

OCT 29 1987

To: Officials of Schools and Lenders Participating in the Health
Education Assistance Loan (HEAL) Program

Subject: HEAL School Policy Memorandum Four and Lender Policy Memorandum 87-4 - HEAL
Combined Payment Plan

This memorandum addresses the implementation of the Combined Payment Plan statute (section 485A of the Higher Education Act, as amended by the Higher Education Amendments of 1986 (Pub.L. 99-498)), for HEAL loans.

Purpose

The Combined Payment Plan (Plan) enables borrowers to have any HEAL loans and a Consolidation Loan^{1/} combined under a single lender to assist the borrower in the repayment of these loans. Since the Department of Education (ED) administers the consolidation phase of the Plan, additional information related to Consolidation Loans should be obtained from ED.

Under the Plan, a borrower may choose to combine only HEAL loans, or [may combine one or more HEAL loans with a Consolidation Loan. A Combined Payment Plan offers HEAL borrowers the following benefits:

1. All loans included in the Plan are serviced by a single lender;
2. A single payment can be made for all loans in the Plan, including loans consolidated under section 428C of the Higher Education Act; and
3. The total of all eligible loans impacts on the number of years for repayment, thereby potentially reducing the monthly payment amount (but increasing the total amount repaid).

^{1/}A Consolidation Loan, as administered by the Department of Education according to terms set forth in sec. 428C of the Higher Education Act, 20 U.S.C. 1078-3, may be a combination of the following loans: FISL, GSL, Perkins (formerly the NDSL program), PLUS (Student), SLS, and the HPSL program.

Time Frames for Combined Payment

If a borrower plans to include a Consolidation Loan, as well as one or more HEAL loans, in a Combined Payment Plan, the statute authorizing Consolidation Loans specifies when consolidation can take place. ED can provide further information regarding the time frames for consolidation. Since section 485A of the Higher Education Act does not specify when a borrower may enter a Combined Payment Plan, a borrower may request a Combined Payment Plan for HEAL loans at any time; however, the status of an individual as an eligible Combined Payment Plan borrower terminates upon receipt of a Combined Payment Plan.

Eligible Lenders

To offer HEAL Combined Payment, a lender must have a Combined Payment Plan Certificate of Comprehensive Insurance with the Division of Student Assistance (DSA) issued specifically for the Combined Payment Plan. A lender identification number (LID) will be assigned to a lender who is issued a Combined Payment Plan Certificate of Comprehensive Insurance. This number will always start with the number "5". If a lender is already a comprehensive or standard lender under the HEAL program, the lender will have two LIDs, one for the Combined Payment Plan and one for initial HEAL loans. If the lender also intends to consolidate loans, arrangements must be made with ED.

Lenders eligible to apply for a Combined Payment Plan Certificate of Comprehensive Insurance include the following:

1. A HEAL lender,
2. The Student Loan Marketing Association (Sallie Mae);
3. A single agency of a State or a single nonprofit private agency designated by a State;
4. An agency of any State functioning as a secondary market;
5. "Banks" (see section 435(d)(1)(A) of the Higher Education Act);
6. A pension fund as defined in the Employees Retirement Income Security Act;
7. An insurance company which is subject to examination and supervision by an agency of the U.S. or a State; and
8. Other eligible lenders described in section 435(d)(1)(E) of the Higher Education Act.

Borrower Selection of Lender

It is the borrower's decision whether to obtain a Combined Payment Plan and, if the borrower chooses to do so, to select the lender to administer the Plan. A borrower may select any authorized Combined Payment Plan lender to administer the Plan who holds one of the borrower's HEAL loans, or other loans being included in the Plan (i.e., loans being consolidated). If a borrower is offered a Combined Payment Plan by more than one of these lenders, the borrower shall choose the lender to administer the Plan. If none of these lenders offers Combined Payment, the borrower may select any other authorized lender, provided that the borrower certifies that he or she has sought and been unable to obtain a Combined Payment Plan from the holder(s) of any of the loans being included in the Plan.

