

# DEPARTMENT OF HEALTH & HUMAN SERVICES

Public Health Service

Health Resources and  
Services Administration  
Rockville MD 20857

Bureau of Health Professions

OCT 6 1989

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

Subject: HEAL Lender Policy Memorandum 89-12-Summary of HEAL Program Review  
Findings

## BACKGROUND

The Division of Student Assistance monitors, through on-site reviews, the administration of the Health Education Assistance Loan (HEAL) program by lending institutions. The objectives of the reviews are to evaluate program operations, identify program strengths and weaknesses, provide technical assistance and interpret the review findings to formulate suggestions and requirements for improving program management.

In recent years, the reviews have concentrated on those institutions which had large numbers of HEAL borrowers and/or large dollar volume in loans. The process reviewed compliance with program requirements. This memorandum summarizes the findings of the reviews.

## PROGRAM STRENGTHS

### PROGRAM STRENGTH # 1 - File Maintenance and Contents

A majority of the reviews showed that the lenders' student loan files were complete. The files contained signed promissory notes, copies of student applications, semiannual borrower notifications, proof of disbursements, and changes in student information, in addition to other records required by section 60.42 of the HEAL regulations.

### PROGRAM STRENGTH # 2 - Converting Borrowers to Repayment

A majority of the reviews showed that the lenders' procedures to identify borrowers who are scheduled to enter repayment are good and that lenders' written procedures to convert HEAL loans to repayment are basing the terms and length of repayment upon the borrowers' total financial obligations, future educational plans, and employment opportunities.

A majority of the lenders are aggressively pursuing borrowers who have not informed them about changes in their enrollment status and repayment plans. The reviews also showed that some lenders request and obtain information about borrowers' career plans at the beginning of their grace period. The career planning information has proven valuable for maintaining contact with borrowers and establishing repayment schedules for individual accounts.

The following are some of the better lender conversion activities:

- 0 Surveying and contacting borrowers at the time full-time enrollment or deferment periods end to alert borrowers concerning their loan obligations and to obtain credit information, information concerning residency training, and employment plans;
- 0 Using information from the schools and health professions organizations (e.g., American Medical Association matching lists) to locate missing borrowers;
- 0 Offering borrowers the opportunity to make graduated repayments;
- 0 Offering borrowers the opportunity to combine HEAL loans;
- 0 Offering borrowers the maximum length of time to repay their HEAL loans;
- 0 Making telephone contacts midway through the grace period to determine desirable repayment terms; and
- 0 Establishing repayment schedules 30 to 60 days prior to the time the borrowers are to repay their loans as required by the HEAL regulations.

### PROGRAM STRENGTH # 3 - Forbearance Procedures

The reviews showed that lenders are offering forbearance to borrowers who have temporary financial difficulties. Lenders are requiring borrowers to demonstrate that they need temporary relief from their normal repayment burden before forbearance is granted. Forbearance is offered to borrowers after the borrower demonstrates repayment problems. Some lenders have developed a personalized forbearance agreement describing the terms that borrowers must follow during the period of forbearance. They require borrowers who request an additional period of forbearance to list their financial obligations and demonstrate that they will eventually have the financial resources to repay the HEAL loan(s). Some lenders require current financial statements from borrowers before forbearance is granted, and perform a credit Check on delinquent borrowers before granting extended periods of forbearance.

Forbearance requests must be limited to six (6) months at a time, and are generally limited to that period or less. However, additional periods of forbearance are granted when a borrower can demonstrate that eventually financial resources will be available to meet the HEAL obligation, and the lender determines, as required by Section 60.37 of the HEAL regulations, that it is reasonable to expect that the borrower will eventually repay the HEAL loan(s).

One lender has developed a forbearance form that indicates the borrower's financial situation, including:

- 0 The borrower's reason(s) for requesting forbearance;
- 0 The length of the forbearance period;
- 0 The unpaid principal balance due at the time the forbearance form was executed;
- 0 The unpaid principal balance at the commencement of forbearance, the principal amount paid to date, the regular installment payment schedule, and the date the borrower made the last payment;

- o The total number of payments made by borrower before the forbearance agreement was executed;
- o The date the next payment is due;
- o The installment payment, if any, during the forbearance period;
- o The date regular installment payments resume; and
- o The loan obligation, anticipated debt, and anticipated dollar amount of the installment after the forbearance period ends.

