

May 16, 1986

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

Subject: Policy Memorandum Number Nine

This memorandum provides further information on two legislative changes – the exceptional financial need requirement for the NSL program and the loan information disclosure requirements for the HPSL program – which become effective July 1, 1986. The memorandum also notifies schools of a change in policy regarding the charging of internal collection agent costs to the HPSL and NSL funds.

Exceptional Financial Need Requirement for NSL Program

The Nurse Education Amendments of 1985, Pub. L. 99-92, amended section 836(b) of the Public Health Service (PHS) Act to require that nursing student who enroll in the school after June 30, 1986 must be of exceptional financial need to be eligible to receive NSL funds. Schools are reminded that this requirement does not apply to continuing students who were enrolled in the school prior to July 1, 1986. Schools are to consider a nursing student who enrolls after June 30, 1986 to be of exceptional financial need if the school determines that the student's resources do not exceed one-half of the costs of attendance at the school. Summer earnings, educational loans, veterans (G.I.) benefits and earnings during the school year are not to be considered as resources in determining whether an applicant meets the exceptional financial need eligibility requirement. However, these resources are to be considered in determining the actual amount of a student's financial aid package.

HPSL Loan Information Disclosure Requirements

The Health Professions Training Assistance Act of 1985, Pub. L. 99-129, added a new section 745 to the PHS Act to require the school to provide the borrower with specified information at the time the promissory note is signed (or at the entrance interview, if it occurs before the note is signed). This requirement is applicable to any HPSL loan for which the promissory note (or a promissory note disbursement) is signed after June 30, 1986. The information which the school must provide to the borrower is underlined below, with suggested procedures for assuring that the borrower receives this information, and examples of language that will satisfy these requirements.

(1) The yearly and cumulative maximum amounts that may be borrowed by the student: This information is not in the HPSL promissory note and therefore must be provided elsewhere. It is recommended that schools include it in (or as attachment to) the statement of rights and responsibilities which the borrower must review and sign as part of the entrance interview. An example of acceptable language follows: "The yearly maximum amount that may be borrowed under the HPSL program is the cost of tuition plus \$2,500. There is no cumulative maximum amount."

(2) The terms under which repayment of the loan will begin: This information is in the HPSL promissory note.

(3) The maximum number of years in which the loan must be repaid: This information is in the HPSL promissory note.

(4) The interest rate that will be paid by the borrower and the minimum amount of the required monthly payment: This information is in the HPSL promissory note.

(5) The amount of any other fees charged to the borrower by the lender: This information is in the HPSL promissory note.

(6) Any options the borrower may have for deferral, cancellation, prepayment, consolidation, or other refinancing of the loan: This information, where applicable to the HPSL program, is in the HPSL promissory note.

(7) A definition of default on the loan and a specification of the consequences which will result to the borrower if the borrower defaults, including a description of any arrangements which may be made with credit bureau organizations: This information is in the HPSL promissory note.

(8) To the extent practicable, the effect of accepting the loan on the eligibility of the borrower for other forms of student assistance: Under the HPSL program statute and regulations, accepting an HPSL loan does not affect the borrower's eligibility for other forms of student assistance, except that the student's total aid package may not exceed the student's unmet need, as determined by the school. Therefore, a school does not have to provide the borrower with any additional information under this requirement unless the school is aware of provisions of other programs which would make an HPSL borrower ineligible for other forms of aid.

(9) A description of the actions that may be taken by the federal government to collect the loan, including a description of the type of information concerning the borrower that the federal government may disclose to persons involved in the collection of a loan under the HPSL program: Complete information to satisfy this requirement is not in the HPSL promissory note and therefore must be provided elsewhere. It is recommended that schools include it in (or as an attachment to) the statement of rights and responsibilities which the borrower must review and sign as part of the entrance interview. An example of acceptable language follows: "If the borrower fails to make a scheduled repayment or fails to comply with any other term of the HPSL loan, the school may refer the borrower's loan to the federal government for collection assistance. The federal government may take any actions authorized under the Debt Collection Act of 1982 to collect the loan, including the following: (a) obtain the borrower's address from the Internal Revenue; (b) refer the borrower's loan to a collection agent;(c) disclose the borrower's delinquent status and other relevant information to credit bureaus; (d) initiate legal proceedings against the borrower; (e) offset the salary of the borrower if he or she is a federal Page

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employee; and (f) withhold money otherwise payable to the borrower by the federal government.

The federal government may disclose to persons involved in the collection of the loan any borrower information maintained by the school or the federal government, including but not limited to the borrower's name, address, social security number, total amount loaned, repayment history, unpaid balance, and any other information that would be of assistance in the loan collection process."

Internal Collection Agent Costs Chargeable to the HPSL and NSL Funds

The HPSL and NSL regulations require that, as part of due diligence, a school must "use collection agents, which may include the use of an internal collection agent"(42 CFR SS 57.310 and 57.310). Effective with the publication of this memorandum, the policy which applies to schools that use an internal collection system and want to deduct the expenses of that system from the HPSL or NSL fund is revised. As previously allowed, a school may charge costs associated with an internal collection system to the HPSL or NSL fund (provided that the school is exercising due diligence), limited to the actual cost of the collection of the particular HPSL or NSL loan(s). However, costs which may be covered now include the cost of salaries, in addition to the previously allowed costs of postage, stationery, telephone calls and other reasonable costs directly associated with an internal collection process. In no circumstances may overhead expenses such as rent, heat, electric, etc., that are not identifiable as costs of the particular collection be included in these charges. Further, the costs of the internal collection system charged to the fund may not exceed the costs that would be incurred by the fund if the school elected to use a private collection agency. This charge is to be attributed only to the cost of carrying out the collection agent requirement of 42 CFR SS 57.210 and 57.310, and not to the routine billing and follow-up activities that are required as part of due diligence.

When an internal collection office is performing collections for more than one program, the costs must be prorated among the different programs. For example, when collecting an HPSL or NSL loan and a National Direct Student Loan owed by the same debtor, these costs are to be prorated and only that portion associated with the collection of the HPSL or NSL loan is chargeable to the HPSL or NSL fund. Collection costs paid by the borrower are not chargeable to the HPSL or NSL fund. For audit purposes, the school must be able to document the amount of collection costs charged to the HPSL or NSL fund.