

DEC15 1992

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

Subject: Procedures for Determining Creditworthiness of
HEAL Cosigner Applicants
Lender Policy Memorandum #93-6
School Policy Memorandum #34

Section 708(c) of the HEAL statute requires a lender to reduce by 50 percent the risk-based premium to eligible borrowers if a credit worthy parent or other responsible party co-signs the HEAL loan promissory note. A cosigner applicant may not be found to be credit worthy unless the lender determines that he or she has the financial ability to assume the repayment obligation of the HEAL loan. In making this determination, the lender must consider, at a minimum, the cosigner's employment history, income, assets, outstanding debts, and credit history, and must follow criteria and procedures which are at least as stringent as those it would use to determine eligibility for: (1) a consumer loan (as the primary borrower or as a cosigner); or (2) a cosigner of a student loan that is not federally insured. A lender that does not have criteria
-for determining eligibility for either (1) or (2) above must obtain such procedures from a lending institution or other organization that deals with consumer loans or private student loans which require cosigners.

Lenders are responsible for developing their own cosigner application for HEAL loans in accordance with the above guidance. We have enclosed for your information a copy of a promissory note addendum which may be used for HEAL loans with cosigners. A camera-ready copy of the promissory note addendum will be provided to lenders as soon as possible. Any lender that would prefer to develop its own promissory note addendum may do so, but must first submit it to the HEAL Branch for approval.

Since the HEAL statute does not contain specific directives regarding HEAL cosigner rights and responsibilities, lenders are strongly encouraged to have the cosigner promissory note addendum reviewed by their own legal counsel to assure that it does not conflict with any State laws applicable to their HEAL loans with cosigners. Federal regulations governing credit practices related to cosigners may be found at 16 CFR Part 444 (for lenders subject to Federal Trade Commission requirements) and at 12 CFR Part 227 (for lenders subject to Federal Reserve Board requirements).

Clarification of effective date of changes resulting from P.L. 102-408

Changes made by P.L. 102-408 which became effective on October 13, 1992, the date of enactment of the law, apply to loans for which the first disbursement was made on or after October 13, 1992. This is a correction to our memorandum of October 19, 1992 (lender policy memorandum 93-1; school policy memorandum 31), which indicated that they would apply to loans for which the promissory note was signed on or after October 13, 1992. We apologize for any confusion resulting from this correction.

School purchases of loans to reduce HEAL default rate

The deadline for a school to purchase defaulted HEAL loans from the Department in order to reduce its HEAL default rate, and the associated risk category for loans for which first disbursements are made on or after January 1, 1993, has been extended to December 30, 1992. Lenders will be notified on December 31, 1992 of any school whose default rate has changed as a result of loan purchases, and the appropriate risk category for the school, for purposes of calculating borrower insurance premiums. This extension has been granted because of the short implementation period provided in the statute. After December 30, 1992, the option to purchase defaulted HEAL loans to reduce Fiscal Year (FY) 1992 HEAL default rates will remain available to schools, and changes to HEAL default rates resulting from school purchases will be made on a quarterly basis. HEAL loans purchased after December 30, 1992 but not later than March 15, 1993, will impact on a school's default rate effective April 1, 1993.

We hope this information is helpful and apologize again for the short implementation period. Your cooperation is greatly appreciated. Please contact the HEAL Branch at 301 443-1540 if there are any questions

Michael Heningburg
Director
Division of Student Assistance

Enclosure

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES
PUBLIC HEALTH SERVICE
HEALTH RESOURCES AND SERVICES ADMINISTRATION

HEALTH EDUCATION ASSISTANCE LOAN PROGRAM

Addendum to

PROMISSORY NOTE - VARIABLE OR FIXED RATE

The following provisions supersede any conflicting provisions contained in the attached Note for all loans with first disbursements made on or after October 13, 1992:

