STUDENT FINANCIAL AID GUIDELINES

FISCAL MANAGEMENT

Collections

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Health Resources and Services Administration (HRSA)
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Division of Health Careers and Financial Support (DHCFS)
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COLLECTIONS

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COLLECTIONS

The regulations for the health professions and nursing student assistance programs provide that "each school at which a fund(s) is established must exercise due diligence in the collection of all loans due the fund(s)." Part II is intended to clarify this requirement and to aid those schools for which the management of student loans is a new and unfamiliar responsibility. The chapters in this part identify the required procedures which constitute due diligence. Part I, Chapter 4 of both *Health Professions Programs* and *Nursing Programs* also contain additional information on deferment and repayment provisions for the Federal Capital Contribution loans needed in working with borrowers.

It is important to note that the Loans for Disadvantaged Students Program and Primary Care Loan Program are governed by the same regulations as the Health Professions Student Loan Program, including the collection and due diligence requirements.

Health Professions Federal Capital Contribution (FCC) Loans include

- Health Professions Student Loans;
- Loans for Disadvantaged Students; and
- Primary Care Loans.

Nursing Federal Capital Contribution (FCC) Loans include

- Nursing Student Loans.

CHAPTER 1 DUE DILIGENCE SUMMARY

Due diligence is the process by which sound collection procedures are exercised. Such procedures usually result in a low rate of student loan delinquency. In the exercise of due diligence, a school must use the steps outlined below in accordance with the regulatory requirements:

- conduct and document an entrance interview (individually or in groups) with the borrower prior to disbursing funds in an academic year. During the entrance interview, the school must:

  - obtain documentation which indicates that the borrower is aware of the rights and responsibilities associated with funds; and

  - obtain personal information which would assist in locating the borrower if he or she fails to keep the school informed of his or her current address.

  These requirements may be met by correspondence if the school determines that a face-to-face meeting (individually or in groups) is not practical.

- conduct and document an exit interview (individually or in groups) with the borrower. During the exit interview, the school must:

  - provide each borrower with information necessary to carry out the terms of repayment;

  - remind the borrower of the rights and responsibilities associated with the funds; and

  - update the personal information collected prior to disbursing the funds which would assist in locating the borrower if he or she fails to keep the school informed of his or her current address.

  If the borrower terminates studies without advance notice, the school must document attempts to inform the borrower of the substance of the exit interview and to secure exit interview information from the borrower by mail.

- notify the borrower in writing of the impending repayment obligation at least twice during the grace period.

- notify a borrower who is in deferment status in writing of the impending repayment obligation one to three months prior to the expiration of the approved period of deferment.

- perform regular billing.

- follow up past due payments with a series of at least four documented and reasonably spaced attempts to contact the borrower, at least three of which must be in writing at not more than 30-day intervals, prior to the loan becoming 120 days past due, provided that the school has a current address for the borrower.

- perform address searches when necessary.

- use collection agents, which may include the use of an internal collection agent.

- become a member of a credit bureau and notify the credit bureau of accounts past due by more than 120 days.

In place of one or more of the procedures outlined above schools may substitute collection techniques that are equally or more effective, but only after they have demonstrated the effectiveness of the techniques and obtained written approval from the Secretary.

[42 CFR Part 57.210 and 42 CFR Part 57.310]

CHAPTER 2 DUE DILIGENCE PROCEDURES

The sections in this chapter identify the required procedures which constitute due diligence.

Section 1 BEFORE THE BORROWER RECEIVES ANY LOAN FUNDS

The school must assure itself that the borrower clearly understands the terms of the loan and his or her responsibility to meet them.

A. ENTRANCE INTERVIEW

The regulations require a school to conduct and document an entrance interview for each academic year during which the student receives loan funds and must obtain entrance interview documentation before it disburses loan funds to a borrower in any academic year. The school must comply with the entrance interview requirements by conducting an individual or group meeting with the borrower, or through an exchange of information by mail if a face-to-face meeting is not practical. Each school has latitude in deciding whether to conduct the entrance interview in person or by mail. However, schools are strongly encouraged to make individual or group entrance interviews a priority in the financial award process, as this will help prevent problems in the collection process. The school also has discretion in determining the specific format of the entrance interview and in deciding which official(s) (e.g., financial aid, fiscal, loan collection, dean's) will be responsible for the entrance interview.

The regulations do not require the school to conduct an entrance interview each time it makes a disbursement within a single academic year; however, it may be beneficial to the collection process to require a borrower to complete a new "borrower information" form at the time of each disbursement. Regardless of how the school conducts the entrance interview, it must obtain documentation which includes the following:

- evidence that the borrower is aware of the rights and responsibilities associated with the loan. This documentation can be in whatever format the school chooses, such as a statement listing the borrower's rights and responsibilities which is signed and dated by the borrower, or a statement signed and dated by the borrower acknowledging that he or she has been provided with information which explains the rights and responsibilities of the loan. The truth-in-lending statement can also satisfy this requirement provided that it includes additional information which further explains to a borrower the rights and responsibilities of the loan funds. For a borrower who receives loan funds in more than one academic year, the school may use a separate form or statement for each year in which funds are disbursed, or may have the borrower re-sign and date the original form or statement for each additional year (provided that the information in the original

form/statement continues to be applicable to the additional loan funds).

- personal borrower information (dated by the borrower to indicate when he or she provided and/or updated it) which will assist in skiptracing should this be necessary during the collection process. This must be collected as part of the entrance interview process even if a borrower has provided similar information on the financial aid application, since the information may change between the time the borrower applies for and is awarded funds. A school may use whatever format it finds most effective to collect this information. For a borrower who receives loan funds in more than one academic year, the school must require the borrower to:

  - provide this information anew each year before funds are disbursed; or

  - review and update the original entrance interview information each year before funds are disbursed and re-sign and date the information to indicate when the updating occurred.

[42 CFR Part 57.210 and 42 CFR Part 57.310]

B. PROMISSORY NOTE

Each loan must be evidenced by a properly executed promissory note in a form approved by the Secretary. The school must safeguard the promissory note against fire, theft, and tampering. Each promissory note must:

- state that the loan will bear interest on the unpaid balance computed only for periods during which repayment of the loan is required, at the current percentage rate per year; and

- contain an acceleration clause provided by the Secretary, which will permit the acceleration of delinquent loans at the school's option.

In addition, a copy of each executed note must be supplied by the school to the student borrower.

See Health Professions Programs, Health Professions Student Loan, Chapter 3, and Nursing Programs, Nursing Student Loans, Chapter 3 for further information on promissory notes.

[42 CFR Part 57.208 and 42 CFR Part 57.308]

1) SECURITY

A school must require security or endorsement if the borrower is a minor and if, under the applicable State law, the note signed by him or her would not create a binding obligation. The school may not require security or endorsement in any other circumstances.

[42 CFR Part 57.208 and 42 CFR Part 57.308]

2) DISCLOSURE REQUIREMENTS

For any Health Professions FCC Loan made after June 30, 1986, the regulations require a school, at the time the loan is made, to provide the following loan information to the student:

- the yearly and cumulative maximum amounts that may be borrowed by the student;
- the terms of the loan and when repayment will begin;
- the maximum number of years in which the loan must be repaid;
- the interest rate that will be paid by the borrower and the minimum amount of the required monthly payment;
- the amount of any other fees charged to the borrower by the lender;
- any options the borrower has for deferral, cancellation, prepayment, consolidation, or other refinancing of the loan;
- a definition of default on the loan and a specification of the consequences which will result if the borrower defaults, including that the loan will be reported to credit bureau organizations;
- to the greatest extent, the effect of accepting the loan on the eligibility of the borrower for other forms of student assistance; and
- 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:
    - officers, employees, or agents of the Department of Health and Human Services;

- officers, employees, or agents of schools with which the Secretary has an agreement; or
- any other person involved in the collection of a loan.

[42 CFR Part 57.208]

For any Health Professions FCC Loan made after June 30, 1986, the regulations require a school, prior to the borrower's completion or termination of studies at the school, to provide the following loan information to the student:

- each amount borrowed by the student;
- the total amount borrowed by the student; and
- a schedule for repayment of the amounts borrowed, including the number, amount, and frequency of payments to be made.

[42 CFR Part 57.208]

Schools administering Health Professions and Nursing FCC Loan Programs must comply with the applicable requirements of Truth in Lending Regulation Z *[12 CFR Part 226]*, as specified in Health Professions Programs, Health Professions Student Loan, Chapter 3, and Nursing Programs, Nursing Student Loans, Chapter 3.

3) INSURANCE PREMIUM

The promissory note for any Health Professions FCC Loan made on or after October 22, 1985 allows a school to assess the borrower a charge to insure against the loss of the institutional share of a loan cancelled due to the borrower's death or permanent and total disability. Schools that choose to charge an insurance premium must determine the rate each year based on their cancellation experience. However, the rate may not exceed .6 percent of the loan amount. Proceeds collected from loan disbursements as insurance premiums must:

- be used only to reimburse the school for the institutional share of these loans that are cancelled due to the borrower's death or permanent and total disability; and
- must be maintained by the school in an interest-bearing account (with any earned interest credited to this insurance fund).

A school is not required to maintain a separate bank account for the insurance premiums, but it is required to maintain separate accountability.

[42 CFR Part 57.213]

C. EXIT INTERVIEW

The regulations require a school to conduct and document an exit interview (individually or in groups) with its borrowers. The school has the discretion in deciding which office(s) (e.g., financial aid, fiscal, loan collection, dean's) will be responsible for the exit interview, and for determining the specific format of the exit interview as long as the following documentation is obtained:

- the terms of repayment agreed to by the borrower and the school, which must be signed and dated by the borrower indicating acceptance.

- evidence that the borrower was reminded of his or her rights and responsibilities. This can be documented by having the borrower sign and date a form or statement similar to that used in the entrance interview, or a separate form or statement which provides, or indicates the borrower has received additional information that is not addressed during the entrance interview. For further information, see the Exit Interview Checklist, Exhibit D, in both Health Professions Student Loan and Nursing Student Loan.

- updated personal information provided by the borrower during the exit interview. This can be documented by having the borrower complete and date a personal information form similar to that used in the entrance interview, or a separate form which collects additional types of information that is not requested during the entrance interview (e.g., future employment plans). For further information, see the Exit Interview Questionnaire, Exhibit F, in both Health Professions Student Loan and Nursing Student Loan.

If a borrower fails to appear for an exit interview, the school must attempt to conduct the exit interview by mailing the exit interview information to the borrower and requesting that a copy of the repayment terms and the rights and responsibilities form or statement be signed and dated, the personal information form be completed and dated, and these items be returned to the school. If the borrower returns the information as requested, this will document that the exit interview was conducted.