Combined Payment Plan Application

Lenders must develop their own Combined Payment Plan applications and submit them to DSA for approval. If a borrower is including a Consolidation Loan in the Plan, the Consolidation Loan application should suffice as the application for the Combined Payment Plan, but must still be submitted for DSA approval. It is suggested that the application include the following information:

- 0 Borrower's name, social security number, and date of birth;
- 0 Borrower's permanent address and phone number;
- 0 Borrower's current address and phone number if different from above;
- 0 Name, address, and phone number of borrower's employer(s);
- 0 Information on borrower's current income;
- 0 Name and address of current holders of all HEAL loans to be included in the Plan;
- 0 Estimated current outstanding balance for each HEAL loan to be reissued (including principal, capitalized interest, and interest accrued but not capitalized, with any late charges shown separately) and, if known, account number and interest rate;
- 0 Other personal information which will assist the lender in locating the borrower should this be necessary (e.g., driver's license state and number; name, address, and phone number of borrower's parents or guardians; other personal references; states in which the borrower is licensed or certified to practice, or states in which the borrower intends to take examinations for licensure or certification);

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- 0 If the Combined Payment Plan lender is not a current holder of one of the borrower's loans being included in the Plan, borrower certification that he or she has been unable to obtain a Combined Payment Plan from a current holder of one of the loans being included in the Plan;
- 0 Borrower certification that he or she is not in default on any HEAL loan to be included in the Plan, that all information provided is accurate and complete, and that he or she understands the rights and responsibilities under the Plan;
- 0 Borrower authorization for the release, to the Combined Payment Plan lender, of any HEAL loan information requested by the lender for purposes of verifying information on the HEAL loans to be included in the Plan.

In addition, the following information should be provided to the borrower as part of the application-

- 0 Equal Credit Opportunity Act Notice (from current HEAL application);
- 0 Privacy Act Notification Statement (from current HEAL application);
- 0 Financial Privacy Act (from current HEAL application);
- 0 Borrower's rights under the Combined Payment Plan (refer to original note(s) and Exhibit B of this memorandum);
- 0 Borrower's responsibilities under the Combined Payment Plan (refer to original note(s) and Exhibit C of this memorandum);
- 0 Warning statement (from current HEAL application);
- 0 Fraud statement (from current HEAL application);
- 0 Lender certification that the lender has complied with section 485A of the Higher Education Act and all HEAL statutes, regulations, and contracts governing the reissuance of HEAL notes and the servicing and collecting of HEAL loans.

Creditworthiness

The HEAL regulatory requirements regarding the determination of creditworthiness are not applicable to reissued loans, since these loans have already been insured and the determination of creditworthiness, if applicable, will have been made before the loans were insured.

Combined Payment Plan Promissory Note

For HEAL loans, the Combined Payment Plan must be documented by a single new promissory note which lists each HEAL loan included in the Plan. A copy of the original note for each HEAL loan included in the Plan must be attached to the Combined Payment Plan note, and the terms of the original note must be incorporated by reference. A sample Combined Payment Plan promissory note is attached as Exhibit A. Examples of Rights and Responsibilities Statements are attached as Exhibits B and C. Lenders must develop their own Combined Payment Plan promissory notes and submit them to DSA for approval.

Reissuance of HEAL Loans

The lender selected to administer the Combined Payment Plan may reissue any HEAL loan to be included in the Plan which is not held by the lender, provided that the lender has determined to its satisfaction, in accordance with reasonable and prudent business practices, for each loan that:

1. The loan is a legal, valid, and binding obligation of the borrower;
2. Each loan was made and serviced in compliance with applicable laws and regulations;
3. The insurance (guarantee) on the loan is in full force and effect; and
4. The loan was not in default (as defined in section 733(e)(3) of the Public Health Service Act) at the time the request for the Plan was made.

A loan is reissued by paying, on the borrower's behalf, the proceeds to the holder of the loan. Each reissued loan shall equal outstanding principal, capitalized interest accrued, and unpaid interest not yet capitalized. Although the Combined Payment Plan statute also requires the inclusion of late charges as part of the proceeds paid by the lender for the reissued loan, the HEAL statute does not authorize payment of late charges as part of a default claim. Since the late charges cannot be included under the HEAL loan insurance yet the late charges must be paid by the lender to reissue the loan, the lender may wish to require that all late charges be paid by the borrower as a condition for obtaining a Combined Payment Plan. In any case, the lender may not include the late charges in the reissued loan for purposes of computation for filing a HEAL default claim.

