

Bureau of Health Professions

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

Subject: HEAL Standard Creditworthy Criteria
Lender Policy Memorandum L-94-19
School Policy Memorandum S-94-16

Purpose

The HEAL Program has developed a set of standardized credit criteria for lenders to use to establish the creditworthiness of borrowers. If lenders follow these criteria loans will be eligible for HEAL guarantee insurance.

Background

During fiscal year (FY) 1994 the Division of Student Assistance (DSA) conducted three technical assistance workshops. An issue arose concerning the various credit criteria used by HEAL lenders in deciding the creditworthiness of borrowers. Indeed, without a standardized set of guidelines lenders developed criteria which were sometimes significantly different from one another. Financial aid administrators reported problems getting students' applications approved year-to-year when lenders changed because of these varying credit criteria standards. The HEAL Program recognized the problem, and on May 6, 1994, held a meeting with school, lender, and association representatives to discuss the issue.

Approach

The HEAL Program solicited comments from four major lenders/servicers regarding their credit criteria standards and practices. We distributed this information at the May 6 meeting. After thoroughly addressing the intent of relevant legislation and regulations, we reached a consensus on the following approach. Furthermore, we agreed that implementation would start October 1, 1994 and that continuing students would be evaluated against standards used by their prior lenders (when the standards were less restrictive) to assure a smooth transition to the use of the new criteria.

HEAL Standard Creditworthy Criteria

The following definitions will apply when determining the creditworthiness of a HEAL borrower:

- (1) Delinquent - any payment on a loan that is 1 to 120 days past due, and
- (2) Default - any payment which is more than 120 days past due.

All lenders are to use the following procedures in deciding the creditworthiness of borrowers.

1. There will be a zero dollar tolerance on delinquent accounts. Example: A \$10 delinquent account will be treated the same as a \$1,000 delinquent account.
2. Lenders must notify the applicant and the applicant's school of the denial of a HEAL loan, stating the reason for the denial. The denial letter to the school and applicant must contain the name and telephone number of the credit bureau that listed any negative credit history on the applicant.
3. A lender must reject the borrower if the credit report evidences any of the following:
 - a. any one commercial or consumer loan account (includes department store or major credit card accounts) or educational loan is delinquent for 90 days or more, or two loan accounts are delinquent for 60 days or more;
 - b. any delinquency of more than 1 day exists on a Federal debt (Note: a HEAL loan is not a Federal debt until the Federal Government owns the loan.); or,
 - c. a bankruptcy was filed and/or discharged within the past five years (consistent with the Department of Education's PLUS loan).

Borrowers have the right to present evidence in the appeal process that delinquencies identified on his/her credit report have been satisfactorily resolved including documentation that satisfactory repayment arrangements have been made. To facilitate appeals, we recommend that lenders identify a person to receive appeal documents, and that lenders accept documentation from either the applicant or from the school acting on behalf of the applicant.

4. When appealing a negative credit decision the following is considered acceptable documentation:
- a. Written Off/Charged Off Account -- A letter on Company letterhead stating the account was paid-in-full or acknowledgment of a satisfactory repayment agreement. A current bill from the creditor saying the account is current. A photo copy (front and back) of a negotiated check for the entire delinquent balance.
 - b. Outstanding Collection Account -- same as 4a above.
 - c. Unpaid Judgments -- A copy of a court document stating the judgment has been satisfied or paid-in-full documentation from the creditor who brought the suit against the applicant.
 - d. Bankruptcy -- No documentation needed if more than five years has elapsed from the date of discharge. For a bankruptcy discharge under five years, lenders may still make the loan if provided proof of special circumstances regarding the bankruptcy and that the applicant has displayed fiscal responsibility (i.e., payments made on a timely basis) during the last two years. (Examples of special circumstances include: natural disaster (earthquake, flood, forest fire, etc.) which resulted in a major loss of property or income, unusual medical expenses due to a catastrophic illness to borrower or immediate family member, death of a major income earning family member, proof that bankruptcy was caused by another immediate family member who is unlocatable, etc.)
 - e. Foreclosures and Voluntary/Involuntary Repossessions -- Documents showing release from all debts concerning property.
 - f. Student Loan Delinquency -- Documentation from the lender showing an approved deferment or proof from the lender that the loan has been brought current. A request for deferment is not acceptable.
 - g. Other Type of Negative Ratings -- Written proof from the creditor that the account has been brought current, paid-in-full or that satisfactory repayment arrangements exist. There is no allowance for small dollar delinquencies.

5. Lenders will use the above criteria for all borrower applications received on or after October 1, 1994. If, however, an applicant is rejected and was a previous HEAL borrower, the borrower will be entitled to appeal using the following standardized criteria which represents the least stringent criteria used in the past (i.e., the most applicant-favorable terms previously available).

Negative Credit Ratings -- Allow no more than one account to be 120 days or more delinquent at the time of the credit report. This account can be no more than \$500. This pertains to commercial, consumer, or educational loans, department store or major credit card accounts, federal debts, state or federal tax liens, unpaid judgments, unpaid collection accounts, foreclosures, repossessions, garnished wages, skips, and suit filed.

Credit History -- No more than two accounts delinquent for more than 120 days within the past 2 years. (Delinquent accounts must have been less than \$1,000 each.)

Bankruptcy -- No bankruptcy within the past 3 years.

Lenders are reminded that once a loan is made, section 60.33(h) of the HEAL regulations requires that, "The lender must report a borrower's HEAL indebtedness to one or more national credit bureaus within 120 days of the date of final disbursement on the loan." This provision went into effect December 21, 1993.

We appreciate the suggestions of those who participated in the development of these standard creditworthy criteria. Our combined efforts will enable borrowers to have their credit reviewed using the same set of standards regardless of the originating lender. The loan approval process will be consistent, fair, and streamlined.

If you have any questions regarding this policy memorandum please contact Ms. Terri Ehrenfeld of the HEAL Branch at (301) 443-1540.

Stephen J. Boehlert
Chief, HEAL Branch

Division of Student Assistance