

Bureau of Health Professions

MAR 13 1997

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

Subject: Fiscal Year (FY) 1997/1998 HEAL Insurance Authority
Allocations by Lender and Discipline
School Policy Memorandum S-1997-5
Lender Policy Memorandum L-1997-3

Purpose

The purpose of this memorandum is to notify the **HEAL** community which lenders will receive the balance of (any remaining) FY 1997 **HEAL** insurance authority as of July 1, 1997, and FY 1998 insurance authority.

Background

Section 702(b)(2)(B) of the Public Health Service Act requires that **HEAL** insurance authority be allocated to lenders offering more favorable terms to borrowers. Competition for an insurance authority allocation among lender has caused interest rates and interest compounding terms to be reduced from statutory maximum each and every year since a "bidding" methodology was first implemented in FY 1992. Rates have improved each year from T-bill plus 3.0 percent and annual compounding to T-bill plus 1.5 percent with compounding at repayment, resulting in savings to an individual borrower of up to \$7,359 on each \$10,000 loan over the life of the loan. This amounts to more than \$65.5 million in aggregate savings for borrowers for every \$85 million that is disbursed.

The **HEAL** allocation was refined by the Department of Health and Human Services (HHS) after much consultation, discussion and input from the school and lending community and assures that the insurance allocation is granted to those lenders, grouped by "cost bands," offering the most favorable rates. It is designed to be responsive to the needs of schools and lenders, while at the same time, consistent with the statutory mandate, maintaining as its primary goal the provision of the most favorable loan terms to the borrower. Under this methodology, it has always been possible that a single eligible **HEAL** lender could capture the entire market (insurance authority allocation) by offering an interest rate and terms that yielded significant savings to the borrower when compared to the next closest competitor. Lenders were advised in February 1997 that HHS would be determining competitive "cost bands" of \$500-\$750 in accordance with the same methodology used in past years.

To determine which lenders would receive an insurance authority allocation starting July 1, 1997, the cost-to-the-borrower was calculated under two different scenarios. Lenders were placed into "bands" based on cost. Lenders having a cost within \$750 of each other were placed into the same band.

Results of 1997/98 Bidding Process

This year one national lender has qualified for "band 1," under the "medical" scenario as reflected in Table 1. Three national lenders will receive an insurance authority allocation for the "other" disciplines as reflected in Table 2. Borrowing from the lender with the lowest cost in band 1 versus borrowing from the lender with the lowest cost in band 2, will save a medical borrower \$890 on every \$10,000 loan.

Aggregate savings would be more than \$7.5 million assuming \$85 million is disbursed. Similar savings are realized when savings are calculated using the cost scenario for other disciplines.

While we understand schools and students may object to switching from one lender to another, we are obligated to comply with the statutory requirement to allocate insurance authority to those lenders offering the most favorable loan terms, as well as to maintain the integrity of the allocation methodology which has been responsible for such dramatic cost savings. By so doing borrowers, schools, and taxpayers will be the benefactors of lower cost loans, lower default rates, and reduced claim payments, respectively. **If the HEAL program is reauthorized by Congress prior to September 30, 1998 it may be necessary for us to adjust the allocation, as it currently stands, to reflect the status of the program at that time.**

Approach

In keeping with changes made last year, contracts will be synchronized with the academic year of most schools, (i. e., July 1 through June 30). **As was the case in FY 1996 and FY 1997 insurance authority in FY 1998 will only cover loans made to previous HEAL borrowers.**

FY 1997/1998 contracts will cover a full 12 month period and straddle two fiscal years. The initial FY 1997/1998 contracts will cover 3 months from July 1, 1997 through September 30, 1997. The HEAL program will allocate any remaining FY 1997 insurance authority as of July 1, by discipline to these lenders. If a discipline has no remaining insurance authority, an allocation for that discipline will not be made. On or about October 1, 1997, the FY 1997/1998 contracts will be amended to cover the period through June 30, 1998 and will include insurance authority appropriated by Congress for FY 1998. (The Administration has requested \$85 million in HEAL insurance authority for FY 1998.) **If the HEAL program is not reauthorized prior to June 30, 1998, lenders will receive a contract amendment extending the term of the contract through September 30, 1998, the last day HEAL disbursements could be made and insured.**