- A. The following supersedes and replaces the INTEREST provisions of the attached Note:
1. Beginning on the day the loan is disbursed, interest shall accrue. Payment of the interest accruing before the beginning of the repayment period may be postponed until the date upon which repayment of principal is required to begin or to resume. The frequency with which interest which has accrued and is not paid shall be added to the principal. The frequency of this Note shall be as follows (not more frequently than every twelve months):
 - (a) In-School period:
 - (b) Deferment periods:
 - (c) Grace period:
 - (d) Repayment period:
 2. Interest shall accrue and be payable at a yearly rate of interest which may not exceed a variable or fixed rate calculated by the Secretary of the Department of Health and Human Services for each calendar quarter and computed by determining the average of the bond equivalent rates for the ninety-one day U.S. Treasury Bills (T-Bills) auctioned during the preceding quarter, plus three percent, rounding this figure up to the nearest one-eighth of one percent. The rate of interest applied to this Note shall be as follows:
 - (a) In-School period:
 - (b) Deferment periods:
 - (c) Grace period:
 - (d) Repayment period:
 3. Any change in the yearly rate of interest will affect the payment amounts, the number of payments, or the amount due at maturity.

- B. The following supersedes any conflicting provisions of the attached Note:
1. The repayment period shall not be less than ten years nor more than twenty-five years. Any period described under DEFERMENT and any period of forbearance shall not be included in determining the ten or twenty-five year periods.
 2. Monthly installments of principal and interest need not be paid, but interest shall accrue:
 - (a) Not in excess of one year, if I received the loan while enrolled in a school of chiropractic and I graduated from a school of chiropractic.
 - (b) Not in excess of three years, when I **have** completed an accredited internship or residency training program in osteopathic general practice, family medicine, general internal medicine, preventive medicine, or general pediatrics, and am practicing primary care.
 3. A lender or holder must exercise forbearance in accordance with terms that are consistent with the thirty-three year limitation on the length of repayment.
 4. If I fail to make a scheduled payment, or fail to comply with any other term of this Note, any HEAL school or post-graduate training program I have attended may assist in the collection of my loan, including providing information concerning me to the Secretary and to past and present lenders and holders of my HEAL loans.
 5. No Federal or State statute, regulation, or administrative limitation shall terminate the period within which suit may be filed, a judgment may be enforced, or an offset, garnishment, or other action may be initiated or taken by the Secretary, the Attorney General, or other administrative head of another Federal agency, for the repayment of the amount due on this Note.

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES
PUBLIC HEALTH SERVICE
HEALTH RESOURCES AND SERVICES ADMINISTRATION

HEALTH EDUCATION ASSISTANCE LOAN (HEAL) PROGRAM

PROMISSORY NOTE ADDENDUM #2 - FOR HEAL LOANS WITH COSIGNER

Borrower: _____

Cosigner: _____

1. Both the borrower and the cosigner of the HEAL Promissory Note will be liable for the full amount of the loan according to its terms upon demand by the lender.
2. The cosigner of the HEAL Promissory Note agrees that the borrower may elect any alternative repayment option, and may be granted periods of deferment or forbearance, without notice to or consent from the cosigner. Such election shall not affect or release the cosigner from the cosigner's obligations under the HEAL Promissory Note.
3. The Cosigner of the HEAL Promissory Note agrees to pay the debt evidenced by the HEAL Promissory Note upon demand. The cosigner may be sued for payment although the person who received the money is able to pay. Read the entire HEAL Promissory Note for the exact terms of this obligation.
4. The cosigner remains liable for this loan in the event that it: (a) is consolidated with other HEAL loans as authorized by section 706(e) of the Public Health Service Act; (b) is sold from one lender to another lender; or (c) is serviced by a party other than the lender.
5. The obligations of the cosigner, as set forth in the HEAL promissory note and in this addendum, are made binding by the cosigner's signature on the promissory note in the section marked "signature of endorser".
6. The HEAL loan may be discharged in bankruptcy only pursuant to the provisions of the Public Health Service Act, as referenced in the HEAL promissory note.
7. The HEAL loan will not be cancelled upon the death or disability of the cosigner.
8. The cosigner is not entitled to forbearance.
9. The cosigner must immediately notify the lender in writing of any change in address or name.

Payment Guaranty. The person signing below unconditionally guarantees payment of all amounts not paid when due under this HEAL loan.

Signature of cosigner

Date