January 13, 1992

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

Subject: Policy Memorandum Number Sixteen - Uncollectible Loans, Write-off Policies, and Audit Requirements

This memorandum provides further information on Health Professions Student Loan (HPSL) and Nursing Student Loan (NSL) uncollectible loans, loan write-off policies, and audit requirements.

Regulations were published in the Federal Register on August 15, 1991, with an effective date of September 16, 1991, amending existing regulations governing the HPSL and the NSL programs. A section of the revised regulations requires that a school must on an annual basis review and assess the collectibility of any loan more than three years past due. When a loan is determined collectible, a school must perform and document a semi-annual collection effort. When it is determined uncollectible, a school must document the date of the determination as part of the borrower's record, and either submit the loan for write-off review or reimburse the fund. (See Flowcharts - Attachment A and Checklist - Attachment B.) **A school must complete its first annual review and either conduct and document the first of its semi-annual collection efforts or submit the loan to the Division of Student Assistance (DSA) for write-off review by March 16, 1992, or reimburse the fund.**

We have received several inquiries on the revised regulations regarding uncollectible loans. Following are the questions and answers:

1. **Does a school need to perform and document an annual review of its loans more than three years past due at a specific time?**
   An annual review may be scheduled at a convenient time for a school and does not need to be documented.

2. **What types of semi-annual collection efforts may be performed if a school determines a loan collectible?**
   The collection methods should be based on a school's own experiences which have been most effective with its borrowers (i.e., credit bureau reporting, telephone contacts, State tax offset, if permissible, etc.). It should be noted that these efforts must be documented and become a part of the borrower's record.

3. **What should a school do if a loan has been in default for less than three years, due diligence has been completed, and the loan is determined collectible?**
   A school must perform and document a semi-annual collection effort which must become a part of the borrower's record.

4. **When must a loan be considered uncollectible?**
   Under the following circumstances a loan must be considered uncollectible: (1) when due diligence has been completed and the prospects of future collections are not promising, (2) when the statute of limitations has expired or, (3) when the ten-year repayment period has expired. A school should refer to its legal council for guidance on laws pertaining to the statutes of limitations in its state.

5 . **What is the ten-year repayment period requirement?**

HPSL and NSL statutes require that loans be repaid within a ten-year period. Re-negotiating the repayment schedule and granting forbearance does not extend the repayment period (e.g., if repayment period begins 1980, borrower granted 2 years forbearance, loan must be repaid by 1990). Deferments do not change the length of the ten-year repayment, it displaces it in time temporarily (e.g., if repayment period begins 1980, borrower granted 2 years deferment, loan must be repaid by 1992).

6 . **What happens if the statute of limitations or the ten-year repayment period e3rpires and the borrower is making payments?**

The school must either reimburse the fund for the uncollected loan amount and retain future collections or submit the loan for write-off review.

7 . **What documentation is required when submitting a loan for write-off review?**

A school should refer to the Checklist (Attachment B), Policy Memorandum No. 8 for required documentation and Policy Memorandum No. 15 for guidance on Public Law 100-607 and uncollectible loans less than or equal to $1,000.

8 . **Must schools use the write-off checklist?**

No, it was developed to assist schools in identifying and assembling appropriate documentation when requesting a write-off.

9 . **What can a school do to assist the DSA in the review of uncollectible loans and improve its probability of success with the write-off process?**

Prior to submitting loans for write-off review, schools should ensure the documentation shows timely attention to the collection of the debt and that all due diligence steps have been documented. In addition, a school should clearly define its billing and collection procedures and identify any changes as they apply to each individual account. Explanations of the billing system codes and collection agency codes, etc., should be included.

10. **Does a school need to submit its billing and skip tracing procedures with each submission?**

No, once a school submits procedural documentation, we will maintain that information for future reviews. Subsequent submittals need only reference that procedures are on file.

11. **What happens when a write-off request is received within the required 30 days and there is insufficient documentation to evidence due diligence?**

A school may submit additional documentation. If we determine due diligence is still not evident, a school will be given another opportunity to either submit further documentation or to appeal the decision. Refer to Page 2 of the Flowcharts (Attachment A). Additional documentation or reason(s) for an appeal must be postmarked within 60 days of the date of our letter (no extensions will be granted) or the school must reimburse the fund.

12. **May a school subject uncollectible loans that have been approved for write-off to further collection efforts?**

Yes, a school is responsible for notifying the DSA in writing of collections received on the account (i.e., principal, interest, and penalty charges).

13. **Where does a school report reimbursements to the fund?**
Report reimbursements on the appropriate Annual Operating Report (AOR) or Debt Management Report (DMR) as "Institutional Repayments of Bad Debts," principal, interest and penalty charges and in item l.A of the Borrower Accounts Worksheet.

Audits

Schools are reminded that Section 705 of the Public Health Service Act requires that an audit be conducted on at least a biennial basis. HPSL school audits should also include an audit of the Health Education Assistance Loan (HEAL) program as appropriate. All audit reports should be sent to the appropriate Department of Health and Human Services (DHHS) Regional Audit Agency (refer to Policy Memorandum No. 11), which will forward copies to the central DHHS office.

If there are any further questions or comments regarding uncollectible loans, please call Ms. Joan Muller on (301) 443-1700.