- Except as provided in paragraph (2), the amendments made by this section shall be effective on July 1, 2009.

(2) EXCEPTION- The amendments made by subsection (b)(1) shall be effective on July 1, 2008.

SEC. 204. DEFERRAL OF LOAN REPAYMENT FOLLOWING ACTIVE DUTY.

Part G of title IV is further amended by adding after section 493C (as added by section 203 of this Act) the following new section:

`SEC. 493D. DEFERRAL OF LOAN REPAYMENT FOLLOWING ACTIVE DUTY.

(a) Deferral of Loan Repayment Following Active Duty- In addition to any deferral of repayment of a loan made under this title pursuant to section 428(b)(1)(M)(iii), 455(f)(2)(C), or 464(c)(2)(A)(iii), a borrower of a loan under this title who is a member of the National Guard or other reserve component of the Armed Forces of the United States, or a member of such Armed Forces in a retired status, is called or ordered to active duty, and is enrolled, or was enrolled within six months prior to the activation, in a program of instruction at an eligible institution, shall be eligible for a deferment during the 13 months following the conclusion of such service, except that a deferment under this subsection shall expire upon the borrower's return to enrolled student status.

(b) Active Duty- Notwithstanding section 481(d), in this section, the term `active duty' has the meaning given such term in section 101(d)(1) of title 10, United States Code, except that such term--

(1) does not include active duty for training or attendance at a service school; but

(2) includes, in the case of members of the National Guard, active State duty.'.

SEC. 205. MAXIMUM REPAYMENT PERIOD.

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

`(7) MAXIMUM REPAYMENT PERIOD- In calculating the extended period of time for which an income contingent repayment plan under this subsection may be in effect for a borrower, the Secretary shall include all time periods during which a borrower of
loans under part B, part D, or part E--

`(A) is not in default on any loan that is included in the income contingent repayment plan; and

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

`(ii) makes monthly payments under paragraph (1) or (6) of section 493C(b);

`(iii) makes monthly payments of not less than the monthly amount calculated under section 428(b)(9)(A)(i) or subsection (d)(1)(A), based on a 10-year repayment period, when the borrower first made the election described in section 493C(b)(1);

`(iv) makes payments of not less than the payments required under a standard repayment plan under section 428(b)(9)(A)(i) or subsection (d)(1)(A) with a repayment period of 10 years; or

`(v) makes payments under an income contingent repayment plan under subsection (d)(1)(D).`