If the borrower fails to return the information, the school must maintain in the borrower's file a copy of the repayment terms sent to the borrower and the date the exit interview information was

mailed as documentation of the contact. Further attempts to obtain the exit interview information are not required to comply with the regulations, except that if the information is returned to the school due to an incorrect address, the school must record the date the information was returned or retain the returned envelope. The school must then initiate an address search and, if successful, must record the date the information was mailed to the borrower's correct address.

Although not required, schools are strongly encouraged to make a second contact, by mail or telephone, with any borrower who fails to return the exit interview information within a reasonable time. Schools are also strongly encouraged to encumber the records of students who fail to return the exit interview information (and notify students of this action), unless State law prohibits such action.

[42 CFR Part 57.210 and 42 CFR Part 57.310]

D. REPAYMENT SCHEDULES

The school must provide each borrower with an individual repayment schedule or plan at the time the borrower leaves school. Providing each borrower with an individual repayment schedule has several advantages. The borrower is kept informed of the date each payment is due; the amount of each payment; the amount credited to principal and interest from each payment; and, by a simple calculation, he or she may determine for tax purposes the total amount of interest paid each year. The school is saved the chore of computing interest each time a payment is received.

Subject to the provisions of Chapter 2, Section 1 D3, Minimum Payments Required below, a borrower must establish a repayment schedule with the school providing for payments not less often than quarterly. Any borrower whose repayment is delinquent more than 60 days must establish a monthly repayment schedule with the school. However, a borrower may at his or her option and without penalty, prepay all or part of the principal and accrued interest at any time.

[42 CFR Part 57.210 and 42 CFR Part 57.310]

1) COMPUTATION OF REPAYMENT AMOUNT

Each loan, including accrued interest, will be repayable in equal or graduated periodic installments in amounts calculated on the basis of a 10-25 year repayment period. Repayment of a Health Professions FCC Loan must begin one year after the student ceases to be a full-time student. For Nursing FCC Loans, repayment must begin nine months after the student ceases to be a full-time or half-time student, except that if a borrower reenters the same or another school as a full-time or half-time student within the nine-month period, the date upon which interest will accrue and the repayment period will begin will be determined by the date upon which the

student last ceases to be a full-time or half-time student at that school.

[42 CFR Part 57.210 and 42 CFR Part 57.310]

See also Chapter 2, Section 1F, Primary Care Loans for computing Primary Care Loan repayment when a borrower fails to comply with the agreement.

Deferment periods that will affect the repayment period are discussed in Health Professions Programs, Health Professions Student Loan, Chapter 4, and Nursing Programs, Nursing Student Loan, Chapter 4.

2) COMPUTATION OF INTEREST

Repayment schedules must be computed on a simple interest basis. If the borrower chooses to make sporadic payments, either in the amount or the time (but always prior to or by the due date), the school will have to calculate the interest accrued from the date of the previous payment to the date of the current payment. To calculate this interest, the following formula is used:

Principal balance x (interest rate/12) x number of months between payments

3) MINIMUM PAYMENTS REQUIRED

The school may require the borrower to make payments of at least $40 per month on all outstanding Health Professions or Nursing FCC Loans during the repayment period.

[42 CFR Part 57.210 and 42 CFR Part 57.310]

4) INTERRUPTED REPAYMENT SCHEDULE

If the original repayment schedule is interrupted because of deferment, cancellation or other factors, this plan may no longer be valid. The school should at that time negotiate a new repayment schedule with the borrower to accommodate the interruption in payments. For more information on how the revised repayment schedule may be affected by deferment, cancellation or other factors, see Health Professions Programs, Health Professions Student Loan, Chapter 4, and Nursing Programs, Nursing Student Loan, Chapter 4.

Section 2 AFTER THE BORROWER LEAVES THE INSTITUTION

A. CORRESPONDENCE BEFORE PAYMENT IS DUE

The interval after the time the borrower ceases to be a student until the repayment period begins is the grace period. Repayments need not be made by the borrower and interest does not accrue during the grace period.

1) GRACE PERIOD CONTACTS

The regulations require a school to contact borrowers in writing twice during the grace period. Since the regulations do not state specific intervals at which the contacts must occur, each school has discretion in developing reasonable intervals for the two contacts (e.g., 90 and 180 days into the grace period). To comply with this requirement, a school can use whatever form of written notification it finds most effective, including lettergrams, letters, or a message on a billing statement (with the billing portion indicating that no payment is yet due). Mailed exit interview information may not take the place of one of the two grace period contacts. However, if the school mails the first bill during the grace period, and includes a message section which provides the borrower with appropriate information, the school can consider this one of the two grace period contacts.

[42 CFR Part 57.210 and 42 CFR Part 57.310]

The regulations do not specify information which must be included in the grace period contacts, but instead leaves this at the discretion of the school. A school should use these notices as opportunities to remind the borrower of information that is pertinent to assure timely repayment, including:

- the fact that the loan must be repaid in a timely manner as required in the signed repayment schedule;
- the fact that the borrower must inform the school of any changes of name and address;
- the full amount of the loan including the interest rate;
- the date and amount of the first payment;
- the borrower's responsibility to contact the school prior to the due date of any installment if payment cannot be made for any reason;

- the borrower's rights to deferment, postponement, and/or cancellation, as well as the need for timely submission of such forms;
- the borrower's right to accelerate loan repayments without penalty; and
- any other items such as the school's right to withhold all services (transcripts, letters of recommendations, alumni materials, placement information, etc.) until the borrower's obligations have been met.

The school must document the grace period contacts by keeping a copy of each contact sent to each borrower, or by maintaining samples of the grace period contacts and documenting for each borrower the month when each contact was mailed. If any grace period contact is returned due to an incorrect address, the school must record the date the contact was returned or retain the returned envelope. The school must then initiate an address search and, if successful, must keep a copy of the contact mailed to the correct address or record the date this contact was mailed.

If an updated address is not located until after one of the next regularly scheduled contacts should have been mailed, documentation of the date the address was obtained and the school's schedule for sending grace period contacts would determine whether any grace period notices must be sent or regular billing initiated immediately. For example:

- if a borrower's first grace period contact is returned, and a correct address is not located until after the second grace period contact has been mailed to other borrowers, the school is not required to send this borrower the first grace period contact, but must send the second grace period contact; or
- if a borrower's first grace period contact is returned, and a correct address is not located until after the repayment period has begun, no grace period contacts would be required for this borrower.

2) DEFERMENT CONTACTS

The regulations require a school to contact a borrower one to three months prior to the completion of an approved deferment period. The school must make this contact for any borrower in deferment when the approved deferment period is due to expire and an extension has not been requested by the borrower (by submission of a new deferment form) at the time the deferment contact is to be mailed.

[42 CFR Part 57.210 and 42 CFR Part 57.310]

The deferment contact is not required if a borrower in deferment extends his or her deferment period by submitting a properly completed deferment form prior to the time that the deferment contract is scheduled to be mailed. For example, a deferment contact is scheduled to be mailed 60 days before the end of an approved deferment period and the borrower submits a deferment form extending the deferment period 75 days before the end of the approved period. In this case, a deferment contact would not be needed until one to three months prior to the completion of the newly approved deferment period. The date that the deferment form extending the period of deferment was approved by the school, which would be prior to the date the deferment contact was to occur, would document that a deferment contact was unnecessary at the time.

To comply with this requirement, a school can use whatever form of written notification it finds most effective, including lettergrams, letters, or a message on a billing statement (with the billing portion indicating that no payment is yet due, but also indicating when the approved period of deferment ends and/or when the next payment will be due).

The regulations do not specify information which must be included in the deferment period contact, but instead leaves this at the discretion of the school. The school should use this contact as an opportunity to remind the borrower of information that is pertinent to assure timely repayment, such as that listed for grace period contacts. If a school expects the borrower's deferment status to continue, it is suggested that the school include with this notification a blank deferment form for the borrower to complete and return prior to the time his or her repayment period would otherwise resume.

The school must document the deferment contact(s) by keeping a copy of each contact sent to each borrower, or by maintaining samples of the deferment contacts and documenting for each borrower the month when each contact was mailed. If any deferment contact is returned due to an incorrect address, the school must record the date the contact was returned or retain the returned envelope. The school must then initiate an address search and, if successful, must keep a copy of the contact mailed to the correct address or record the date this contact was mailed. If an updated address is not located until after billing should have begun or resumed, this deferment contact would not be required for this borrower.

B. REGULAR BILLING

The regulations require a school to perform and document regular billing. To comply with this requirement, a school must either send a statement prior to the due date of each payment or use a coupon payment system which provides coupons to borrowers no less often than biennially.

If a school sends billing statements prior to the due dates of each payment, the school must document this:

- by keeping a copy of each billing statement mailed to each borrower; or
- by keeping a sample copy of a billing statement mailed to any borrower, and documenting for each borrower the month that each bill was mailed.

If a school uses a coupon payment system, it must send coupons to borrowers on at least a biennial basis, and must document this:

- by documenting for each borrower the month that coupons are mailed and keeping each coupon submitted with each borrower's payment; or
- by keeping a sample of the coupon payment system, documenting for each borrower the month that coupons are mailed, and keeping a record of the date and amount of each payment received from each borrower (i.e., a repayment history).

A school that uses an outside billing agent must also have available a copy of the service agreement and its effective dates.

If any billing statement or coupons are returned due to an incorrect address, the school must record the date returned or retain the returned envelope. The school must then initiate an address search on all returned statements or coupons and, if successful, must keep a record of the date the correct address was obtained and the date the billing contact (statement or coupons) was mailed to the correct address.

In cases where the school and borrower elect to use electronic funds transfers, billing statements would not be sent to the borrower. However, the school should provide the borrower with an annual statement showing the principal paid, interest paid, and outstanding balance. This option is available for borrowers on a monthly, bi-monthly or quarterly payment plan. Insufficient funds in the borrower's account would be treated like an NSF check, subject to the borrower losing the right to use this method. Usually two incidents of insufficient funds in a borrower's account would terminate this method of payment.

To satisfy the due diligence requirements, the school must have available documentation to substantiate that participating borrowers were up-to-date on their payments prior to their participation in the plan. The signed authorization forms to begin the electronic transfer, dates that annual statements were sent to the borrowers, and written requests to terminate the service must be maintained to document the period of time during which billing statements were not required. Documentation of the date and amount of each payment must be available to support that payments were received from each borrower (i.e., a repayment history) and, where applicable, documentation must also be available relating to the borrower's suspension from the

plan. When a borrower's account becomes past due, as a result of insufficient funds available for transfer, past due follow-up must be performed as specified in the regulations.

