September 1982

TO: Officials of Schools Participating in the Health Professions and Nursing Student Loan Programs

SUBJECT: Policy Memorandum Number Four

Introduction

This communication is the fourth in a series of memoranda to be issued by the Division of Student Services (DSS), Bureau of Health Personnel Development and Service (BHPDS) concerning items of programmatic interest to the health professions and nursing student financial aid community. This memorandum will address the status of several of the activities on the debt management initiative, a number of concerns related to the management of student loan funds, and the exercise of due diligence in the collection of these loan funds.

I. Hearings Before the Senate Committee on Governmental Affairs

On July 21, 1982, the Senate Committee on Governmental Affairs, of which Senator Charles Percy (Republican-Illinois) is a member, held follow-up hearings on the student loan delinquency issue. Although the Committee devoted a major portion of the hearings to the Department of Education programs, members did examine the Bureau's actions taken to reduce and control delinquency of borrowers since its December 8, 1981, hearing. The Committee expressed pleasure with the progress health professions schools have made in a short period of time. The BHPDS is also pleased and congratulates the large number of schools which has aggressively approached the delinquency problem with both enthusiasm and imagination.

II. Analysis of Assessments

Since October 1, 1981, financial aid administrators under contract to the Division have conducted assessment site visits at more than 280 health professions and nursing schools. An analysis of the assessment reports indicate major problems in institutional compliance with due diligence procedures. The following table lists problems and the percentage of assessed institutions with these problems:

Problem	Percent of Institutions with Problems
Inadequate exit interview procedures	35%
Inadequate follow-up on delinquent loans	34%
Failure to maintain borrower contact	30%
Excess cash balances	21%
Failure to make regular billings	20%

Program administrators should carefully review their loan operations to identify problems such as those identified through the assessments. We anticipate that health professions and nursing schools will achieve delinquency rates no greater than 5 percent and 10 percent respectively by March 31, 1983.

As stated in previous Policy Memoranda, schools with delinquency rates currently above these levels must have developed a written action plan to reduce the rate of delinquency. This action plan should be implemented and on file at the school. After March 31,1983, schools with delinquency rates above these levels will not be permitted to make loan disbursements until they are in compliance with the standard.

Staff of the Department's OIG have recently conducted audits at a number of schools with high levels of borrower delinquency. Deficiencies found during these audits included:

. failure to conduct exit interviews;

. failure to contact borrowers during the grace period;

. irregular billing of borrowers;

. failure to use litigation as part of due diligence;

. failure to use litigation within prescribed State statutes of limitations;

. excess cash balances;

. inadequate deferment and cancellation procedures;

. failure to assess penalties for late payments;

IV. Health Professions Student Loan and Nursing Student Loan Notices of Proposed Rulemaking (NPRM)

The HPSL NPRM which was recently published in the Federal Register would:

. require the submission of a financial aid transcript by HPSL applicants;

. require that promissory notes contain an acceleration clause;

. require that schools establish monthly repayment schedules;

. allow schools to grant forbearance when extraordinary circumstances affect the borrower's ability to repay;

. require schools to submit a quarterly report;

. strengthen due diligence procedures by directing schools to:

(1) require the use of collection agents;
(2) mandate litigation when appropriate;
(3) require membership in a credit bureau;

. require that as of March 31, 1983, schools reduce their delinquency to 5 percent in order to continue to participate in the program;

. identify the formulas to be used in calculating both borrower and dollar delinquency rates.

Officials should carefully review the NPRM and avail themselves of the opportunity to furnish written comments during the formal comment period. We will consider all comments in response to the NPRM prior to issuing the final rules in the Federal Register.

An NPRM for the Nursing Student Loan (NSL) program is currently under development and will be published in the Federal Register in the near future. The proposed rule will contain the items mentioned above, as well as an update of the existing NSL regulations. For nursing schools, a maximum 10 percent delinquency rate is expected to be achieved by March 31, 1983, for continued participation in the program.

V. Annual/Quarterly Operating Reports

Schools were required to submit the Annual Operating Report (AOR) for the period July 1, 1981 - June 30, 1982, to the BHPDS by August 13, 1982. We will analyze the data and compute delinquency rates for each program and furnish these rates for both borrowers and dollars to each institution.

