

May 10, 1991

To: Officials at Schools in the Health Professions Student Loan (HPSL) and Nursing Student Loan (NSL) Programs

Subject: Policy Memorandum Number Fifteen - Uncollectible Loans, Write-offs, and Racial/Ethnic Data

This memorandum provides guidance on the uncollectible loan provisions of Public Law 100-607 (P. L. 100-607) enacted on November 4, 1988; amends the Department's policy regarding the write-off of HPSL and NSL loan balances; and advises schools that they will be requested to report racial/ethnic data of students who received assistance during the prior academic year.

Prior to submitting an uncollectible HPSL or NSL loan for write-off review the school should review the loan to determine if it meets the criteria for uncollectibility according to P.L. 100-607 or the loan balance does not exceed \$1,000 (principal, interest and penalty charges). If a school determines that an uncollectible loan meets the criteria under P.L. 100-607 or the outstanding balance is less than \$1,000, the school should not submit the loan to the Department for review. If the loan does not qualify under either of these provisions, the school may submit the loan(s) to the Department for write off review. The school must send photocopies of all due diligence documentation for each loan submitted for write-off review (see Policy Memorandum Number Eight for requirements).

The schools determination as to whether a loan is uncollectible under P.L. 100-607 or is written off because the loan balance does not exceed \$1,000 will be reviewed during biennial audits and Department program reviews.

Uncollectible Loans Under P.L. 100-607

P.L. 100-607 amended the HPSL program statute to provide that the Department may not require a health professions school to reimburse the student loan fund for loans that became uncollectible before August 1985 or penalize a school with respect to those loans.

P.L. 100-607 amended the NSL program statute to provide that the Department may not require a nursing school to reimburse the student loan fund for loans that became uncollectible before 1983.

To implement the provisions of Public Law 100-607, a school no longer has fiscal liability and is no longer subject to penalties for:

A HPSL loan which became uncollectible before August 1, 1985.

A NSL loan which became uncollectible before January 1, 1983.

In determining which loans were uncollectible, schools should note the following:

A school should remove from its default category HPSL loans that became uncollectible before August 1, 1985 and NSL loans that became uncollectible before January 1, 1983. These loans are to be included in the fully retired category when a school calculates its default rate.

In making uncollectible loan determinations, we advise that a school should consider as uncollectible, only loans on which payments were 2 years or more past due as of the specified date. Where a loan was less than 2 years past due as of the specified date, the school should consider it uncollectible only when the school has evidence to support this determination. This recommended 2-year standard is based on the criteria used by the Department's office of the Inspector General in conducting cash management audits at participating schools.

To be considered as uncollectible, the loan, at a minimum, must have been in default for at least 120 days, in accordance with the default formulas in section 740(c)(3) and 835(c)(3) of the Public Health Service Act on which schools' participation in the programs is based.

Reporting for P.L. 100-607

Report information pertaining to borrowers whose loans meet the criteria for P.L. 100-607 on the Annual Operating Report (AOR) or Debt Management Report (DMR) on the Borrower Accounts Worksheet in Row 1.F. (Uncollectible per P.L. 100-607).

There is nothing to prevent a school from further pursuing the collection of a loan that has been determined to be uncollectible under these provisions when the school has knowledge of changes in a borrower's situation. Any such amounts recovered must be deposited into the fund and reported in subsequent reports.

Loan Balances That Do Not Exceed \$1,000

Policy Memorandum Number Ten allows schools to write-off an HPSL or NSL loan balance that does not exceed \$200 without requesting Departmental approval.

Effective with the publication of this memorandum, a school may write-off an HPSL or NSL loan balance that does not exceed \$1,000 (principal, interest, and penalty charges) without requesting approval from the Division of Student Assistance (DSA), provided that the school has exercised due diligence, in accordance with the applicable regulations, in its attempts to collect the loan.

When a school writes off a loan under this provision it must notify DSA in writing of the amount of principal, interest, and penalty charges written off. If subsequent collections are received on the loan, notify DSA in writing as to how the collections were applied to principal, interest and penalty charges and include a copy of the original notification. The address for reporting written off loan balances that do not exceed \$1,000 (and subsequent collections) is:

Division of Student Assistance
Room 8-34, Parklawn Building
5600 Fishers Lane
Rockville, MD 20857

Loans written off by schools under this provision will be reviewed during the biennial audit and Departmental program reviews. In addition, DSA will periodically require that the due diligence documentation for randomly selected loans be submitted for review to verify that the school exercised due diligence in its collection efforts. If the findings of the

above reviews indicate that due diligence was not followed, the write-off will be disallowed and the school will be required to reimburse the fund for the full amount of the unpaid loan balance, including principal, interest and penalties that would have accrued up to the date that reimbursement actually occurs.

Racial/Ethnic Backgrounds of Individuals

Effective with the June 30, 1991 Annual Operating Report schools will be requested to report the racial/ethnic background of students who received assistance during the prior academic year by using the definitions listed below:

American Indian or Alaskan Native. A person having origins in any of the original peoples of North America, and who maintains cultural identification through tribal affiliation or community recognition.

Asian or Pacific Islander. A person having origins in any of the original peoples of the Far East, Southeast Asia, the Indian subcontinent, or the Pacific Islands. This area includes, for example, China, India, Japan, Korea, the Philippine Islands, and Samoa.

Black. A person having origins in any of the black racial groups of Africa.

Hispanic. A person of Mexican, Puerto Rican, Cuban, Central or South American or other Spanish culture or origin, regardless of race.

White. A person having origins in any of the original peoples of Europe, North Africa, or the Middle East.

We will be pleased to respond to any comments or questions regarding this memorandum. Please direct telephone inquiries to the Program Accounting and Analysis Branch at 301-443-1700.