

Bureau of Health Professions
Division of Student Assistance

August 24, 1987

To: Lenders Participating in the Health Education Assistance Loan (HEAL)
Program

Subject: Late Conversion of HEAL Loans to Repayment Status

The sample of accounts we have seen during recent program reviews shows that lenders are allowing some borrowers to exceed the nine (9) month grace period before converting them to repayment status. In most cases these late conversions occur when borrowers do not respond to lenders' correspondence regarding the establishment of a repayment schedule.

We recognize that most lenders are earnestly attempting to contact borrowers and formulate repayment schedules before the grace period expires. Nevertheless, we remind you that it is the lenders' responsibility to ensure that borrowers' repayment periods begin on time.

Section 60.11(e) of the HEAL Regulations states that:

"If the borrower does not contact the lender and does not respond to contacts from the lender, the lender may establish a monthly repayment schedule with substantially equal installment payments, subject to the terms of the borrower's HEAL note."

If a borrower fails to respond to your written inquiries or other attempts to establish a repayment schedule, you should formulate a monthly schedule with substantially equal installment payments and make the terms Subject to the original promissory note(s).

Our sampling of borrowers' accounts also shows that graduated repayment schedules are not being used. This leads us to suspect that lenders may not be fully complying with Section 731(a)(2)(E) of the HEAL statute and Section 60.11(e) of the Regulations, which require that borrowers be offered a fixed-installment and a graduated-installment repayment plan option. The borrower may exercise one of these options at least 30 but not more than 60 days before the beginning of the repayment period. Section 60.34(o) of the Regulations requires lenders to contact borrowers to establish the terms of repayment. As part of this contact, lenders should provide information about their graduated repayment plans.

If you have any question concerning late conversions and graduated repayment schedules, please contact Mr. Carl M. Schmieg on (301) 443-1540.

Sincerely yours,

Michael Heningburg
Director
Division of Student Assistance