C. FOLLOW-UP ON PAST DUE ACCOUNTS

1) DELINQUENCY LISTS

In order to follow up on overdue accounts systematically, a current Delinquent List must be maintained. Compilation of an overdue account list from the individual ledger cards or subsidiary account sheets permits a review of all contacts with pertinent notes and/or information about the borrower every month, thus assuring current data at the time collection letters are sent.

2) PENALTY CHARGES

In administering the penalty charge provision of the regulations, for any Nursing FCC Loan made after June 30, 1969, but prior to October 1, 1985, and for any Health Professions FCC Loan made after June 30, 1969, but prior to October 22, 1985, the school may:

- fix a charge for failure of the borrower to pay all or any part of an installment when it is due and, in the case of a borrower who is entitled to deferment or cancellation or repayment, fix a charge for failure to file timely and satisfactory evidence of an entitlement for deferment or cancellation;

- charge an amount not to exceed $1 for the first month or part of a month by which the installment or evidence is late and $2 for each succeeding month or part of a month; and

- elect to add the amount of this charge to the principal amount of the loan as of the day after the day on which the installment or evidence was due, or to make the amount of the charge payable to the school no later than the due date of the next installment following receipt of the notice of the charge by the borrower.

[42 CFR Part 57.210 and 42 CFR Part 57.310]

For any Nursing FCC Loan made on or after October 1, 1985, and for any Health Professions FCC Loan made on or after October 22, 1985 the school must assess a charge for failure of the borrower to pay all or any part of an installment when the loan is more than 60 days past due and, in the case of a borrower who is entitled to deferment for any failure to file satisfactory evidence of the entitlement within 60 days of the date payment would otherwise be due. In addition:

- a penalty charge may not be assessed on a loan that is 60 days or less past due.

- the requirement to charge a penalty applies to any loan that is more than 60 days past due, including a loan for which the school does not have the borrower's current address. A penalty would not be charged on a loan that has been renegotiated or placed in forbearance (provided that the borrower is complying with the terms of the renegotiation or forbearance agreed upon by the borrower and the school), since this loan would not be considered past due.

- the penalty charge may be computed, at a maximum, as six percent of the total amount of the payment due (i.e., the amount that has already come due and is now past due, not including payments for which the borrower is being billed on a current basis but which have a future due date).

- since the statute establishes a maximum penalty charge, but does not establish a minimum charge, the school may compute the penalty charge at a lesser rate (for example, five percent) or as a flat rate (for example, $2 per month, provided that this does not exceed six percent of the total amount past due). However, a school may not comply with the penalty charge requirement by charging zero percent.

- a school has the discretion, subject to the six percent maximum, in implementing the late fee as a percentage, as a flat dollar rate, or as a combination of both. For example, a school may comply with the penalty charge provision by charging a flat $1 or $2 fee (or any other amount it determines to be appropriate) on a monthly basis when the loan is more than 60 days past due, as long as the charge does not exceed six percent of the total amount past due. A school may also comply with the penalty charge provision by charging the lesser of, for example, six percent or $15 (or any other percentage or dollar amount within the statutory maximum of six percent). Each school should assess the penalty charge at an amount, within the six percent statutory maximum, that will be most beneficial to its collections efforts.

- a school may not charge a penalty on any previous unpaid penalty charges unless the school has chosen to add the penalty charges to the principal balance of the loan.

- Federal law supersedes State law when there is a conflict between the two. In the case of the penalty charge provision, the Federal law authorizes schools to charge up to six percent of the total amount past due on loans more than 60 days past due, regardless of how this may differ from any State laws governing penalty charges.

- standard accounting procedures dictate that payments received be applied first, to penalty charges outstanding; second, to interest outstanding; and third, to the principal balance.

[42 CFR Part 57.210 and 42 CFR Part 57.310]

3) CORRESPONDENCE TO COLLECT PAYMENTS PAST DUE

The regulations require a school to make four follow-up contacts during the first 120 days of a borrower's delinquency, three of which must be written contacts at not more than 30-day intervals. The specific time frames for the three required written contacts (e.g., 30-, 60-, and 90-days past due; 15-, 45-, and 60-days past due; etc.) are at the discretion of the school, based on what has been most successful in the past and/or what is done for other loan programs. The school may make the fourth contact in writing, by telephone, or by personal contact at whatever point during the 120-day period the school determines will be most effective.

[42 CFR Part 57.210 and 42 CFR Part 57.310]

If a written follow-up contact is returned due to an incorrect address, the school must record the date returned or retain the returned envelope. The school must then initiate an address search and, if successful, must keep a copy of the contact mailed to the correct address or record the date and type of contact (e.g., 15-day, 45-day, final demand, etc.) mailed. If an updated address is not located until after one or more of the next follow-up contacts should have been mailed, documentation of the date the address was obtained and the school's schedule for sending follow-up contacts would determine which follow-up contacts must be sent.

If a school does not locate a correct address until after the loan is more than 120 days past due, schools are strongly encouraged to make one or more written or telephone contacts, as appropriate, before referring the loan to a collection agent, although this is not required by the regulations.

For the written contacts, the regulations do not specify a required format. Each school may use whatever form of written notification it finds most effective, including lettergrams, letters, or messages on billing statements which are comparable to information that would be provided in separate written notifications. Although this provision gives schools latitude in determining the format of the written contacts, the Division of Health Careers and Financial support (DHCFS) strongly recommends that they be separate from billing statements. Regardless of the format, the written contacts should contain language which becomes progressively stronger in tone. For example:

- within 30 days after the due date, a notice of payment due would be sent to the borrower. At this time the borrower should be reminded that school services (transcripts, letters of recommendation, alumni materials, placement information, etc.) will be withheld until the account has been brought current.

- within 60 days after the due date, the school would contact the borrower in writing (registered mail is recommended). In this contact the school should verify the correct mailing address and demand payment of all principal and interest due to date.

- within 90 days after the due date, another contact would advise the borrower that the lending school has the option on demanding payment of all outstanding principal, accrued interest, and penalty charges (see Chapter 2, Section 3, Acceleration of Delinquent Loans).

- if a satisfactory response is not received to the third contact, the school should either telephone the borrower or send a final demand letter stating that the borrower has 30 days to respond or the borrower will risk having the loan referred to a collection agency, the credit bureau, and/or an attorney for legal action.

The school must document the written contacts by maintaining copies of each contact sent to each borrower, or by maintaining sample copies of the contacts and documenting for each borrower the date each contact was sent.

If the school chooses to do the fourth contact by telephone or personal visit, this must be documented by a record of the date of the telephone call or visit and a brief description of the conversation with the borrower (conversation with relative/roommate not acceptable). If the school attempts telephone or personal contact and is unable to reach the borrower, a fourth contact must be made in writing.

D. ADDRESS SEARCHES

The regulations require a school to perform an address search when it finds that its address for a borrower is not correct. Since this provision does not specify methods of skiptracing that must be used, each school may determine the skiptracing methods that it finds most effective in locating its borrowers and use those as a basis for developing institutional skiptracing procedures.

[42 CFR Part 57.210 and 42 CFR Part 57.301]

To comply with this requirement, a school must have written procedures it initiates on a timely basis in attempting to locate a borrower's correct address. The skiptracing efforts must be

documented by a record of the date and results of each attempt. If a school's attempts to locate a correct address fail, and the school hires a commercial skiptracing agency, it must document the date the assistance of the commercial agency was enlisted for each account, the date the account was returned, and the results of the agency's efforts. Resources for skiptracing might include:

- the Dean, Alumni, Registrar, and Placement Office(s) at the school;
- the national association which corresponds with a borrower's course of study (e.g., the American Medical Association, American Dental Association, etc., including State Licensing Bureaus);
- the Department of Motor Vehicles;
- previous employers listed on the entrance and exit interview forms;
- relatives and/or friends listed by the borrower on applications or entrance and exit interview forms;
- any person who signed the note as security or endorser;
- religious and/or fraternal organizations with which the borrower had indicated an affiliation;
- the post office for the borrower's last know address;
- the telephone company, provided the school has a good idea of the city/locale in which the borrower is located;
- the Armed Services and military reserve;
- insurance companies and any organizations that may have been listed on the borrower's entrance and exit interview forms;
- major department stores that issue credit cards in the city/locale in which the borrower lived or may be presently located; and
- any other institutions which the borrower is known to have attended either before or after the lending institution.

E. USE OF A COLLECTION AGENT

The regulations require a school use collection agents. However, each school has latitude in determining whether to use an in-house collection agent and/or one or more commercial collection agents and in deciding how long to leave an account with a collection agent. For each collection agent to which an account is referred, the school must document the date of referral, the results of the collection agent's efforts, and the date the account was returned to or recalled by the school if the collection agent was unsuccessful in collecting the account in full. In addition, a copy of the procedures followed by the in-house collection agent, or a copy of the contract (i.e, service agreement) with the commercial collection agent, must be available.

[42 CFR Part 57.210 and 42 CFR Part 57.310]

1) COLLECTION COSTS

The school may charge the fund for the costs of employing a commercial collection agent. The fees charged by the agent should not exceed the normal and reasonable collection fees for the area in which the school is located. Effective May 16, 1986, the cost of salaries, in addition to the previously allowed costs of postage, stationery, telephone calls and other reasonable costs directly associated with the internal collection process, are allowable charges to the fund, provided that the school is exercising due diligence, subject to the following restrictions:

- the costs of the internal collection system may not exceed the costs that would be incurred by the fund if the school elected to use a commercial collection agent.
- the costs must be attributed only to the cost of carrying out the collection agent requirements, and not to the routine billing and follow-up activities that are required as part of due diligence.
- the costs must be prorated among the different programs, Health Professions FCC Loans, Nursing FCC Loans, Perkins Student Loans, etc., when an internal collection office is performing collections for more than one program. This is also required when collections efforts are incurred for a borrower who has loans under more than one program.
- the school must, for audit purposes, be able to document the amount of collection costs charged to the loan funds.

Under no circumstances can overhead expenses, such as rent, heat, electricity, etc., that are not identifiable as costs of the particular collection procedure be charged to the fund. In addition, collection costs paid by the borrower are not chargeable to the fund.

F. LITIGATION

The regulations require a school to litigate against a delinquent borrower, after all other collection efforts have failed, unless the school determines, subject to the approval of the Secretary, that litigation would not be cost-effective. A school may litigate earlier, but before the school can be considered to have completed its due diligence it must litigate if litigation is deemed to be cost-effective. In addition, a school that would like to litigate for deterrence (i.e., to encourage other borrowers to repay) in a case where litigation is not cost-effective may do so.

[42 CFR Part 57.210 and 42 CFR Part 57.310]

To determine whether litigation is cost-effective, a school must consider the costs that it reasonably can expect to incur as a result of litigating compared with the amount it reasonably can expect to recover from the borrower. This determination may be based on input from a third party, such as an outside attorney.

