

Bureau of Health Professions

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

Subject: Fiscal Year 2004 HEAL School Default Rate
School Policy Memorandum S-2004-1
Lender Policy Memorandum L-2004-5

Authority to make new HEAL loans expired September 30, 1998. In the past, school default rates were used to determine school risk-based insurance premiums on new HEAL loans. Since this is no longer applicable, we are nevertheless making the default rates available to schools, lenders, and associations for monitoring default performance. Rates are also provided to commercial lenders who use school and discipline default rates to set interest rates and determine eligibility of disciplines and schools within disciplines.

Default rates have been published since September 30, 1993. At that time the overall total HEAL default rate was 5.1%. **As of September 30, 2003 the overall total HEAL default rate is 3.1%.** We thank the schools for your diligent efforts in helping to assure good repayment practices of HEAL borrowers and assisting delinquent borrowers in returning to repayment. These efforts, as well as lender assistance to borrowers, and HEAL Program default prevention activities coupled with aggressive efforts by the Department to collect from borrowers after default or bankruptcy, are the primary reasons our HEAL default rate is good. Since the outstanding HEAL portfolio is still approximately **\$2.3 billion**, these activities must continue so we can minimize future defaults and reduce taxpayer liability.

The individual school default rate report as of September 30, 2003, is attached for each school. A summary report by school is attached for participating lenders and servicers. In accord with section 719(5) of the HEAL statute, the HEAL "default rate" as of September 30, 2003 is defined as the percentage constituted by the ratio of:

(1) **Numerator:** The total principal amount of each school's

HEAL loans that entered repayment status from April 8, 1987 through September 30, 2003, for which claims have been paid due to default or bankruptcy as of September 30, 2003, exclusive of those claims:

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- (a) For which the borrower has made payments to the Secretary for 12 consecutive months or the equivalent in accordance with a repayment agreement; or
 - (b) Which have been **discharged** due to bankruptcy. (Schools should note that **bankruptcy claims**, which previously were submitted for payment when a borrower filed for bankruptcy, **are different from bankruptcy discharges**, which occur only if a bankruptcy court rules that the borrower is not obligated to repay the HEAL loan. **HEAL loans are rarely discharged in bankruptcy**, due to provisions in the HEAL statute which restrict discharge to cases of only the most severe financial hardship. When a borrower files for bankruptcy, and the bankruptcy court does not discharge the HEAL loan(s), the Department is authorized to resume collection of the debt, and the debt is subject to the same collection procedures as a default claim. For purposes of Tables 1 and 2 attached, "bankruptcy" refers to claims paid because the borrower filed for bankruptcy, and does not refer to loans discharged in bankruptcy);
- (2) **Denominator:** The total principal amount of each school's HEAL loans that entered repayment status from April 8, 1987 through September 30, 2003.

IT SHOULD BE NOTED THAT OVER TIME THE DEFAULT RATES MAY INCREASE BECAUSE THE AMOUNT OF NEW LOANS THAT ENTER REPAYMENT EACH YEAR WILL NOT ADD SUBSTANTIALLY TO THE DENOMINATOR, WHILE DEFAULTED LOANS WILL CONTINUE TO BE ADDED TO THE NUMERATOR. (Therefore, it will take the continued efforts of all parties to keep this favorable trend from reversing in the future.)

We have attached the following tables:

- (1) Table 1 -- lists the social security number, borrower's

name, and principal amount of the loan, for all HEAL loans made to students at your school that entered repayment after April 7, 1987. This reflects all loans that are included in the denominator of your school's default rate. (Table 1

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specifically identifies those loans that have been paid by the Department as default claims or bankruptcy claims, and which appear again in Table 2 or 3, as described below.)

- (2) Table 2 -- lists those loans from Table 1 that are included in the numerator of your school's default rate, based on payment by the Department of a claim due to default or bankruptcy by the borrower.

The addresses included in your borrower lists are the last known addresses we have for each borrower. If you know of a more current address, please advise us. The Department has contacted/attempted to contact these borrowers numerous times. Despite these efforts, we have been unable to get them into repayment. We encourage you to contact defaulted borrowers and encourage them to establish repayment agreements with and make regular payments to the Department.