In addition to the AOR, we will require a Quarterly Debt Management Report (QDMR), beginning with the quarter ending September 30, 1982. The QDMR, a short version of the annual report, will allow the identification on a regular basis of schools with serious delinquency problems and excess cash balances. We expect to mail the first QDMR in early fall, and will specify a return deadline date of about 6 weeks later.

VI. Excess Cash Balances

One of the major problems identified by the General Accounting Office, the OIG, and noted in the assessment activities is the excess cash balance in loan funds. The Bureau has attempted over the last several years to encourage schools to review their loan activities, not to draw down funds until they are needed for expenditure, and to handle cash balances in a prudent manner which could include the refund to the Federal Government of excess cash.

It is important to remember that the purpose of the Federal Capital Contribution (FCC) loan program is to establish a revolving loan fund within the schools which should eventually be self-sustaining without benefit of additional allocations of Federal or school dollars. One of the serious side effects of high delinquency rates is that a school does not develop the full potential of its revolving fund.

A school should carefully review its cash needs prior to requesting funds and once allocated, draw down those funds only as they are needed. Because of the timing of collections, a school may have cash in the loan fund which will be used for loans and cannot be considered as excess cash when not in use. These funds should be invested in short-term interest-bearing accounts and all interest earned must be deposited into the loan fund.

The QDMR will contain a worksheet with instructions which will assist the school in determining excess cash balances.

VII. Nursing Student Loan Program Cancellation Provisions

The BHPDS review of nursing schools indicates that many schools use inadequate procedures in administering loan cancellation provisions.

The findings to date indicate that nursing schools are cancelling loans not eligible for cancellation, are lax in initiating and processing loan cancellations, and that reporting of cancellation activities to the Bureau is not always accurately done. The failure to administer the cancellation provisions effectively has a direct impact on the borrower delinquency rate in the nursing schools.

Although cancellation benefits for service as a nurse were discontinued for nursing student loans made on or after September 29, 1979, borrowers with loans made prior to that date may still be eligible for cancellation benefits in effect at the time their loans were made. Current borrowers and borrowers in repayment status, delinquent or otherwise, may be affected by these cancellation provisions.

Prompt and effective action to insure proper administration of the cancellation provisions could assist nursing schools in reaching the proposed 10 percent performance standard required for continued participation in the NSL program.

Schools should review and comply with the following sections of the Student Financial Aid Guidelines which relate directly to the cancellation provisions: Book TI, Part I, Chapter 7, Sections 217.1 thru 217.7.

VIII. Deferment Documentation

As a result of input from participating schools on the impact of timing of documentation for deferment status, we have modified the reporting requirement for deferments to allow for the problems schools are encountering. If the school has documented evidence of borrowers who are in deferment status as of the date of a required AOR or QDMR, but whose formal "Certification of Deferment Status" has not been received by the school, the school may include these borrowers in deferred status rather than in delinquent status. Documented evidence may include a written notification from the borrower or a documented telephone conversation with the borrower. This documentation cannot replace the properly executed "Certification of Deferment Status" which must be obtained from the borrower within a reasonable period of time.

The BHPDS has determined that a reasonable period of time should not exceed 90 days. Official deferment documents not on file after 90 days will force a borrower account into delinquent status.

A revised "Certification of Deferment Status" to be disseminated to schools early this fall will include instructions that emphasize the importance of the submission of the form on a timely basis and place responsibility on the borrower to see that the report is completed appropriately.

IX. Write-off of Uncollectible Loans

A key factor that contributes to the high rate of delinquency in the health professions and nursing schools is the number of uncollectible loans which schools are carrying on their books and not attempting to remove through a write off procedure. Schools are required to take one of two actions regarding accounts considered to be uncollectible:

- show evidence of due diligence, in which case permission may be granted for write-offs by the BHPDS's Division of Financing Services (DFS); or
- reimburse the loan fund for the amount of the loan.