The borrower may not be charged an insurance premium on any reissued HEAL loan.

Reissued HEAL loans do not need to be multiply disbursed.

Records

For each reissued HEAL loan, the Combined Payment Plan lender must obtain from the current holder all records required by section 60.42 of the HEAL regulations, including documentation necessary for properly servicing the loan and documentation required by the HEAL regulations for filing a default claim should the borrower default.

Terms of Combined Payment Plan HEAL Loans

Under a Combined Payment Plan, the terms of each HEAL loan remain the same as the terms of the original loan, except that the maximum repayment period for all HEAL loans held by a lender may extend to the latest date permitted on any one HEAL loan included in the Plan. If the borrower's Plan includes one HEAL loan which allows 15 years for repayment and one HEAL loan which allows 25 years for repayment, the Combined Payment Plan would allow both loans to have a 25-year repayment period. Eligibility for deferment continues to be dictated by the terms of each original loan, which could result in one loan in the Plan qualifying for deferment while another loan in the Plan remains in repayment status. Eligibility for forbearance also continues to be dictated by the terms of each original loan, so that any periods of forbearance granted for a loan prior to its inclusion in the Plan must be considered as part of the 2-year maximum forbearance period that may be granted without approval from the Secretary.

With the concurrence of the borrower, the repayment of HEAL loans included in the Combined Payment Plan during any period may be made in amounts that are less than the interest that accrues during the period.

Payment of a Combined Payment Plan loan shall commence within 60 days after the later of: (1) the date a borrower accepts a lender's offer to administer a Combined Payment Plan; (2) the date the lender makes a Consolidation Loan to the borrower, if applicable; or (3) the date the lender reissues the HEAL loans included in the Combined Payment Plan, except that, for each HEAL loan included in the Combined Payment Plan, repayment may be delayed in accordance with the terms of the original HEAL note if the borrower has not yet received the grace period provided for in the original note.

Questions regarding operational aspects of the Combined Payment Plan for the HEAL program (such as notification to the Department of assignment to a new lender) should be directed to Mr. Norman Brooks or Mr. Carl Schmieg of the HEAL Branch at (301) 443-1540. Policy questions should be directed to the Program Development Branch at (301) 443-4540.

Michael Heningburg
Director
Division of Student Assistance

Exhibits

EXHIBIT B
HEALTH EDUCATION ASSISTANCE LOAN (HEAL) PROGRAM
COMBINED PAYMENT PLAN HEAL LOAN
BORROWER'S RIGHTS

1. The lender (holder) cannot change the terms of my combined payment plan HEAL promissory note without my consent.
2. The lender must provide me with a copy of the completed combined payment plan HEAL promissory note when the combined payment plan is made. The lender (holder) must return the note to me when it is paid in full.
3. The lender (holder) will provide me with a repayment schedule before the repayment period begins.
4. If the loan is sold from one lender (holder) to another lender (holder), or if the loan is serviced by a party other than the lender (holder), the holder must notify me within 30 days of the transaction and I must be sent a notification which spells out my obligations to the new holder.
5. I have a right to deferment of principal and interest repayments if certain conditions exist, in accordance with the terms of each of my original HEAL promissory notes. Under deferment, I am not required to make payments on that portion of the loan principal or interest which qualifies for deferment. However, interest continues to accrue during any deferment period. To receive a deferment, including a deferral of the onset of the repayment period (see section 60.11(a) of the HEAL regulations), I must, prior to the onset of the activity and annually thereafter, submit to the lender (holder) of the combined payment plan HEAL promissory note evidence of my status in the deferment activity and evidence that verifies deferment eligibility of the activity. It is my responsibility to provide the lender (holder) with all required information or other information regarding the requested deferment.
6. I have a right to prepay the whole or any portion of the combined payment plan HEAL promissory note at any time without a penalty.
7. I may select a monthly repayment schedule with substantially equal installments or a monthly repayment schedule with graduated installments that increase in amount over the repayment period if I contact the lender (holder) of my combined payment plan HEAL promissory note at least 30 and not more than 60 days before the commencement of my repayment period to establish the precise terms of repayment.
8. My combined payment plan HEAL promissory note obligation will be cancelled in the event of my death or permanent and total disability in accordance with applicable Federal statutes and regulations.
9. "Forbearance" means an extension of time for making loan payments or the acceptance of smaller payments than were previously scheduled to prevent me from defaulting on my payment obligations. I have the right to be granted forbearance whenever I am temporarily unable to make scheduled payments on my loan and I continue to repay the loan in an amount commensurate with my ability to repay the loan unless the Secretary determines that my default is inevitable and the forbearance will be ineffective in preventing default. A lender (holder) must exercise forbearance in accordance with terms that are consistent with the limitations on the length of repayment if the lender (holder) and I agree in writing to the new terms. For each HEAL loan included in the combined payment plan, a forbearance period may not exceed 6 months, and the total period of forbearance (with or without interruption) granted to me, including periods granted prior to the combined payment plan, must not exceed 2 years, unless an extension is granted by the Secretary.
10. The lender (holder) must notify me in writing of the balance owed for principal, interest, and any other charges or fees owed to the lender (holder), at least every 6 months from the time my combined payment plan HEAL promissory note is made.