If the school determines that litigation is cost-effective, the school must document the dates litigation was initiated and completed, the results, and any further efforts taken after litigation to collect the loan. If the school determines that the cost of litigating is expected to exceed the amount to be recovered, the school must document how this determination was made, and is not required to litigate, except that if the Secretary determines in a subsequent review that litigation would be cost-effective, the school may be required to litigate at that time.

G. CREDIT BUREAUS

The regulations require a school to report any loans more than 120 days past due to one or more credit bureaus. This requirement does not preclude reporting delinquent accounts to a credit bureau before they are 120 days past due if the school believes that an earlier time frame is more effective. A school must document compliance by providing a copy of a credit bureau report which lists the delinquent status of the loan account, or by other documented evidence supporting the fact that the account was reported to a credit bureau(s). In addition, the school must indicate in the borrower's historical record the date the account was reported to a credit bureau(s).

[42 CFR Part 57.210 and 42 CFR 57.310]

In determining which credit bureau(s) to join, the school must consider the geographical location(s) most frequented by its borrowers. Although the regulations do not specify the number of credit bureau(s) a school must join, it is strongly recommended that a school join at least two credit bureaus, one which provides local coverage and one which provides regional or

national coverage.

1) USE OF CREDIT BUREAUS FOR SKIPTRACING

If a school must incur additional credit bureau costs to use the credit bureau for skiptracing, it may charge these costs to the loan funds, provided that the school is exercising due diligence in the collection of its loans. If the Division of Health Careers and Financial Support (DHCFS) finds that a school is charging the costs of skiptracing through a credit bureau to the fund without having followed the applicable due diligence requirements that preceded skiptracing, the school will be required to reimburse the fund for these charges.

Section 3 ACCELERATION OF DELINQUENT LOANS

The borrower's failure to make any payment according to the repayment schedule or to submit required documents for deferment or cancellation prior to the due date for any payment renders the entire amount of the loan, plus any accrued interest and penalty charges, immediately due and payable when the promissory note contains an acceleration clause.

Schools are cautioned to use this authority with discretion and consistent with State collection statutes only when the results of due diligence collection activities suggest that the borrower will not fulfill his or her obligation to repay the loan.

Section 4 COMPROMISING THE NOTE

Schools are not permitted to compromise the promissory note, i.e., extend the repayment period beyond the legal requirements or settle for repayment of less than the full amount owed. In the litigation of a loan, a school is required to raise all applicable defenses in the collection of the loan. If, however, it appears that either a compromise or settlement of the loan is necessary or that an adverse decision might result, a school must contact the Division of Health Careers and Financial Support (DHCFS) for guidance prior to the compromise or, if possible, prior to the adverse decision. If the court denies a school's complaint to collect the loan or compromises the amount, the school must:

- inform the DHCFS of this prior to the expiration of the time for appeal; or
- file a protective notice of appeal.

The Division will then provide guidance and direction to the school.

Section 5 BANKRUPTCY

In the case of voluntary bankruptcy, the debtor admits his or her inability to pay legal obligations and hands over to the court his or her total assets, less certain exceptions, for distribution among creditors. The bankruptcy judge's decision as to whether a student educational loan is dischargeable or nondischargeable is binding on both the creditor and debtor.

In the event of bankruptcy, a school is required to take all necessary action to protect the loan from discharge. The following guidelines cover only the basic actions that schools must take. It is recommended that schools consult with their legal counsel for advice on how to deal with borrowers who file for bankruptcy.

A. AUTOMATIC STAY

When a petition in bankruptcy is filed, the court issues an automatic stay. This means that when notified of the petition in bankruptcy, a school and its agents must immediately suspend any collection efforts outside the bankruptcy proceedings against the borrower. When the debtor files a Chapter 13 bankruptcy petition, a school must also suspend collection against any cosigner on the loan [11 U.S.C. 1301(a)]. However, this suspension is temporary. If the Chapter 13 plan does not provide for full payment of the loan according to its terms, the school should file a motion with the court to obtain relief from the stay and proceed against the cosigner on the note.

B. BANKRUPTCY REFORM ACT

In 1976, Congress passed legislation preventing discharge of educational loans made under any program funded in whole or in part by a governmental unit within a five-year period beginning on the date of commencement of the payment period of the loan. When the Federal bankruptcy laws were revised in 1978 and 1984, Congress included the five-year rule in bankruptcy proceedings under Chapter 7 and extended the five-year period to seven years with the Federal Debt Collections Procedures Act of 1990, effective May 28, 1991. This Act also made the seven-year bar to discharge applicable to Chapter 13 bankruptcies.

Under Public Law 105-244, effective 10/7/98, Federal educational loans are nondischargeable regardless of how long they have been in repayment, unless the debtor demonstrates undue hardship. This new provision applies to any bankruptcy case commenced on or after the date of enactment.

1) CHAPTER 7 BANKRUPTCY

A bankruptcy under Chapter 7 of the Act is known as a "liquidation." This gives a debtor a fresh start by liquidating or discharging debts. A debtor turns over all his or her assets, with the

exception of those which are exempt under State law, to the court. Creditors file claims for their debts and the court then makes a distribution of any available assets to the creditors based on their claims. The debtor receives a general discharge releasing him or her from all debts under the Bankruptcy Code. Chapter 7 bankruptcies are relatively short in duration, lasting about 3 months.

When notification of a Chapter 7 bankruptcy is received from the court or the debtor, the school must file a proof of claim with the court stating the outstanding balance of the loan, plus accrued interest and any unpaid penalty charges as of the date that the petition in bankruptcy was filed. These forms are available from the bankruptcy court. The notice will indicate if the case is a no asset case. In this event, no proof of claim is necessary because there will be no distribution of assets. Creditors have 90 days from the date set for the first meeting of creditors in which to file a proof of claim.

2) CHAPTER 11 BANKRUPTCY

Chapter 11 bankruptcy is commonly referred to as a "business reorganization." However, it is available to individual debtors and can include personal debts. It is often used by debtors who have unsecured debts exceeding $100,000 and thus are ineligible for Chapter 13.

Schools, whose loans are listed among the debtor's liabilities, need not file a claim in Chapter 11 unless the debt is disputed or the amount is wrong. The court sets the time by which to file a proof of claim.

The debtor is required to file a reorganization plan which makes distributions to creditors over a period of time. A school can ask the court to set a date for filing the plan or to move to dismiss it if a debtor fails to file a plan within 120-days of filing the petition [11 U.S.C. 1112(b)(2) or (3)]. The school can also file a motion for relief from the stay [11 U.S.C. 362(d)]. The grounds for these motions are:

- the inability of the debtor to file a plan; and
- a showing that the plan could not be feasible in view of the available income of the debtor and the increasing debt.

Creditors are sent ballots and asked to vote to approve the plan. A school should object to the plan if it does not demonstrate the best efforts and good faith of the debtor [11 U.S.C. 1129(a)(3) and (7)(A)]. After the confirmation of the plan by the court, the debtor is discharged of all debts, except as provided for under the plan.

3) CHAPTER 13 BANKRUPTCY

Chapter 13 bankruptcy, commonly known as the "Wage-earners Plan," permits a debtor to propose a plan to make payments out of future income to satisfy the debtor's creditors. Chapter 13 is limited to debtors who have a regular income and whose unsecured debts do not exceed $100,000. The plan lasts from three to five years and must be confirmed by the court prior to implementation. The court appoints a trustee to administer the plan, by making monthly distributions to creditors, and to monitor the debtor's compliance with the plan. At the completion of the plan, the debtor is discharged of all debts dischargeable under the Bankruptcy Act.

A school must file a timely proof of claim, when notified of a Chapter 13 bankruptcy, within 90 days from the date of the first meeting of creditors. If possible, the school should attend the first meeting of creditors.

The school must file a timely objection to the plan or move to dismiss or convert it to a Chapter 7 if the following events occur:

- lack of good faith [11 U.S.C. 1325(a)(3)];
- there are non-contingent, liquidated, unsecured debts exceeding $100,000 on the date of the filing of the petition [11 U.S.C. 109(e)]; and
- all of the debtor's "disposable income" has not been applied to the plan [11 U.S.C. 1325(b)(1)].

Lack of good faith applies when the debtor has not provided reasonable payments in the plan for his or her student loan. The plan should provide for full payment of the loan, which can be partial payment of the loan during the plan, with payments continuing after the bankruptcy is over. These motions and objections must be made prior to the confirmation hearing. After confirmation, the school can move to dismiss the plan for failure to make payments.

C. DISCHARGE IN BANKRUPTCY

For bankruptcies commenced prior to October 7, 1998, and based on 11 U.S.C. 523(a)(8) of the Bankruptcy Code, the debtor's student loan is not dischargeable in Chapter 7 or 13 before the expiration of seven years (exclusive of any periods of deferment) prior to the filing of the bankruptcy petition unless the debtor obtains a finding from the bankruptcy court that the nondischarge of the loan would cause an undue hardship on the debtor and the debtor's dependents.

Under Public Law 105-244 Federal educational loans are nondischargeable regardless of how long they have been in repayment, unless the debtor demonstrates undue hardship. This new provision applies to loans made under Title VII and VIII of the PHS Act (HPSL, LDS, PCL, NSL), and applies to any bankruptcy case commenced on or after October 7, 1998.

The statutory bar to dischargeability is self-executing. The burden is on the debtor to prove undue hardship. To obtain this discharge, the debtor must file an adversarial complaint and serve the school as a defendant. If the debtor fails to do this, the general discharge in a Chapter 7 or 13 bankruptcy does not discharge the debtor's student loan, and collection must resume following the bankruptcy. If the Chapter 7 bankruptcy is a no asset case, the school does not have to appear in the bankruptcy and the loan is not discharged.

If the debtor does file a complaint to determine dischargeability of the student loan, the school must file a timely answer to the complaint and assert that the loan is nondischargeable unless the debtor proves that the nondischarge of the loan would cause undue hardship on the debtor and his or her dependents. In making this determination, courts generally use three tests:

- a mechanical test considering present and projected income and expenses, employment and employment potential, health, education level and skills, and family responsibilities;

- a good faith test considering whether the debtor made serious efforts to minimize expenses, earn income, and repay the loan; and

- a policy test considering whether the discharge of the loan would be consistent with the Congressional policies underlying the exception to discharge.

Discharge of student loans is not easily granted. The loan simply creating a burden on the debtor does not constitute undue hardship. The debtor must be in a financially hopeless situation, with little or no prospects for the future. Present inability to pay is not necessarily undue hardship.