The following sections of the Student Financial Aid Guidelines provide guidance for schools to use in preparing requests for write-off of uncollectible loans:

Book 1, Part 1, Chapter 1, Section 111.55
Book 1, Part 1, Chapter 2, Section 112.15
Book 11, Part 1, Chapter 1, Section 211.55
Book 11, Part 1, Chapter 2, Section 212.15
Book III, Part 1, Chapter 3, Section 313.123

The approval for write-off of loans will be considered on a case-by-case basis. The school must supply the DFS with documentation showing evidence that the school has exercised due diligence in the collection of the loan such as:

- evidence of entrance and exit interviews;
- copies of correspondence during grace and deferment periods, bills and follow-up correspondence, documents indicating use of collection agents, and;
- copies of legal documents as evidence of litigation, where appropriate.

Copies of any additional evidence of efforts to collect the loan should also be included with the request for write-off. A summary sheet for each loan, indicating the date(s) of the loan(s), date of beginning of repayment,and dates of specific due diligence and other school actions will expedite the review by the DFS. The DFS may request further information from the school in order to reach a determination of approval or disapproval of the write-off.

The DFS will review the request for write-off of an uncollectible loan taking into consideration the due diligence procedures in effect at the time a loan entered repayment and any subsequent actions taken by the school in attempting to collect the loan.

In the event that a loan is determined to be ineligible for write-off, the school must reimburse 100% of the uncollectible principal and interest into the FCC or Federal Capital Loan fund, as appropriate. For loans which have been disapproved for write-off, the school must supply the DFS with a copy of the deposit receipt for the dollars reimbursed to the fund within 30 days of the DFS disapproval letter.

In the event the school elects to reimburse the fund for uncollectible loans rather than requesting write-off, the school's action will be reflected as payment of principal and interest collected and shown as a fully retired loan on the AOR and the QDMR.

X. Assignment of Loans

The Department has requested statutory authority for schools to assign certain loans to the Secretary for collection. Until such time as statutory authority is provided, loans may not be assigned to the Federal Government for collection. The assignment of loans to the Federal Government should not be confused with the request to write-off uncollectible loans previously described.

XI. Credit Bureaus

In Policy Memorandum Number Two, the BHPDS encouraged schools to become members of a credit bureau and authorized schools to charge costs associated with this activity to the loan fund. Associated costs may include membership fees, monthly dues, any additional fees charged for credit reports, etc. Prior approval is not needed for a school to charge these costs to the fund, since authorization was provided to the schools in Policy Memorandum Number Two.

Schools should be aware that credit bureaus frequently have statutory limitations on recording information about delinquent borrowers with loans outstanding more than a specific number of years. Schools should determine a credit bureau's policies in applying these statutory provisions prior to referring information regarding delinquent borrowers accounts to the credit bureau.

The Department's General Counsel has advised us that if schools intend to release the names of individual debtors to credit bureaus, these individuals should be provided advance notification and be given an opportunity to question the factual record or correct their default status. In addition, since some states have laws protecting personal privacy which could apply to the disclosure of names of individual debtors by State schools, institutions are advised to consult legal counsel prior to referring information on delinquent borrowers to credit bureaus. Where schools determine that notification of credit bureaus is appropriate, such notification to the borrower should be included in the 120-day delinquency letter. If no response is received to that letter, then the credit bureau should be notified of the borrower's delinquency status.

XII. Additional Suggestions for Lowering Delinquency Rates

The DSS has identified a number of procedures and activities, beyond the minimal due diligence requirements, which are currently being practiced by several schools and which have contributed to their attainment of acceptable delinquency rates. These procedures include the following:

- Require regular attendance at continuing education seminars and/or loan collection seminars for all employees involved in loan collections.
- Initiate a computerized student loan recordkeeping system that provides an aging list of all delinquent borrowers, along with details of their loan collection history.