DEBT MANAGEMENT PROGRAM IMPROVEMENT - Six Month Notice

Section 60.34(c) of the regulations states "The lender must notify each borrower by a written contact, which has an address correction request on the envelope, of the balance owed for principal, interest, insurance premium and any other charges or fees owed to the lender, at least every 6 months from the time the loan is disbursed. The lender must use this notice to remind the borrower of the option, without penalty, to pay all or part of the principal and accrued interest at any time." These semi-annual notifications are intended to assure that borrowers are aware of their total HEAL indebtedness. To comply with this requirement prior to the beginning of the repayment period, semi-annual billing statements which indicate that no payment is due and include the required information can be sent to borrowers.

It is suggested that the following information be part of the 6-month borrower contact:

- o Dates when loans were originated;
- o Total unpaid principal balance due;
- o Amount of accrued interest due;
- o Capitalized interest to date;
- o Installment payments and accrued interest paid to date;
- o Date of graduation or maturity of the loan(s);
- o Date the first payment is due;
- o Total number of loans made to the borrower;
- o A list of interest rates and dates that the interest charges were applied;
- o Interest charges; and
- o Current status of the loan (in-school, deferment, forbearance, etc.).

MANAGEMENT WEAKNESSES

PROBLEM AREA NO. 1 - Processing HEAL Loans

Ten lenders did not assure that a copy of the Alien Registration Receipt Card (Form 1-551) was attached to each HEAL application submitted by an alien.

A HEAL application from an alien is not complete if it does not include a copy of an I-551 form from the alien as proof of permanent residence. An alien may not obtain a HEAL loan before the I-551 card is issued. A copy of both sides of the I-551 form must be attached to the application of the student. The back side of the I-551 lists alien status conditions imposed by the Immigration and Naturalization Service. These conditions may include an expiration date for the I-551. When the I-551 shows an expiration date, the student is not eligible for a HEAL loan. Lenders must assure that the I-551 is attached to all alien applications and verify that the I-551 does not have an expiration date to help insure the eligibility of aliens who receive HEAL loans.

Nine lenders had not established written procedures to process HEAL loans.

One procedure which is of great assistance is the use of edit checks at the time HEAL applications are reviewed and entered into the system. Some effective edit checks include:

- 0 Requiring the academic year and loan period dates to be compatible;
- 0 Verifying the Net Cost of Education calculations;
- 0 Checking the annual and aggregate HEAL amounts for borrowers;
- 0 Requiring proof of name changes of borrowers;
- 0 Requiring that the names of financial aid administrators qualified to sign the application be on file;
- 0 Insuring that the HEAL check is disbursed no earlier than 15 days before the requested disbursement date; and
- 0 Assuring that a copy of both sides of the I-551 is obtained before a HEAL loan is approved for an alien.

Specific written procedures to edit the HEAL applications are essential for proper program management.

The development and use of procedures manuals is also an excellent way lenders may insure that they have established procedures to process HEAL loans.

#### PROBLEM AREA NO. 2 - Effective Communication

The promotional information of six lenders was not accurate. Promotional information should outline the terms of HEAL loans.

One method for improving communication with the borrower and the school is to schedule annual visits to schools by the lender's HEAL marketing staff to assist with orientation and training sessions. Lender representatives can counsel borrowers before HEAL loans are made and during the exit interview period. Another effective communication initiative is a toll free telephone number that allows students to obtain information about the status of loan accounts and changes in program policies.

HEAL Lender Staff need to be well trained and responsive to borrowers' inquiries. Staff should be provided with adequate training, such as a HEAL orientation and telephone etiquette, before they are permitted to handle inquiries from borrowers and schools. .

A HEAL Loan Information Sheet developed by lenders makes borrowers aware of their HEAL loan terms and helps to acquaint borrowers with the lender and the lender's program for HEAL borrowers.

### PROBLEM AREA NO. 3 - Interest Calculation Discrepancies

Seven lenders did not calculate interest correctly. Lenders should develop an automated program which accurately calculates interest charges on each student account, and indicates principal amount owed and other disbursement information.

Lenders must assure that the interest rates charged do not exceed the maximum allowed by law and that borrowers are aware of their option to pay the accruing interest on loans beginning at the time the check is disbursed. Lenders must also inform borrowers at least every six months of the balance owed for principal and of the option to prepay, without penalty, all or part of the principal and accrued interest at any time. Some lenders inform borrowers quarterly of the interest rate and the amount of interest that has accrued on the loan.