After a loan has been discharged, the school is enjoined from taking further collection action. The school could, however, inform the borrower that, although the loan was discharged, there is a moral obligation to repay the loan so that others may also benefit from the loan program. The school may tell the borrower that he or she is permitted to make voluntary payments on the loan. However, these payments would not create a new obligation to repay the loan, nor may they be required or enforced.

Section 6 FORBEARANCE

The regulations allow a school to grant forbearance whenever extraordinary circumstances such as unemployment, poor health or other personal problems temporarily affect the borrower's ability to make scheduled loan repayments.

[42 CFR Part 57.210 and 42 CFR Part 57.310]

In order to grant forbearance, a school must have sufficient documentation to clearly indicate the basis for its determination. The documentation must be updated and the borrower's situation reevaluated no less than annually. Health Professions Programs, Health Professions Student Loan, Chapter 4, and Nursing Programs, Nursing Student Loan, Chapter 4 describe in greater detail the types of documentation that a school must have on file to support its decision to grant forbearance. Periods of forbearance must be counted as part of the repayment period, since the regulations do not include such periods under the deferment provisions.

Section 7 BORROWER SERVICE OBLIGATION

The regulations require schools to monitor a borrower's compliance with certain requirements under the following health professions student assistance programs.

A. PRIMARY CARE LOANS

The Health Professions Education Extension Amendments of 1992 established new requirements for the use of Health Professions Student Loan funds for allopathic and osteopathic medical schools. With the exception of the borrower service obligation, this program is similar to the Health Professions Student Loan Program and the same due diligence requirements listed above apply. More details on the Primary Care Loan Program are provided in Health Professions Programs, Primary Care Loan, Primary Health Care Service Obligation.

A borrower, who received Primary Care Loan funds, agrees to:

- enter and complete a residency training program in primary health care not later than four years after the date on which the borrower graduates from the institution; and

- practice primary health care through the date on which the loan is repaid in full, and to certify to the school on an annual basis that he or she is practicing primary health care. Primary health care is defined as family medicine, general internal medicine, general pediatrics, preventive medicine, or osteopathic general practice.

In the event a borrower fails to comply with the agreement, the school must:

- for loans made prior to November 13, 1998, immediately recompute the balance due on the loan from the date of issuance *(using the original principal)* at an interest rate of 12 percent per year, compounded annually. In accord with this provision, when a PCL recipient defaults on the service obligation, the school must recalculate the total amount owed on the debt by calculating interest at 12 percent per year, compounded annually, on the original principal amount of each disbursement, based on the date that each disbursement was made. If the recipient has already repaid a portion of the loan, these payments would be credited against the newly calculated indebtedness in accord with the time the payments were actually made.

- for loans made on or after November 13, 1998, statute requires that if a PCL borrower fails to comply with the primary care service requirement, the PCL will begin to accrue interest at a rate of 18 percent per year beginning on the date of noncompliance. The penalty is calculated on the outstanding balance of the PCL on the date of noncompliance.

The Secretary is authorized to provide for the waiver or suspension of the primary health care service obligation in the following circumstances:

- if the borrower terminates his or her studies before graduating from the school and does not later resume studies and graduate from the same or any other school of medicine or osteopathic medicine, the primary health care service obligation is waived.

- if the borrower terminates his or her studies before graduating from the school, but later resumes studies and graduates from the same or any other school of medicine or osteopathic medicine, the primary health care service obligation of the borrower is considered to have been suspended for the period during which the borrower was not in attendance.

This provision does not waive or suspend the borrower's obligation to repay the Primary Care Loan, but merely waives or suspends the primary health care service obligation and the associated penalties for non-compliance. Thus, any borrower who fails to graduate from a school of medicine or osteopathic medicine must still repay the Primary Care Loan in accordance with its normal terms (interest rate and repayment period). However, such a borrower is not subject to the 18 percent interest, compounded annually, which otherwise applies to a borrower who fails to comply with the primary health care service obligation.

It should be noted that there are other conditions which must be met by the school for participation in the Primary Care Loan Program. These are explained in detail in Health

Professions Programs, Primary Care Loan. Reference is also made to Fiscal Management, Program Monitoring, Chapter 2.

B. EXCEPTIONAL FINANCIAL NEED SCHOLARSHIPS AND FINANCIAL ASSISTANCE FOR DISADVANTAGED HEALTH PROFESSIONS STUDENTS

These scholarships carry two obligations for recipients. First, recipients must agree to complete the program of education for which the scholarships were awarded and, second:

- requires an individual attending a school of medicine or osteopathic medicine to enter and complete a residency training program in primary health care not later than four years after completing the program of education for which the scholarship funds were received and practice in primary health care for five years after completing the residency training program; and

- requires an individual attending a school of dentistry to practice in general dentistry for five years, exclusive of any period during which the individual is attending a residency training program in general dentistry.

A recipient breaches his or her obligations under the following circumstances:

- fails to maintain an acceptable level of academic standing in the program of education for which the scholarship was received, as indicated by the program in accordance with requirements established by the Secretary;

- is dismissed from the program for disciplinary reasons;

- voluntarily terminates the program; or

- fails to comply with the terms of the agreement entered into regarding training and service in primary health care or general dentistry.

In the event a recipient breaches his or her obligations, any amount the Federal Government is entitled to recover must be repaid by the scholarship recipient not later than three years after the date on which the individual breaches the agreement. The amount of repayment is made directly to the Federal Government, and not to the school. The school is required to monitor the recipient and notify the Federal Government of a breach of obligation.

The Secretary is authorized to provide for the waiver or suspension of liability for failure to fulfill the service obligation if compliance by the individual with the agreement is impossible or would

involve extreme hardship to the individual and if enforcement of the agreement would be unconscionable.

Health Professions Programs, EFN/FADHPS, discusses Exceptional Financial Need Scholarships and Financial Assistance for Disadvantaged Health Professions Students in detail.

CHAPTER 3 WRITE-OFF PROCEDURES

The sections in this chapter identify the policies and procedures for write-off review of uncollectible loans. Schools are reminded that when write-off approval is granted for a loan, the school still has the authority to collect the loan if it finds that collection is possible at a later time. The school is required to notify the Division of Health Careers and Financial Support (DHCFS), through the reporting process, of subsequent collections on loans approved for write-off.

Section 1 POLICIES

Regulations governing write-offs of uncollectible loans require the following:

- a school must, on an annual basis, review and assess the collectibility of any loan more than three years past due. (The annual review may be scheduled at a convenient time for the school and does not need to be documented.)

- if the school determines that the prospects of future collection are promising enough to justify periodic review of the debt and the 10-25 year repayment period has not expired, the school may retain the account for continued collections, provided that it makes an attempt at least semi-annually to collect from the borrower. The collection methods should be consistent with those normally used by the school and must be documented and become a part of the borrower's record.

- when the due diligence procedures required in Chapter 2 have been exhausted, the school is responsible for determining the collection methods it will use for the semi-annual collection effort required on these loans.

- if the school determines that the prospects of future collection are not promising, or when the10-25 year repayment period has expired, the loan must be considered uncollectible, even if the borrower is making payments. If the borrower is making payments, the school is still required to submit the loan for write-off review or reimburse the fund for the uncollected loan balance and retain future collections.

- loans discharged in bankruptcy are deemed uncollectible on the date the school receives the discharge notice.

- a school may determine a loan to be uncollectible sooner than three years past due when it has evidence that the loans cannot be collected, but in no case should a school consider a loan as uncollectible if it has not been in default for at least 120 days.

[42 CFR Part 57210 and 42 CFR Part 57310]

> The regulations define default as the failure of a borrower to make an installment payment when due, or comply with any other terms of the promissory note, except that a loan shall not be considered to be in default if the loan is discharged in bankruptcy, the borrower's repayment schedule has been renegotiated and the borrower is complying with the renegotiated schedule, or the loan is in forbearance.

A flowchart, External Loan Review Process, is presented at Exhibit A, which details the process the school should follow for its annual review of collectibility of loans.

A. SUBMISSION PROCEDURES

When a loan has been determined to be uncollectible, the school must document the date of final determination as part of the borrower's record. Final determination is made when a loan is considered uncollectible based on the earliest of the following: (1) when due diligence has been completed and the prospects of future collections are not promising or (2) when the repayment period has expired. If the school determines the loan should be written off, it must either submit it for write off review or follow the procedures outlined under Alternate Uncollectible Loan Audit when a borrower's balance exceeds $3000 (principal, interest, and penalty charges). See Exceptions to the Policies for account balances less than $3000. The fund must be reimbursed for uncollectible loans not written off. Submission procedures are subject to the following requirements:

- a school must request permission to write off an uncollectible loan within 60 days of the determination that it is uncollectible or reimburse the fund in the full amount of the loan.

- the 60-day period for submitting the loan for write-off review begins on the date that the determination of uncollectibility is made, in accordance with Chapter 3, Section 1 above. Please provide your E-Mail address with write-off submissions. (If you have not heard from us in 60 days, contact us for follow-up.)

- If the school does not request permission to write off an uncollectible loan within the required timeframe, it must reimburse the fund for the full amount of principal, interest, and penalty charges that remains uncollectible on the loan. This reimbursement must be made by the following June 30 or December 31, whichever is sooner, except that in no case will the school be required to reimburse the fund in less than 30 days following its determination that the loan is uncollectible.

[42 CFR Part 57210 and 42 CFR Part 573101

1) WRITE-OFF REVIEW

A school must comply with the following requirements for loans submitted for write-off review:

- if the Secretary determines that a school has exercised due diligence in the collection of the loan in accordance with the requirements in Chapter 2, the school will be permitted to reduce its accounts receivable for the fund by the full amount of principal, interest, and penalty charges that remains uncollected on the loans and will not be required to return the Federal share of the loss to the Secretary.

- in any instance where the Secretary determines that a school has failed to exercise due diligence in the collection of a loan, in accordance with the requirements, the school will be required to place in the fund the full amount of principal, interest, and penalty charges that remains uncollected on the loan. Reimbursement must be made by the following June 30 or December 31, whichever is sooner, except that in no case will the school be required to reimburse the fund in less than 30 days following the Secretary's disapproval of the request for write-off approval.

[42 CFR Part 5 7 21 0 and 42 CFR Part 5 7 31 0]

B. DOCUMENTATION REQUIRED

When requesting write-off review, an authorized official must certify, for each loan submitted, that the documentation provided is true, complete, and correct to the best of his or her knowledge. Any person who knowingly makes a false statement or misrepresentation in the documentation is subject to penalties which may include fines and imprisonment under Federal statute.

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

Exhibit C includes the Due Diligence Check List developed to assist schools in identifying and assembling appropriate documentation when requesting a write-off. Schools are strongly encouraged to use the Check List for submitting loans for write-off review or, at a minimum, follow its format. If you do not use the check list when submitting documentation for write-off

review, then your package must contain written certification, signed by an authorized official, guaranteeing all submitted documentation is true, complete, and correct.

