



DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE
OFFICE OF EDUCATION
BUREAU OF STUDENT FINANCIAL ASSISTANCE
WASHINGTON, D.C. 20202

MAY 14 1979

TO: LENDERS PARTICIPATING IN THE HEALTH
EDUCATION ASSISTANCE LOAN (HEAL) PROGRAM

and

ALL COORDINATORS OF STUDENT FINANCIAL
AID AT ALL HEALTH PROFESSIONS SCHOOLS

Reporting the Annual Percentage Rate (APR)
on the HEAL Variable Rate Promissory Note

HEAL lenders using the variable rate promissory note have expressed some confusion regarding the correct method for reporting the Annual Percentage Rate (APR) on the note form. The problem arises because the regulatory formula for determining the variable interest rate for the last two calendar quarters has resulted in a rate in excess of the 12% statutory interest limitation on HEAL loans.

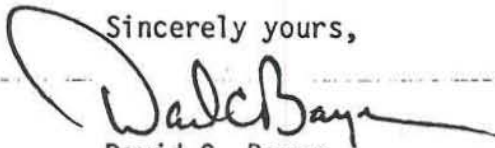
The following points of information are made to clarify the reporting of the APR on the HEAL variable rate note:

- For the calendar quarter ending June 30, 1979, the variable interest rate is 13 1/4% for the HEAL Program. By adding the applicable 1/4 of 1% insurance premium, the Annual Percentage Rate for the quarter is 13 1/2%.
- For the calendar quarter ending March 31, 1979, the variable interest rate was 12 5/8% for the HEAL Program. By adding the applicable 1/4 of 1% insurance premium, the Annual Percentage Rate for the quarter was 12 7/8%.
- In subsequent quarters, the variable interest rate will be adjusted as necessary so that the average rate for any four consecutive quarters does not exceed the 12% statutory limit on an annualized basis. Adjustments to the variable rate are computed according to regulatory formula and announced in the Federal Register.
- In reporting the APR on a HEAL loan, the lender should use the current quarter's variable rate announced by the U.S. Commissioner of Education plus 1/4 of 1% insurance premium. The lender enters the total in the space marked "Annual Percentage Rate" at the top of the note. (For the current quarter the APR should read 13 1/2%.) The lender should not enter "12%" nor "12 1/4%" as some lenders have done. The APR entered must reflect the annualized rate for the quarter in which the loan is made.

- In the note the borrower is advised that the Annual Percentage Rate is subject to change. The general provisions related to such a change are outlined for the borrower under "Interest, Paragraph 2" of the note. The lender is not required to negotiate a new note with the borrower each quarter upon a change or adjustment to the APR. Neither is the lender required to notify the borrower each quarter as the rate fluctuates or is adjusted.
- The provisions and language of the HEAL variable rate promissory note have been reviewed by the Federal Reserve Board to ensure that they meet the Truth-in-Lending requirements.

Because the provisions for the variable rate are not easily understood, the lender should call the borrower's attention to the provisions related to the variable interest rate at the time the note is signed. A list of questions and answers regarding the variable rate is enclosed to assist in this regard.

Sincerely yours,



David C. Bayer
Acting Chief
Health Loan Branch
Division of Policy
and Program Development

Attachment

The Variable Interest Rate

What is the variable interest rate?

The variable interest rate is a method of calculating interest on a loan on a quarterly basis using a formula derived from the average bond equivalent rates of the 91-day U.S. Treasury bills.

How is the variable interest rate calculated?

At the beginning of every calendar quarter, the U.S. Commissioner of Education announces the rate of interest to be used by HEAL lenders holding variable rate notes. A fixed rate of 7% plus an additional variable factor are combined to achieve the variable interest rate. The variable factor is calculated quarterly according to the following formula:

Determine the average of the bond equivalent rates reported for the ninety-one day U.S. Treasury Bills auctioned during the preceding quarter. Subtract 3.5 percent. Round the difference up to the nearest $\frac{1}{8}$ of one percent.

Is there a ceiling on the amount of annual interest which may be charged at the variable rate?

Yes. By law, the annual rate of interest on a HEAL loan may not exceed 12%. However, for a lender using the variable interest rate, for any individual quarter the rate may exceed 12% provided that the average of the quarterly rates for any 12-month period does not exceed 12%.

May the Annual Percentage Rate reported on the variable rate promissory note be higher than 12%?

Yes. The lender must record the variable interest rate which is in effect for the quarter when the note is signed. The Annual Percentage Rate (APR) is always a combination of the quarterly variable interest rate plus $\frac{1}{4}$ of 1% insurance premium. Thus, the APR entered may be higher than 12% in any given quarter, but it is subject to change in each succeeding quarter. The rate will be adjusted so that the Annual Percentage Rate for any consecutive four quarters will not exceed $12\frac{1}{4}\%$.

How has the variable interest rate fluctuated over the past year?

The rates for the last three quarters were as follows:

<u>Period Ending</u>	<u>Annualized Variable Rate</u>	<u>Annual Percentage Rate (APR) Including $\frac{1}{4}$ of 1% Insurance Premium</u>
June 30, 1979 (present quarter)	13 $\frac{1}{4}\%$	13 $\frac{1}{2}\%$
March 31, 1979	12 $\frac{5}{8}\%$	12 $\frac{7}{8}\%$
Dec. 31, 1978	11 $\frac{1}{8}\%$	11 $\frac{3}{8}\%$