

**DEPARTMENT OF HEALTH & HUMAN SERVICES**

**Public Health Service**

**Health Resources and  
Services Administration  
Rockville MD 20857**

Bureau of Health Professions

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

Subject: Procedures Used in the Collection of Defaulted and Bankruptcy  
Claims Paid by DHHS  
HEAL School Policy Memorandum # Fourteen  
HEAL Lender Policy Memorandum # 89-4

Lenders and schools have expressed interest in loan collection efforts performed by the Department of Health and Human Services (DHHS) after a claim is paid. The following information should be helpful:

1. Collection of defaults with judgments

- a. Borrower is notified that DHHS paid a claim and now owns the loan(s);
- b. Borrower is reported to a credit bureau;
- c. File is prepared and forwarded to the Department of Justice (DOJ) for enforcement of judgment. If successful, borrower establishes repayment arrangements;
- d. If unsuccessful, DHHS will enforce program offset and exclusion requirements (see below).

2. Defaults without judgments

- a. Borrower is reported to a credit bureau;
- b. File is transmitted to a collection agency;
- c. Collection agency notifies borrower that DHHS paid a claim and owns the loan;
- d. Collection agency has six months to establish repayment arrangements with borrower;
- e. If successful, collection agency may collect loan payments for 12 months. After 12 months, file is returned to DHHS to collect payments;
- f. If collection agency is unsuccessful, file is returned at the end of six months;

- g. File is then prepared and forwarded to the DOJ;
- h. DOJ files suit, obtains judgment, and enforces collection;
- i. If unsuccessful, DHHS will enforce program offset and exclusion requirements.

### 3. Bankruptcy claims - Chapter 7

- a. Borrower is notified that DHHS paid a claim and now owns the loans;
- b. DHHS prepares case for transmittal to DOJ;
- c. DOJ requests case dismissal and seeks to obtain judgment;
- d. If judgment is not granted, the case is returned for collection;
- e. DHHS sends out one letter to the borrower;
- f. Case is then returned to a different division of Department of Justice for judgment and collection of judgment;
- g. If unable to collect, DHHS will enforce program offset and exclusion requirements;
- h. Chapter 7 bankruptcies are not reported to the Internal Revenue Service (IRS).

### 4. Bankruptcy claims - Chapter 13 and 11

- a. Borrower is notified that DHHS paid a claim and now owns the loans;
- b. DHHS prepares case for transmittal to DOJ;
- c. DOJ requests case dismissal;
- d. DOJ obtains judgment and collects on judgment;
- e. Chapter 13 bankruptcies are not reported to the IRS.

After the above steps have been completed, the following additional actions may be implemented, if necessary:

1. Internal Revenue Service Offset - The Secretary will use the IRS tax refund offset to collect claims which are past due and legally enforceable. To date \$22,325,810 representing 799 borrowers have been reported to IRS.
2. Medicare Offset - The Secretary shall enter into an agreement with any physician who, by reason of a breach of contract entered into by the physician pursuant to the HEAL Program, owes a past-due obligation to the United States. The physician agrees to assign a portion of his Medicare payments to his loans.
3. Medicare and Medicaid Exclusion - This will be used as a last resort. It will be handled through DHHS. The borrower may be excluded from participation in the Medicare and/or Medicaid programs by the Secretary until such time as the entire past due obligation has been repaid.

We hope this information will be helpful to you.

Sincerely yours

Michael Heningburg  
Director  
Division of Student Assistance