Schools should also review the due diligence requirements in Chapter 2 to ensure they are submitting documentation to evidence compliance. Although there is no required format for submission of loans for write-off, copies of the following documentation should be included for each loan:

- the promissory notes(s);
- repayment schedule(s);
- entrance and exit interview documentation;
- approved deferment and/or cancellation forms;
- grace period and/or deferment contacts;
- billing and follow-up on past due accounts;
- attempts to locate the borrower;
- copy of the service agreement showing the outside collection agent perform skiptracing as part of the contracted services with the school (if applicable);
- copy of the school's in-house skiptracing procedures;
- evidence the borrower was referred to an outside collection agent (dated placement form), results of placement, and the date(s) the account was returned (close-out statement);
- copy of the service agreement with the collection agent and the collection agent's procedures;
- copy of the school's in-house collection procedures as evidence that the school's procedures are as effective as those which would be performed by an outside collection agent;
- evidence of litigation and the judgment obtained or a current third party statement (attorney or collection agent) of why litigation was not pursued (i.e., not cost-effective);

- date and supporting evidence the borrower was referred to a credit bureau(s). (Also, a copy of the service agreement with the outside billing or collection agent which states they report borrowers to the credit bureau(s) as part of the contracted services with the school and documentation evidencing the borrower was reported by the agent should be submitted, if applicable);

- Notice of Creditors, Proof of Claim and Final Discharge for loans discharged in bankruptcy; and

- evidence of semi-annual collection efforts.

Documentation to evidence grace period, deferment contacts, billing and follow-up, etc. can be in the form of a computer printout of the borrower's history.

Once the school submits documentation on its billing and collection procedures, the information will be retained for future write-off reviews. Subsequent submissions need only reference the procedures that are on file.

1) SUBMISSION OF ADDITIONAL DOCUMENTATION

If the Division of Health Careers and Financial Support (DHCFS) determines due diligence is still not evident to support write- off approval, the school will be given an opportunity to submit further documentation or to appeal the decision. The DHCFS write-off review process is also flowcharted at Exhibit B, DHCFS Write-off Review Process. Additional documentation or reason(s) for an appeal must be postmarked within 60 days of the date of the Division's letter (no extensions will be granted) or the school must reimburse the fund by the full amount of principal, interest, and penalty charges that remains uncollected on the loan, in accordance with the timeframe in Chapter 3, Section A1 above.

C. ALTERNATE UNCOLLECTIBLE LOAN AUDIT

For those schools that have exercised due diligence in the collection of loans in accordance with the requirements in this book, Part II, Chapter 2, the school may use the Alternate Uncollectible Loan Audit in lieu of the procedures described in Chapter 3, Section 1A, if it complies with the following requirements:

- ensures strict adherence to the audit requirements defined in Fiscal Management, Audits.

- ensures that documentation to evidence due diligence compliance, as defined in Chapter 3, Section 1B, exists.

Once the requirements listed above have been met, the school may elect to use the Alternate Uncollectible Loan Audit process to write-off uncollectible loans. For loans written off under this process, the school will be permitted to reduce its accounts receivable for the fund by the full amount of principal, interest, and penalty charges that remain uncollected and will not be required to return the Federal share of the loss to HHS.

D. ALTERNATE UNCOLLECTIBLE AUDIT PROCESS

A school must comply with the following requirements for loans written off under the Alternate Uncollectible Loan Audit process:

- notify the Secretary on the Annual Operating Report of the amount of the principal, interest, and penalty charges written off.

- notify the Secretary on the Annual Operating Report as to how the collections were applied to principal, interest, and penalty charges if subsequent collections are received on the loan.

- submit the Alternate Uncollectible Loan Audit document biennially, as defined in Fiscal Management, Audits, Chapter 3, Section 2I5, for all loans written off under the this process.

All loans written off must be reviewed during the school's biennial audit. In addition, the Department will periodically conduct its own review to confirm 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 must immediately reimburse the fund for the full amount of the unpaid balance, including principal, interest, and penalty charges that would have accrued up to the date that reimbursement actually occurs. Failure to comply with the requirements established for the Alternate Uncollectible Loan Audit process may subject the school to the noncompliance provisions of the loan program.

E. EXCEPTIONS TO THE POLICIES

A school is not subject to the write-off policies and procedures listed in Sections 1 and 1A above for:

- Health Professions Student Loans that became uncollectible, as determined by the school, before August 1, 1985; or

- Nursing Student Loans that became uncollectible, as determined by the school, before January 1, 1983.

The loans are governed by the provisions of Public Law 100-607 and are not subject to any dollar amount.

In these cases, the school will be permitted to reduce its accounts receivable for the fund by the full amount of principal, interest, and penalty charges that remains uncollected on the loan and will not be required to return the Federal share of the loss to the Department. The school should also remove these loans from its default category and place them in the fully retired category when calculating its default rate.

In making uncollectible loan determinations, a school should consider as uncollectible only loans on which payments were two years or more past due as of the specified date. Where a loan was less than two years past due as of the specified date, the school should consider it uncollectible only when the school has evidence to support this determination. The recommended two-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 721(c)(3) and Section 835(c)(3) of the Public Health Service Act on which schools' participation in the programs is based.

Schools' determinations of uncollectible loans will be reviewed during the biennial audit and Departmental reviews.

There is nothing to prevent a school from further pursuing the collection of a loan that has been determined to be uncollectible in accordance with the guidelines above, when the school has knowledge of changes in a borrower's situation. Any such amounts recovered must be deposited in the program fund and reflected in subsequent reports (Annual Operating Reports).

[42 CFR Part 57210 and 42 CFR Part 57310]

Effective September 30, 1997, a school may also write-off a borrower's balance that does not exceed $3,000 (principal, interest, and penalty charges) without requesting write-off review, provided the school has exercised due diligence, in accordance with the requirements in Fiscal

Management, Collections, Chapter 2 in its attempts to collect the loan. For loans written off under this provision, the school must:

- notify the Secretary on the Annual Operating Report of the amount of the principal, interest, and penalty charges written off; and

- if subsequent collections are received on the loan, notify the Secretary on the Annual Operating Report as to how the collections were applied to principal, interest, and penalty charges.

Loans written off by a school under this provision will be reviewed during the school's biennial audit and Department program reviews. In addition, the Department of Health and Human Services 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 penalty charges that would have accrued up to the date that reimbursement actually occurs.

Finally, schools are allowed to adjust the balance of a loan (principal, interest, and penalty charges) for both overpayment and underpayment of $10.00 or less. Report these adjustments as Other Costs on the Annual Operating Report.

CHAPTER 4 CASH MANAGEMENT

It is the intent to limit the use of cash to the specific program activity for which funds were established with Federal Capital Contributions (FCC). To accomplish this, funds for the loan and scholarship programs must be accounted for separately from other funds of the school, (and from each other), providing a clear audit trail for all transactions.

Section 1 INVESTMENT OF FUNDS

The school must at all times maintain all monies relating to each individual fund in one or more interest-bearing accounts or investment instruments which meet the Office of Management and Budget requirements established for Federal monies held by third parties. Should the school desire to integrate the funds with other school resources for investment purposes, the school must:

- maintain separate accountability to assure that investment income is allocated properly; and
- reimburse the funds for any losses that occur due to the use of investments that are not federally insured. (The latter is also true for funds that are not co-mingled.)

The school must place all earnings into the funds, but may first deduct from total earnings any reasonable and customary charges incurred through the use of an interest-bearing account.

For the Nursing FCC Loan Program, if the school documents that the costs associated with the use of an interest-bearing account would exceed expected earnings, the school is not required to maintain these monies in an interest-bearing account. However, the school in exercising its fiduciary responsibility should keep in mind that investment income can be an important source of additional funds for awards to students.

[42 CFR Part 57.205 and 57.305]

If the Secretary determines funds were used for other purposes (i.e., comingled with other programs' funds, with the school's general operating funds, or held by the State Treasurer), the school will be required to reimburse the program for investment income that would have been earned had the funds not been diverted for other purposes. The amount to be reimbursed will be compounded from the time the comingling began until the fund is reimbursed.

Section 2 DRAWING DOWN FEDERAL FUNDS

The Department of Health and Human Services makes payments of Federal funds to institutions through the Division of Payment Management. Institutions receive funds through electronic funds transfer either by cash line (electronic funds transfer) or Smart Link II (electronic funds transfer).

Treasury Department Circular No. 1075 specifies the requirements for drawing down funds.

It should be noted that the Department of Health and Human Services will not allocate funds to schools that have not used prior year allocations or have excess cash. Therefore, it is very important for the financial aid office and fiscal office to work together in identifying eligible students and funding requests. Further, the Division of Health Careers and Financial Support (DHCFS) will carefully review each institution's estimated need in conjunction with the projections given on the Annual Operating Report. If a school's available funds meet or exceed its needs for an academic year, a new award will not be issued.

Section 3 RETURN OF UNREQUESTED FUNDS

The Public Health Service Act has authorized the Secretary to enter into agreements for the establishment and operation of student loan funds and scholarships with schools engaged in offering courses leading to degrees in the health professions and in nursing. As part of the agreement, schools are required to return any unrequested funds remaining in the accounts at each June 30.

Section 4 REVIEW OF EXCESS CASH

A school must review the balance in each Health Professions and Nursing FCC fund on at least a semi-annual basis to determine whether the fund balance, compared with projected levels of expenditures and collections, exceeds its needs. A school in closing status must review the balance in each fund on a quarterly basis. The school's determination of excess cash is subject to review and approval by the Secretary.

Monies identified as in excess of the school's needs must be reported, and the Federal share returned to the Federal Government by the due date of the required report which identifies excess monies.

[42 CFR Part 57.205 and 42 CFR Part 57.305]

See Chapter 5, Remittance of Collections for additional information on computing excess cash and remittance to the Federal Government.

CHAPTER 5 REMITTANCE OF COLLECTIONS

Section 1 FEDERAL CAPITAL CONTRIBUTION FUND

A. PARTICIPATING INSTITUTIONS

As long as a school continues to participate in the Health Professions or Nursing FCC Loan Program, collections of principal, interest, and penalty charges from borrowers in repayment status and other income may be kept in the programs for making loans to other students. These collections need not be remitted to the Federal Government unless the school determines it has excess cash on hand.

B. DETERMINATION OF EXCESS CASH

As stated in Chapter 4, Section 4, Review of Excess Cash, participating institutions are required to review the balance in each fund on at least a semi-annual basis to determine excess cash. When determining excess cash, school officials should consider the following:

- the amount of collections and expenditures during the past few years;
- changes in the level of funding available in other student aid programs;
- changes in the student budget; and
- any other factors that will affect the level of the awards.