Six lenders were compounding interest more frequently than semiannually. The HEAL statute provides that interest may not be compounded more frequently than every six months.

### PROBLEM AREA NO. 4 - Repayment Schedules

Thirteen lenders calculated late charges improperly. Section 60.15(a) of the HEAL Regulations requires that borrowers pay a late charge not to exceed 5 percent of the payment due. Repayment schedules must contain the regulatory language describing late charge fees.

Six lenders did not begin the repayment period 9 months after the end of a residency period, but varied from this required period of time. Section 60.11(a) of the HEAL regulations requires that the repayment period begins the first day of the 10th month after the month the borrower ceases to be a full-time student or an intern or resident.

To help in maintaining contact with borrowers prior to repayment, a student survey instrument can be used to survey borrowers during their grace period and remind them of their loan obligation. One of the major functions of the survey sheet is to identify borrowers who are participating in residency programs and to determine the location of these borrowers. The survey instrument also is used to obtain financial and career information about the borrower in order to establish the repayment terms. Its use will enable the

lender to base the terms of repayment upon the borrower's total financial obligations, future educational plans, and employment opportunities, and to offer suitable graduated installment payments. The lender must aggressively pursue borrowers who have not informed them about their enrollment status and repayment plans.

PROBLEM AREA NO. 5 - HEAL Check Processing Information (Student Files)

Twelve lenders sent the HEAL loan proceeds check to the school more than 15 days before the requested disbursement date. HEAL check disbursement procedures which are functioning well include:

- o Creating an audit trail to show dates when checks are disbursed, the disposition of the Lender's Manifest, and the reasons for voiding accounts;
- o Assuring that disbursements are made no more than 15 days before the requested disbursement date, in accordance with HEAL Policy Memorandum Number Three; and
- o Complying with the requirement that no more than one disbursement be made to the same borrower during a single month, in accordance with HEAL Lender Policy Memorandum Number 89-7.

PROBLEM AREA NO. 6 - Promissory Note Discrepancies

Nine lenders' disclosure of late charges does not correspond to language at Section 60.15(a) of the HEAL regulations. Questions concerning the financial disclosures on the promissory notes or repayment schedules should be directed to the staff of the Federal Reserve Board on (202) 452-3667.

PROBLEM AREA NO. 7 - Student Status Reports

Eight lenders' copies of Lenders' Manifests (HRSA-505) did not show when borrowers were converted to repayment. Lenders' Manifests must also show when loans were cancelled. Procedures for submission of Lenders' Manifests must be established and manifests with multiple disbursements must be submitted on a timely basis. The use of a computer mechanism for processing is encouraged.

If you need additional information concerning the program strengths or weaknesses discussed in this policy memorandum, please call Mr. Glenn King in the HEAL Branch on (301) 443-1540.

Sincerely yours,

Michael Heningburg  
Director  
Division of Student Assistance

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**Public Health Service**

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Services**

**Administration**

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**SEP 24 1980**

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

Subject: Updated Documents for the Health Education Assistance  
Loan (HEAL) Program for Loan Processing by (HEAL) Lenders

Attached is Health Education Assistance Loan (HEAL) Lender Policy Memorandum 89-12 - Summary of HEAL Program Review Findings. This memorandum summarizes program strengths and weaknesses found in lender program, reviews and provides suggestions for HEAL program management improvement. Also attached is the HRSA 502-1 (Rev 5/89) Repayment Schedule (Variable Rate). The previous edition of this form, which does not contain the required warning statement, is now obsolete and must be replaced by this revision. You may obtain a supply of the revised form by writing the HEAL Branch as follows:

Mr. Glenn King, Acting Chief  
Operations Staff, HEAL Branch  
Division of Student Assistance, BHPr  
Parklawn Building, Room 8-39  
5600 Fishers Lane  
Rockville, MD 20857

if you wish to order the forms by telephone, please feel free to call Mr. King at (301) 443-1540. If you have any additional questions concerning the information provided, please do not hesitate to contact Mr. King or me at the above number.

Sincerely yours,

Stuart Weiss  
Chief  
HEAL Branch  
Division of Student  
Assistance