Outcome

Tables 1 and 2 display lender dollar requests for insurance authority and rank the lenders according to the cost-to-the-borrower. The \$750 bands are also depicted. Allopathic and Osteopathic Medicine allocations were determined using the costs reflected in Table 1. The remaining discipline allocations were based on the costs reflected in Table 2. Table 3 displays each FY 1997/1998 lender, address, telephone number, the discipline(s) it will service, any geographic restrictions, and its interest rates and terms. The Pennsylvania Higher Education Assistance Agency (PHEAA) lowered its rates for this contract period and has no restrictions as to geographic area or disciplines supported. Bank One Indianapolis, Chase Manhattan Bank, Kirksville College of Osteopathic Medicine, Ohio College of Podiatric Medicine, PNC Bank, Household Bank, and Dartmouth Education Loan Corporation will not be making disbursements in the **HEAL** program effective July 1, 1997, since these institutions did not provide rates and terms that would place them in the top band or did not apply for a contract. All disbursements scheduled with these lenders after July 1, 1997 cannot be made. New applications must be submitted to the lenders listed on Table 3. Any new application submitted to a lender that did not receive a FY 1997/1998 contract should be returned by the lender to the appropriate school financial aid office so that it can properly be rerouted to a lender with an insurance authority allocation.

Thank you for participating in the FY 1997/1998 **HEAL** insurance authority allocation process. If you have any questions regarding this policy memorandum, please contact Ms. Terri M. Ehrenfeld of the **HEAL** Branch at (301) 443-1540.

Stephen J. Boehlert
Associate Division Director, **HEAL**
Division of Student Assistance
Attachments

T-Bill plus		T-Bill plus		T-Bill plus					
1.50	NONE	1.50	NONE	1.50	AT-END	1.50	\$1,600,000	\$28,253	1
1.50	NONE	1.50	NONE	1.50	AT-END	1.50	\$49,130,000	\$28,253	1
(8.125fixed)**	NONE	(8.125fixed)**	NONE	(8.125fixed)	AT-END	(8.125fixed)	\$70,800	\$28,633	1

Table 1
FY 1997/1998 HEAL LENDER TERMS

FEBRUARY 26, 1997

LENDER NAME

VERMONT

PHEAA

RHODE ISLAND

SORTED BY MEDICAL
COST

LENDERS RECEIVING AN ALLOCATION

IN-SCHOOL DEFERMENT GRACE
INTEREST COMPOUNDING INTEREST COMPOUNDING INTEREST COMPOUNDING

REPAYMENT

INTEREST

T-Bill plus plus

MEDICAL

REQUEST COST BAND

LENDERS WITHOUT AN ALLOCATION

MELLON BANK

STAR

OHIO POD

CHASE

KIRKSVILLE

BANK ONE

2.50	NONE	1.70	NONE	1.70	AT-END	1.70
1.59	BIENNIAL	1.59	BIENNIAL	1.59	AT-END	1.59
1.75	NONE	1.75	NONE	1.75	AT-END	1.85
1.85	NONE	1.85	NONE	1.85	AT-END	1.85
1.90	NONE	1.90	NONE	1.90	AT-END	1.90
1.95	NONE	1.95	NONE	1.95	AT-END	1.95

MAXIMUM 3.00

TOTAL REQUESTS

ANNUAL 3.00

ANNUAL 3.00

AT-END

MEDICAL COST = \$10,000 LOAN, 1 FINAL YEAR OF SCHOOL, 3 YEARS OF DEFERMENT, 9 MONTHS GRACE, 25 YEARS REPAYMENT, 5.5% T-BILL