EXHIBIT C
HEALTH EDUCATION ASSISTANCE LOAN (HEAL) PROGRAM
COMBINED PAYMENT PLAN HEAL LOAN
BORROWER'S RESPONSIBILITIES

1. I understand that there is no interest subsidy on a combined payment plan HEAL promissory note and that I must pay all interest on the loan. If I do not make payments on time or if I default, the total amount to be repaid may be increased by late charges, additional interest costs, attorney's fees, court costs, and other collection costs.

2. I must immediately notify the lender (holder) in writing if any of the following occurs to me before the loan is repaid in full: (a) change of address; (b) name change (e.g., maiden name to married name); (c) failure to begin any activity eligible for deferment; or (d) cessation of participation in an activity eligible for deferment.

3. I must notify the lender (holder) of any occurrence which may affect my eligibility to receive or to continue to receive a deferment of principal and interest payments.

4. To receive a deferment, including a deferral of the onset of the repayment period (see section 60.11(a) of the HEAL regulations), I must, prior to the onset of the activity and annually thereafter, submit to the lender (holder) of the combined payment plan HEAL promissory note evidence of my status in the deferment activity and evidence that verifies deferment eligibility of the activity. It is my responsibility to provide the lender (holder) with all required information or other information regarding the requested deferment.

5. At least 30 and not more than 60 days before commencement of my repayment period, I must contact the lender (holder) to establish the precise terms of repayment. I may select a monthly repayment schedule with substantially equal installment payments or with graduated payments that increase in amount over the repayment period. If I do not contact the lender (holder) and do not respond to contacts from the lender (holder), the lender (holder) may establish a monthly repayment schedule with substantially equal payments.

6. I understand that this loan must be repaid in accordance with my repayment schedule. If my account becomes overdue by more than 60 days, the lender (holder) must notify an appropriate consumer credit reporting agency of this, which may significantly and adversely affect my credit rating. The lender (holder) must also use collection agents and utilize other collection activities (which may include litigation) if my account becomes overdue.

7. If I do not make payments when due, my loan may be declared in default. If I default, the Federal Government will take over my loan and I will then owe the Government. The Federal Government will actively pursue me for repayment of the debt, including the use of collection agents and reporting my default to consumer credit reporting agencies or to the Internal Revenue Service (IRS) for purpose of locating me or for income tax refund offset, and referral to the Department of Justice for litigation. I may be the subject of court action to force me to pay. The Government also may cause to be reduced Federal reimbursements or payments for health services under any Federal law to borrowers who are practicing their professions and have defaulted on their loans, and may make other administrative offsets for Federal employees. The Government also may report any written off debt to the IRS as taxable income and may undertake any other debt collection procedures in accordance with the Claims Collection Regulations (45 CFR Part 30).

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8. I do not have the right to have my loan discharged in bankruptcy during the first 5 years of the repayment period. This prohibition against the discharge of a HEAL loan applies to bankruptcy under any chapter of the Bankruptcy Act, including Chapter 13. I may have the loan discharged in bankruptcy after the first 5 years of the repayment period only upon a finding by the Bankruptcy Court that the non-discharge of such debt would be unconscionable and upon the condition that the Secretary shall not have waived his or her rights to reduce any Federal reimbursements or Federal payments for health services under any Federal law in amounts up to the balance of the loan.