In addition, schools should:

- estimate funds available by including all available resources (i.e., cash balance available, current year award, collections (principal, interest and penalty charges) and investment income; and
- estimate expenditures based on total projected need.

Schools should not retain more funds than are needed. If any portion of the amount allowed for the safety margin is not needed, that amount should be considered excess cash.

1) REMITTANCE OF EXCESS CASH

If the school determines it has excess cash, it must return the Federal share of the excess cash to the Division of Financial Operations. Make the check payable to "Public Health Service, HRSA" and include in a letter containing the following information:

- the name of the school.
- the type and purpose of program funds being remitted, for example, Federal Capital Contribution-Health Professions Student Loan Program, remittance of student loan collections.
- the school's OPS No., e.g., OPS No. 1234-81-11.
- the amount of principal, interest and other income, if any.

Send the remittance and letter to the following address:

Health Resources and Services Administration
Division of Financial Operations
Collection Officer
7700 Wisconsin Avenue
Suite 8-9110D
Bethesda, MD 20857

If the amount determined to be excess cash is not intended to be returned to the Federal Government, the school must submit to the Division of Health Careers and Financial Support (DHCFS) within 45 days of the end of the reporting period an explanation for retaining the funds, including specific details as to how the determination was made. The school's determination is subject to review and approval. Correspondence should be sent to the following address:

Health Resources and Services Administration
Division of Health Careers and Financial Suppport
Health Careers Loans & Scholarships
Branch
5600 Fishers Lane, Room 15N54
Rockville, MD 20857

C. INSTITUTIONS IN CLOSE-OUT STATUS

Institutions in close-out status for the Health Professions or Nursing FCC Loan Program must review the balance in each fund on a quarterly basis, and remit the Federal share of the ending cash balance. Schools phasing out of the Health Professions or Nursing FCC Loan Program (i.e., closing programs) who have little or no activity should request a liability statement. When a school finalizes its agreement with the Federal Government, it is no longer required to submit an Annual Operating Report. Requests for liability statements should be directed to:

Division of Financial Operations/HHS
Debt Management Branch,
Student Assistance Section
7700 Wisconsin Avenue, Suite 8-8417
Bethesda, MD 20857

D. DETERMINATION OF REMITTANCE

Because it is the Federal Government's intent to always recover its proportionate share of any interest, penalty charges and other income collected (less its proportionate share of expenses) before any repayments are applied to principal, the worksheet at Exhibit F should be used until the initial interest amounts have been recovered.

Those schools that have been in closing status for some time and have repaid the initial bulk of interest to the Federal Government should use the worksheet at Exhibit G.

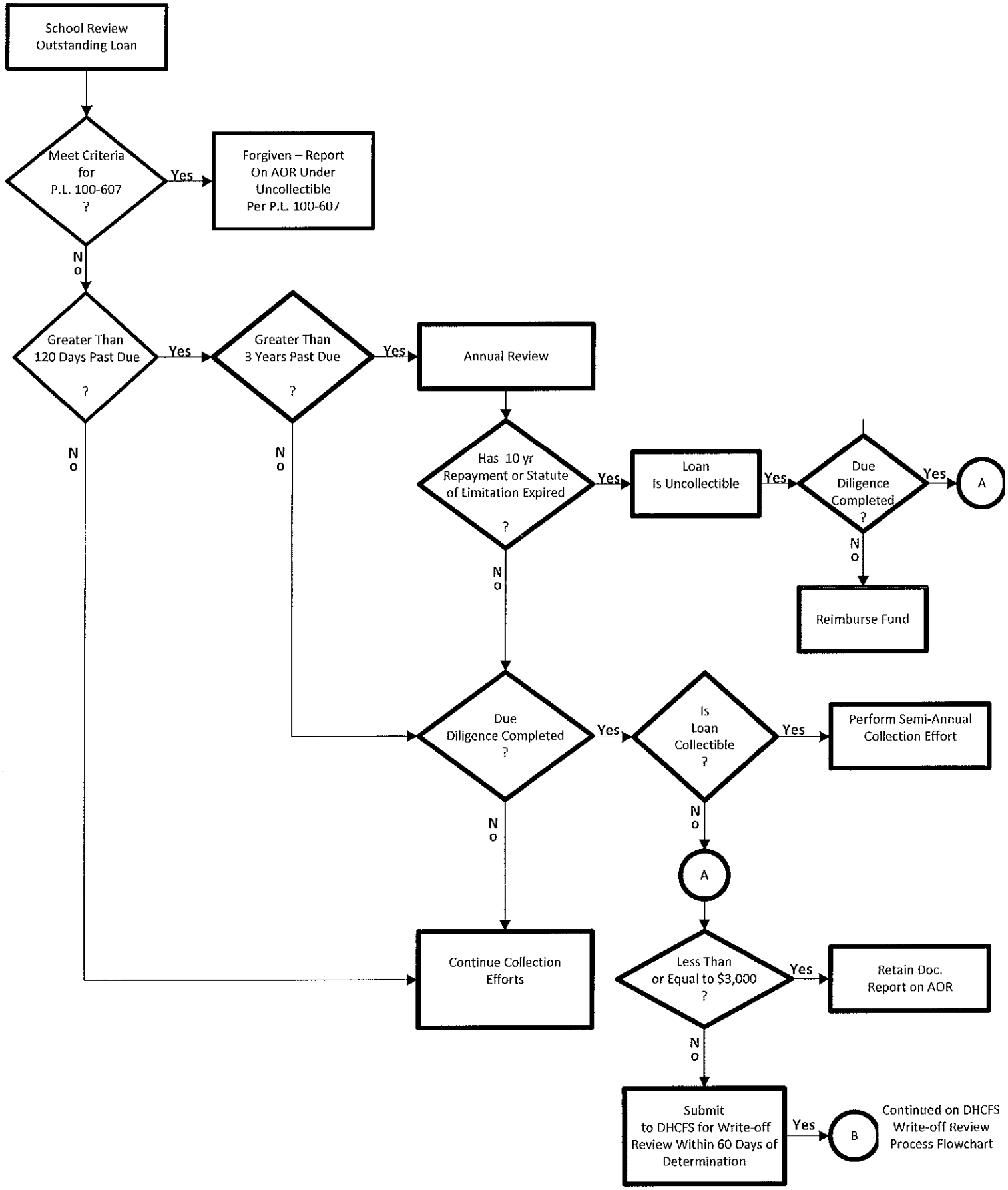
The school's remittance to the Federal Government should be made in accordance with the instructions in Section 1 B1 above for remittance of excess cash.

Exhibits

Exhibit A External Loan Review Process

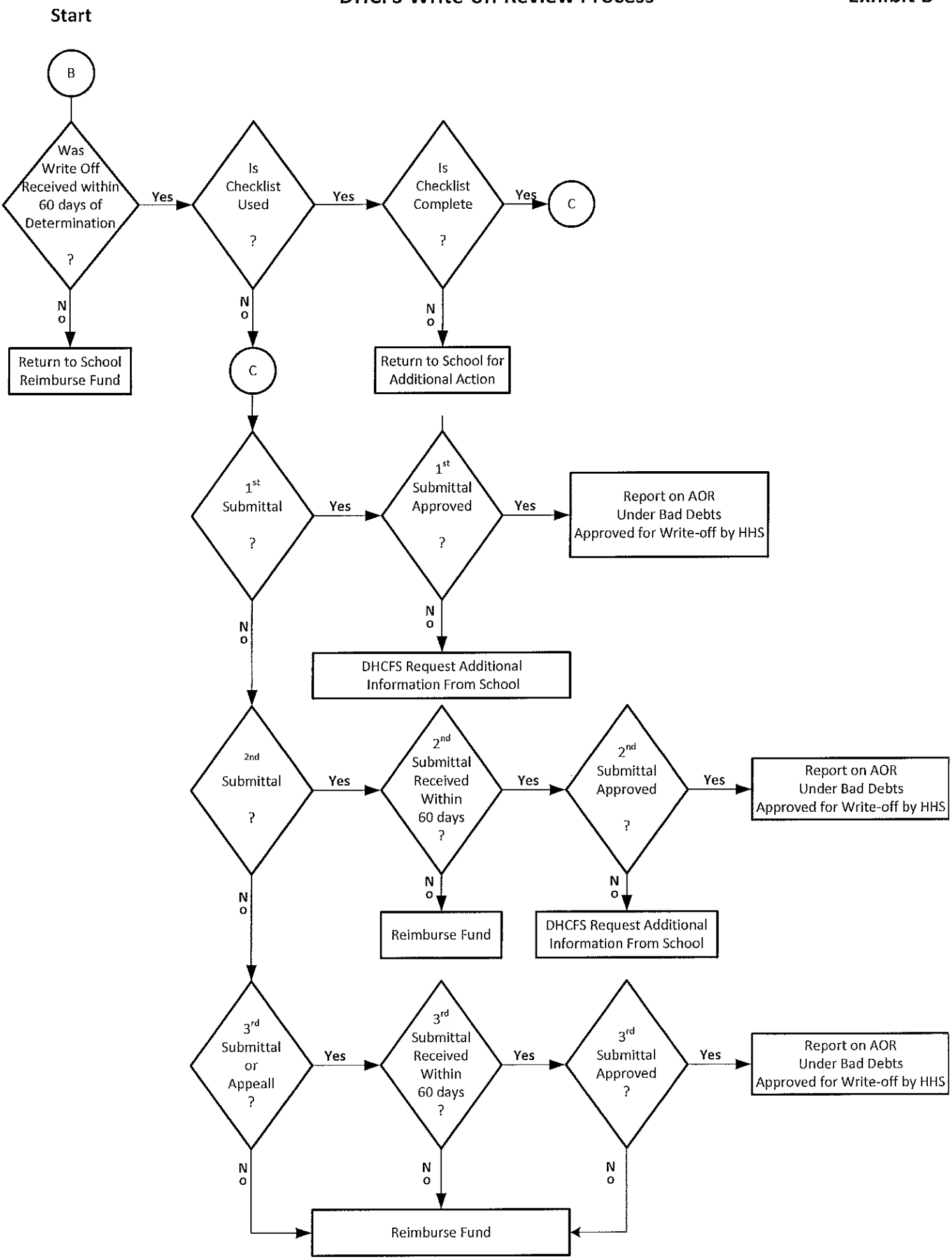
External Loan Review Process

Exhibit A



DHCFS Write-off Review Process

Exhibit B



Federal Capital Contribution (FCC) Loans
Due Diligence Check List

Institution Name:_____

Discipline: _____ State:___
(Examples: Medicine, Dentistry, Associate, Diploma)

FCC Loan Fund: HPSL PCL LDS NSL
(circle one)

Contact Person and Phone Number: _____

(___)_____

Borrower Name:_____ SSN#:_____

Separation Date: __/__/__ Grace Period Ended: __/__/__

First Payment Due Date: __/__/__ Date Borrower Defaulted on Loan: __/__/__

Date School Determined Loan Uncollectible: __/__/__

(a) Principal Amount Loaned
$_____

(b) Principal Amount Repaid
$_____

(C) Principal Amt Cancelled
$_____

(d) Principal Amount Outstanding (a-b-c=d)
$_____

(e) Penalty/Late Charges Outstanding
$_____

(f) Interest Repaid
$_____

(g) Interest Cancelled
$_____

(h) Interest Outstanding (d+e+h=I)
$_____

(I) Total Outstanding Balance
$_____

****

Refer to **Student Financial Aid Guidelines, Book Three - Fiscal Management**
Collections for documentation requirements and guidance.