- Establish a school committee for monitoring progress toward compliance with the Health Professions and Nursing Student Loan program performance standards. The committee should meet on a regular basis to review successful and unsuccessful loan collection techniques, deal with problems, and discuss and implement procedural changes.
- Conduct "Phone Power" seminars on the effective use of the telephone for loan collection activities. These seminars should help employees to make maximum use of the telephone as a means of augmenting written contacts with delinquent borrowers. Although telephoning can be time-consuming and some borrowers are hard to track down, borrowers who are reached by telephone feel compelled to provide the school with some type of response; a call is not as easily ignored or set aside as a letter can be. Schools should follow each successful telephone contact with a written confirmation of the conversation.
- Insure school follow-up on loans sent to collection agencies where a collection agency has had little or no success.
- Use personal knowledge of borrowers and send personalized letters as follow-up on delinquent accounts. If the loan collections staff does not know the borrowers on an individual basis, this function could be carried out by the Dean or a member of the Dean's staff. A personal letter from the Dean, appealing to borrowers to repay, makes borrowers realize that the Dean knows of their delinquent status.
- Use State Income Tax Refunds to offset delinquent loans, where permissible.
- Establish and publicize a "tough" loan collection policy. If borrowers know that the school intends to aggressively pursue loan collections, they are less likely to allow their loans to enter delinquent status.
- Require all borrowers to update their personal information sheet each time they sign for an advance of funds in order to receive additional money.
- Develop an effective system of communication with the Dean of the health professions and/or nursing school to facilitate prompt location of lost borrowers. This can be done by sending a "delinquency borrower" report to the Dean's office for an address check immediately after a borrower enters delinquent status. In many cases, the Dean's office has current information on a borrower's location and will assist the loan collections office in locating lost borrowers.
- Contact borrowers 90 days before their deferments expire and remind them of the need to submit an updated deferment form in a timely manner. If these borrowers still fail to file their deferment forms, the school could send them a bill showing the principal and interest due, rather than just a letter telling them to submit an updated deferment form.
- Establish an extensive skip-tracing procedure to exhaust every possible lead that the school might have for locating a borrower, including contact with professional licensing organizations, religious organizations with which the borrower is affiliated, directory assistance, credit bureaus, etc. Because there are many possible leads for skip-tracing which many schools do not adequately pursue, schools should not give up on any borrowers until every possible lead has been exhausted.

- Educate borrowers on the financial needs of future students and the importance of timely repayment by former loan recipients.
- Review a list of current faculty to identify borrowers who may be delinquent in loan repayment. The school should encourage all faculty to bring their accounts into current status and take disciplinary action against them if they fail to do so.

XII. Audits

Health professions schools are again reminded of the requirement for a biennial audit. The Student Financial Aid Guidelines, Book 111, Part IV, Chapter 1, Section 341.121 states that copies of audits should be referred to the appropriate DHHS Regional Audit Agency and the DSS.

The requirement for submission of audit reports to the DSS is discontinued and copies should be sent only to the appropriate Regional Audit Agencies. You may wish to make this notation in your Student Financial Aid Guidelines.

Audits of health professions schools conducted by internal audit staff do not meet the Federal audit requirements for qualifications and independence. Health professions schools must, therefore, obtain the services of a qualified independent auditor to satisfy the biennial health professions audit requirement.

Nursing Student Set-aside Fund

There has been some confusion among nursing schools regarding the portion of the March 26, 1982, Nursing Student Loan program award labeled as “set-aside” funds. For purposes of clarification, the "set-aside" funds are to be used only to support those students who have neither worked full-time nor been in school full-time during the 7 years prior to receiving the loan. "Set-aside" funds must be maintained and accounted for separately.

XV. Nursing Student Loan (NSL) Program Update

Applications for academic year 1982-83 have not yet been sent to schools participating in the NSL program. Every school that will be continuing to use its NSL funds is required to complete and return an application, since this represents the school's agreement to abide by the statute, regulations and program guidelines. The applications will be sent to nursing schools later this fall. Those schools which do not wish to maintain an active NSL fund must notify the DSS of their intent to withdraw from the program in writing, so that close-out procedures can be initiated. Upon receipt of a written request to terminate participation in the NSL program, the DSS will send the school a letter explaining the close-out procedures.

We will be pleased to respond to any comments and questions with regard to information in this memorandum. In order to benefit from all questions, and for the purpose of the development of future policy, we request that telephone inquiries be directed to the Program Development Branch of the Division of Student Services at (301) 443-4540.