- (3) Table 3 -- lists those loans from Table 1 for which the Department has paid a claim due to default or bankruptcy, but which are not included in your numerator because the borrower has been in repayment with the Department for 12 consecutive months or the equivalent or the loan has been discharged due to bankruptcy.
- (4) Table 4 -- lists the following summary information:
 - (a) The original principal amount of loans included in your school's numerator (Table 2) and denominator (Table 1); and
 - (b) Your school's default rate as of September 30, 2003 calculated using the data from Table 1 and Table 2.

Low volume schools: If your school had a total HEAL loan volume of 50 loans or less enter repayment status from April 8, 1987 through September 30, 2003, Table 4 indicates that the school has been placed in the low-risk category due to a small volume of HEAL activity. This is in accord with section 708(d)(2) of the HEAL statute, which provides that the Department may waive the medium-risk and high-risk requirements if it determines that the school's default rate is not an accurate indicator because the volume of HEAL loans made by the school has been insufficient. **Note:** The medium and high risk requirements in section 708(d)(2) are not applicable at this time since new loans are not authorized.

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Annual default management plan: An attachment entitled "Default Management Plan Outline" provides guidance on the content of these plans. Any school with a HEAL default rate greater than 5 percent is subject to this requirement and must have on file at the school, for program review or audit purposes, its default management plan by August 3, 2004.

We hope this information is helpful. Please contact the HEAL Program at (301) 443-1540 if you have questions.

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Director
Division of Health Careers
Diversity and Development

Attachments

DEFAULT MANAGEMENT PLAN OUTLINE

Section 708(b) of the HEAL statute requires any school with a default rate above 5 percent to develop an annual Default Management Plan for reducing its Health Education Assistance Loan (HEAL) default rate.

The Default Management Plan **must** address the three areas and the three required elements identified below. We encourage you to consider the suggested elements listed in each category, not necessarily addressing each one, but evaluating and possibly including some of the suggestions offered by other HEAL schools into your school's plan.

NOTE: The Pre-Entrance Counseling and Entrance Interview are no longer applicable for the HEAL Program since new loans are not being made.

1. IN-SCHOOL PERIOD

Required Element - Schools must provide detailed information on how they are complying with the requirement to conduct an annual HEAL Workshop.

There is ongoing contact between students and the Financial Aid Office during the time students are in school.

Schools conduct workshops/seminars about financial planning, setting up a practice, budgeting for the early years. Attendance is required.

Debt Management Counseling - students are informed of their mounting debt. Students receive ongoing printouts of actual and projected debt.

Financial Planning Counseling - students continue to be counseled about debt management and financial planning. Certified Financial Planners meet with students to discuss future planning.

2. EXIT INTERVIEW

Required Element - Schools are required to outline initiatives they have developed or will develop to assure that current borrowers are aware of the availability of HEAL Refinancing.

The exit interview is a requirement for graduation. There are "holds" against student records whenever students fail to schedule or appear for exit interviews.

Spouses/parents are included in the exit interview.

Individual student information updated for school files. Deferment forms are distributed.

Students evaluate the exit interview.

3. POST-GRADUATION FOLLOW-UP

Required Element - Schools are required to outline initiatives they have developed or will develop to assure that previous borrowers are aware of the availability of HEAL loan refinancing.

**NOTE: HEAL REFINANCING WILL TERMINATE
SEPTEMBER 30, 2004 OR SOONER DEPENDING
UPON THE AVAILABILITY OF FUNDS.**

There is ongoing contact regarding deferment, forbearance, refinancing, etc. Newsletters and phone calls are part of the communication after graduation. Contact is initiated and maintained by the Financial Aid Office, Alumni Office, Fiscal Office.

Students are contacted and counseled when their name appears on the list of HEAL borrowers in delinquency.

HEAL borrowers currently in repayment are thanked for their diligence.

If you have questions, contact the HEAL Branch at (301) 443-1540. Any school subject to this requirement must have on file, for program review or audit purposes, its default management plan by **August 3, 2004.**