Below is a check list of items to show due diligence for an FCC loan determined uncollectible.
********** SUBMIT PHOTOCOPIES ONLY **********

1. Has loan been reviewed in accordance with the due diligence requirements and write-off procedures in the Student Financial Aid Guidelines, Book Three - Fiscal Management?

   ☐ Yes ☐ No (Do not submit)

2. Have you enclosed copy(ies) of the Promissory Note(s)?

   ☐ Yes ☐ No (Do not submit)

3. Have you enclosed a copy of the repayment schedule?

   ☐ Yes ☐ No

4. Have you enclosed entrance interview documentation (effective 9/23/85)?

   ☐ Yes ☐ No ☐ N/A

5. Have you enclosed exit interview documentation (effective 9/23/85)?

   ☐ Yes ☐ No ☐ N/A

6. Were deferments or cancellations granted on this Loan?

   ☐ Yes Enclosed is/are approved form(s).

   ☐ No

7. Have you enclosed documentation of required contacts, including grace period (effective 9/23/85), deferment(effective 9/23/85), billing and follow-up? (Refer to the due diligence requirements and write-off procedures in the Student Financial Aid Guidelines, Book Three - Fiscal Management)

☐ Yes Enclosed is a copy of the billing agent's service agreement or school's billing Procedures and its effective dates and evidence of required contacts as listed above for this borrower.

☐ Yes A copy of the billing agent's service agreement or school's billing procedures applicable to this loan has already been submitted with previous write-off requests. Enclosed are evidence of required contacts as listed above for this borrower.

☐ No (Do not submit)

8. (a) Was the borrower a skip?

☐ Yes Date classified as a skip: __/__/__. Evidence of the skip is enclosed (i.e., return to sender correspondence). A copy of the school's written procedures followed in attempting to locate a borrower and evidence to document that those procedures were followed must be enclosed.

☐ No

(b) Was a commercial firm or collection agency used to locate this borrower?

☐ Yes Enclosed is a copy of the contract which states they perform skip tracing.

☐ No

9. Has the loan been referred to a commercial or inhouse collection agency?

☐ Yes Enclosed is a copy of the commercial agency's collection procedures, (and if used, the in-house written procedures), evidence of dates of referral, results of placement, and the date the account was returned.

☐ No

10. Was this loan litigated?

☐ Yes Enclosed is a copy of the judgement and further efforts taken after litigation to collect the loan.

☐ No

If you answered no to question 10, you must check <u>one</u> of the following:

☐ (a) The borrower filed bankruptcy and the loan was discharged through the bankruptcy proceedings, the following additional documentation is submitted: Notice of Creditors, Proof of Claim and Final Discharge.

☐ (b) Enclosed is a <u>current</u> third party statement (e.g., an attorney or collection agency) why litigation was not pursued (i.e., not cost-effective).

11. Was the loan reported to a Credit Bureau?

☐ Yes Enclosed is the date and supporting documentation.

☐ No

12. Have you included documentation of your semi-annual collection effort(s)?

☐ Yes

☐ No

13. I certify that the documentation provided is true, complete, and correct to the best of my knowledge.

Any person who knowingly makes a false statement or misrepresentation in the documentation is subject to penalties which may include fines and imprisonment under Federal statute.

_____ _____

Authorized Official's Signature Date

Exhibit D Calculation of NSL Default Rate

For your convenience, an abbreviated borrower account worksheet and the formula for calculating the default rate are posted at https://bhw.hrsa.gov/loansscholarships/schoolbasedloans/technicalassistance Fiscal Management, Default Rate Calculator.

Exhibit E Calculation of [HPSL or PCL] and LDS Default Rate(s)

For your convenience, an abbreviated borrower account worksheet and the formula for calculating the default rate are posted at https://bhw.hrsa.gov/loansscholarships/schoolbasedloans/technicalassistance Fiscal Management, Default Rate Calculator.

Exhibit F Closing Programs - Return of Excess Cash - Version 1

CALCULATION OF PRINCIPAL, INTEREST AND OTHER INCOME
DUE FEDERAL GOVERNMENT FROM COLLECTIONS
(Initial Recovery)

For use by those institutions newly in closing status and repaying the Federal Government for the first few times.

BASE DATA NEEDED

A. (Cumulative from the beginning of the program):

1. Federal Funds Received.....$_____
2. Institutional Contributions Deposited..... _____
3. Transfers from Scholarship Fund..... _____
4. Transfers to Scholarship Fund..... _____
5. Interest Income Collected on Loans..... _____
6. Penalty Charges Collected on Loans..... _____
7. Investment Income..... _____
8. Institutional Repayment of Bad Debts, Interest..... _____
9. Institutional Repayment of Bad Debts, Penalty Charges..... _____
10. Collection Costs, Interest..... _____
11. Litigation Costs, Interest..... _____
12. Credit Bureau Fees..... _____
13. Other Costs..... _____
14. Total Other Income Previously Repaid to the Fed. Govt.(if any)*_____
15. Total Interest Previously Repaid to the Fed. Govt.(if any)*... _____

B. (Current period data)

1. Cash Balance End of Period Covered By This Report..... _____

---

* For example, if associated with return of excess cash while in active status.

Using the BASE DATA items above:

Step 1: Calculate the Federal Government's percentage contributed to the Fund:

$$\text{Federal percentage (F\%)} = \frac{A.1 + A.3 - A.4}{A.1 + A.2 + A.3 - A.4}$$

Step 2: Calculate the total amount due the Federal Government:

Total Amount Due Federal Government = F% x B.1

Step 3: Calculate the portion of the Total Amount Due Federal Government which is Other Income:

Other Income = [F% x (A.6 + A.7 + A.9)] - A.14

Step 4: Calculate the portion of the Total Amount Due Federal Government which should be interest:

Interest = [F% x (A.5 + A.8 - A.10 - A.11 - A.12 - A.13)] - A.15

Step 5: Calculate the portion of the Total Amount Due Federal Government which should be principal:

Principal = Total Amount due Federal Government minus Interest minus Other Income

NOTE: The Federal Government will always recover its proportionate share of any interest and other income collected (less its proportionate share of expenses) before any repayments are applied to principal. Once the initial interest amounts have been recovered, the work sheet at Exhibit I may be used to determine principal interest and other income repayments for each current period.

Exhibit G Closing Programs - Return of Excess Cash - Version 2

CALCULATION OF PRINCIPAL, INTEREST AND OTHER INCOME
DUE FEDERAL GOVERNMENT FROM COLLECTIONS

For use by those institutions that have been in closing status for awhile and have repaid the initial bulk of interest to the Federal Government.

BASE DATA NEEDED

A. (Cumulative from the beginning of the program):

1. Federal Funds Received.....$_____
2. Institutional Contributions Deposited..... _____
3. Transfers from Scholarship Fund..... _____
4. Transfers to Scholarship Fund..... _____

B. (Current period data)

1. Loan Principal Collected..... _____
2. Interest Income Collected on Loans..... _____
3. Penalty Charges Collected on Loans..... _____
4. Investment Income..... _____
5. Institutional Repayment of Bad Debts, Principal..... _____
6. Institutional Repayment of Bad Debts, Interest..... _____
7. Institutional Repayment of Bad Debts, Penalty Charges..... _____
8. Collection Costs, Principal..... _____
9. Collection Costs, Interest..... _____
10. Litigation Costs, Principal..... _____
11. Litigation Costs, Interest..... _____
12. Credit Bureau Fees..... _____
13. Other Costs..... _____
14. Cash Balance End of Period Covered by this Report..... _____

Using the BASE DATA items above:

Step 1: Calculate the Federal Government's percentage contributed to the Fund:

$$\text{Federal percentage (F\%)} = \frac{A.1 + A.3 - A.4}{A.1 + A.2 + A.3 - A.4}$$

Step 2: Calculate the total amount due the Federal Government:

Total Amount Due Federal Government = F% x B.14

Step 3: Calculate the portion of the Total Amount Due Federal Government which is Other Income:

Other Income = F% x (B.3 + B.4 + B.7)

Step 4: Calculate the portion of the Total Amount Due Federal Government which should be Interest:

Interest = F% x (B.2 + B.6 - B.9 - B.11 - B.12 - B.13)

Step 5: Calculate the portion of the Total Amount Due Federal Government which should be principal:

Principal = F% X (B.1 + B.5 - B.8 - B.10)

NOTE: The results of Step 3, Step 4 and Step 5 when added together, should equal the result of Step 2.

Exhibit H Certification Statement

Certificate Statement

(Sample)

Date

Institutional Representative

Dear_____:

This letter is to confirm due diligence and collection procedures testwork in our OMB Circular A-133 audit of the (your university) for the year ended June 30, 199_ for the following uncollectible accounts.

Program	Discipline	Borrower	Principal	Interest	Penalty Charges
HPSL	Dentistry	John Doe	$1,000	$ 200	$ 50
PCL	Osteopathic	Sue Jones	$2,000	$ 500	$ 25
LDS	Pharmacy	Jane Doe	$1,500	$ 200	$ 55
NSL	Graduate	Sandy Jones	$ 800	$ 300	$ 20

As we have previously discussed, our A-133 audit program now includes completing the DHHS Federal Capital Contribution (FCC) Loans Due Diligence Check List for these students participating in the Health Professions Student Loan Programs. This is to confirm that the results of our testwork of these accounts revealed no findings which will be included in our A-133 audit reports when issued.

The following accounts are disallowed based on our review:

Program	Discipline	Borrower	Principal	Interest	Penalty Charges
NSL	Diploma	John Jones	$1,800	$ 300	$ 20
HPSL	Dentistry	Anne Doe	$1,000	$ 200	$ 50

****

If you have any questions or comments, please feel free to call me.

Very truly yours,

Independent Audit Firm

Auditor Name
Title