LOWERED RATES

INTEREST IS PAID BY LEMDER DURING IN-SCHOOL PERIOD AND ONE YEAR OF DEFERMENT

\$49,130,000
\$49.130,000
\$49.130,000
\$49.130.000
\$17,255,000
\$49,130.000
3-00
\$330,960,800
\$29,143 \$29.350 \$29,412 \$29.516 \$29,699 \$29.883
\$35,612
2
2
2
2
2
2
2

T-Bill plus T-Bill plus

PHEAA
STAR
MELLON BANK

				T-Bill plus			
1.50	NONE	1.50	AT-END	1.50	\$35,870,000	\$23,801	1
1.59	BIENNIAL	1.59	AT-END	1.59	\$26,520,000	\$24,028	1
2.50	NONE	1.70	AT-END	1.70	\$35,870,000	\$24,480	1

Table 2

FY 1997/1998 HEAL LENDER TERMS
SORTED BY OTHER COST
FEBRUARY 26, 1997

LENDERS RECEIVING AN ALLOCATION
IN-SCHOOL GRACE REPAYMENT
OTHER

<u>LENDER NAME</u>	<u>INTEREST</u>	<u>COMPOUNDING</u>	<u>INTEREST</u>	<u>COMPOUNDING</u>	<u>INTEREST</u>	<u>REQUEST COST</u>	<u>BAND</u>
<u>LENDERS WITHOUT AN ALLOCATION</u>							
OHIO POD	1.75		NONE	1.75		AT-END	1.85
\$35,870,000	\$24,654	2					
CHASE	1.85		NONE	1.85		AT-END	1.85
\$35,870,000	\$24,692	2					
RHODE ISLAND	(8.125fixed)**		NONE	(8.125fixed)		AT-END	(8.125fixed)
\$148,677	\$24,830	2					
BANK ONE	1.95		NONE	1.95		AT-END	1.95
\$35,870,000	\$24,950	2					
MAXIMUM	3.00		ANNUAL	3.00		AT-END	3.00
\$206,018,677	\$27,881						
TOTAL REQUESTS							

OTHER COST = \$10,000 LOAN, 1 FINAL YEAR OF SCHOOL, 9 MONTH GRACE, 25 YEAR REPAYMENT, 5.5% T-BILL.

* LOWERED RATES

**INTEREST IS PAID BY LENDER DURING IN-SCHOOL PERIOD

Table 3		
HEALTH EDUCATION ASSISTANCE LOAN (HEAL) PROGRAM		
FY 1997/1998 PARTICIPATING LENDERS		
LENDER	PRIORITY LENDING DISCIPLINE	
GEOGRAPHIC REGION	INTEREST RATES AND COMPOUNDING	
Vermont Student Assistance Corporation	Allopathy In School = T-Bill + 1.50%	Univ. of Vermont only
Champlain Mill	Compounding - None	
P.O. Box 2000	In Deferment = T-Bill + 1.50%	
Winooski, VT 05404-2601	Compounding - None	
Phone: 1-800-838-7670	In Grace = T-Bill. + 1.50%	
	Compounding – At End	
All Pennsylvania Higher Education Assistance Agency	In Repayment = T-Bill + 1.50%	
	Allopathy In School =T-Bill + 1.50%	
P.O. Box 8176	Osteopathy Compounding- None	
Harrisburg, PA 17105-8176	Dentistry In Deferment- T-Bill + 1.50%	
Phone - 1-800-360-6941	Podiatry Compounding- None Chiropractic In Grace = T-Bill + 1.50%	
	Optometry Compounding-At End Pharmacy In Repayment = T- Bill + 1.50%	
Rhode Island Higher Education residents only Assistance Authority	Veterinary Public Health Clinical Psych Health Admin Osteopathy In School = 8.125% fixed	Rhode Island
560 Jefferson Blvd.	compounding - None	
	In Deferment - 8.125% fixed	

Warwick, RI 02889

Compounding - None

Phone: 1-401-736-1100

In Grace = 8.125% fixed

Compounding - None