

Bureau of Health Professions

February 2, 2000

To: Lenders, Holders, and Servicers in the Health Education Assistance
Loan (HEAL) Program

Subject: Minimum Annual Payments By Borrowers on HEAL Loans
Lender Policy Memorandum L-2000-3

The purpose of this policy memorandum is to clarify the "acceptable minimum payment by a borrower," according to the HEAL statute and regulations. Section 705(c) (42 U.S.C. § 292d(c)) of the HEAL statute describes the "acceptable minimum payment" as:

The total of the payments by a borrower during any year or any repayment period with respect to the aggregate amount of all loans to that borrower which are insured under this subpart shall not be less than the annual interest on the outstanding principal, except as provided in subsection (a)(2)(C), unless the borrower, in the written agreement described in subsection (a)(2), agrees to make payments during any year or repayment period in a lesser amount.

However, paragraph (c) of section 705 must be read in conjunction with paragraph (a), which sets out the repayment period of the HEAL loan as 25 to 33 years (including periods of deferment and forbearance). See Section 705(a) (2) (B) and (C); 42 U.S.C. §§ 292d(a)(2)(B) and (C). Obviously, the acceptable minimum payment over the life of the loan must be sufficient to meet the repayment period limitations set in paragraph (a).

Paragraph (c) of section 705 authorizes lenders and holders to give borrowers more flexible repayment schedules, such as graduated repayment schedules, to avoid default on the loan. Indeed, paragraph (f) requires lenders and holders to offer borrowers income-contingent repayment schedules in the first five years of repayment to ease the burden of repayment during the early years of repayment. However, these adjusted schedules must be of limited duration to permit compliance with the loan repayment period requirements of paragraph (a).

To summarize, except in certain specific instances where a borrower is in a graduated repayment schedule, income-contingent repayment schedule, deferment, or forbearance, a lender/holder/servicer must require an annual minimum repayment amount that equals the annual interest on the outstanding principal of the borrower's aggregate HEAL loans and will repay the loan over the term of the repayment period. Any payments received by a lender/holder/servicer that are less than the amount specified in the borrower's repayment schedule should not delay or suspend the timely commencement and/or completion of the preclaims assistance process, collection process, or litigation process.

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Noncompliance by a lender/holder/servicer will result in a penalty. This penalty will be assessed on any claim filed where it has been determined that a claimant failed to initiate due diligence in a timely manner. It will result in the reduction of the amount paid on any claim by the accrued interest during the period of time a lender or holder approved an insufficient annual payment.

If you have any questions regarding this memorandum, please contact Ms. Terri Ehrenfeld or Ms. Denise Sorrell of the HEAL Program at (301) 443-1540.

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