

Primary Care Loan (PCL) FAQs

Grace period, Deferments and Residencies

1) Can a deferment be granted to the PCL borrower before the grace period ends?

You would not want to grant a deferment before the grace period ends. You should grant the grace period before granting any deferments. The grace period immediately follows completion or termination of full-time student status and cannot be postponed to follow any deferments for which the borrower may be eligible. Only one full 12-month grace period can be granted. Partial grace periods cannot be granted.

2) Does the four-year residency completion requirement include the grace period or do you grant the grace period and then start the four-year residency requirement?

The twelve (12) month grace period begins immediately after graduation regardless of when the residency begins. The four-year residency requirement clock includes the grace period and begins immediately after graduation.

3) Is the PCL interest-free while in deferment?

PCL is interest free while in deferment. The borrower also does not have to make loan payments while in deferment.

4) What activities are eligible for the PCL program deferment?

Only specific activities for specific amounts of time are eligible under the PCL program for deferment. General activities eligible are: active duty in the uniformed services, Peace Corps volunteer work, advanced professional training including internships and residencies, leave of absence to pursue selected related educational activity, and some training fellowships which are directly related to the health professions for which the borrower participates. There are many restrictions and time limits for these general deferments and it is recommended that you review the Student Financial Aid Guidelines where the specifics and restrictions are detailed before granting any deferments.

5) Is PCL interest-free while in a residency or fellowship?

PCL is interest-free while in a residency. PCL is interest free for up to two years for fellowship training directly related to primary care.

6) May maternity leave be granted to PCL borrowers during residency or post-residency and without violating her service obligation?

Maternity leave may be granted to a PCL borrower without violating her service obligation. The PCL program allows a break-in-service obligation for extenuating circumstances for which the school determines that a break-in-service is appropriate, such as extended illness, maternity/family leave, or time to secure employment. However, the break-in-service obligation cannot delay the borrower's completion of his or her residency in four years from the date of graduation. If the residency is not completed within four years, the borrower will be in violation of his or her service obligation. A break-in-service must be requested in advance and can only be granted by a written request from the school to HRSA.

7) Would a student pay penalty fees if he/she deferred residency one year after graduation?

The PCL borrower has four years to complete his or her residency. Most residencies take three years to complete. However, delaying the start of residency one year after graduation is very risky, and may cause the borrower to pay the penalty interest rate on the loan if he or she does not complete the residency within four years.

Acceptable Activities under the PCL Program

8) If a PCL borrower were to complete a fellowship in a sub-specialty that is not accepted under the PCL program, would he or she be charged the penalty interest rate only for the duration of the fellowship?

Fellowship training in a subspecialty is allowed as long as the borrower does not use the training to apply for or receive board certification or license under a subspecialty. If certification or a license is obtained from the training, the borrower is in violation of the primary care service obligation and in such a case would be charged the penalty interest rate beyond the fellowship. The dates of the various penalty interest rates are addressed in a separate question.

9) Would a faculty researcher in primary care count as an acceptable activity under the PCL program?

While faculty in primary care is one of the primary health care disciplines that counts as an acceptable activity under the PCL program, a faculty researcher may or may not be acceptable. If the faculty person spends most of his or her time teaching, but has a very minor role in research, the faculty person's activities would be PCL acceptable. However, if the primary role of that person were research with only a minor responsibility of teaching, the person's activity would not qualify to meet the acceptable activity under the PCL program.

PCL Service Obligation

10) Is there a specific self-certification form that PCL borrowers must use to certify they are in residency or practicing in primary health care?

Although PCL borrowers must self-certify on an annual basis that they are in residencies or practicing in primary health care, there is no specific self-certification form that must be used. The school may create its own self-certification form based on a sample self-certification form that can be found at HRSA's website: <http://bhpr.hrsa.gov/scholarshipsloans/forms/index.html>.

11) If a PCL borrower does not fulfill his or her service obligation but wants to continue making payments, is the borrower in default? Can the borrower be granted forbearance? How is this reported on the AOR?

If a student fails to complete the service requirement he or she is considered in a service default and a penalty interest rate is charged as described below. With the service requirement, a student agrees when getting a primary care loan that he or she must "enter and complete a residency training program in primary health care not later than 4 years after the date on which the student graduates from such school," and to practice in such care for ten years (including the residency training in primary health care) or through the date on which the loan is repaid in full, whichever occurs first." A PCL borrower who does not fulfill his or her service obligation is in a service default. A borrower in a service default is charged the penalty interest on the loan. This borrower is included in the count on page 1a of the AOR. The dates of the various penalty interest rates are addressed in the next question.

Payment default is different than a service default. With a payment default, schools must assess a penalty charge if payment is not received within 60 days of the due date of the installment. A

PCL in payment default is charged a penalty fee of not more than 6% of the amount due. The school may elect to add the amount of any such charge to the principal amount of the loans or make the amount of the charge payable to the school not later than the due date of the next installment after the borrower is sent notice of the assessment of the charge. This borrower is also reported on page 1a of the AOR and on page 6 of the AOR.

This PCL borrower would not normally be granted forbearance unless he or she had an extraordinary circumstance occur, such as unemployment, poor health or personal problems that have a short-term impact on the borrower's ability to make payments on the PCL as scheduled.

12) Please clarify the dates of penalty interest rate changes for the PCL program.

Since the creation of the PCL program, the Public Health Service Act has revised the penalty interest rate charged on PCLs whose borrowers have defaulted on the service requirements. For PCLs made prior to November 13, 1998, the penalty interest rate is 12%, compounded annually. For PCLs made on or after November 13, 1998, but prior to March 23, 2010, the penalty interest rate is 18% annually. For PCLs made on or after March 23, 2010, the penalty interest rate is 2% annually greater than the rate at which the student would pay if compliant in such year. The penalty interest rate indicated on the promissory note should specify which penalty rate to charge.

Loan Consolidation and Loan Forgiveness

13) May a PCL be consolidated into another loan?

PCLs are restricted from consolidation because of the service obligation of the borrower.

14) Is it best to advise a student to consider PCL over other federal loans that are eligible to be consolidated and lead to public service loan forgiveness, considering that it is difficult to know if a student is certain about going into an approved primary care field and facing a large loan debt?

The best practices have been to offer PCLs to third- and fourth-year medical students who have stronger commitments to studying and practicing in primary health care. Such students must be advised that their PCLs will not be available for consolidation into another loan. They should also be advised that because of the service obligation requirement, their PCLs may not be eligible for loan forgiveness programs. They should also be advised about the service requirement and the change in interest rate for failure to fulfill the service requirement.

15) Are there any considerations being made to add PCL to President Obama's loan forgiveness or income-based repayment plan?

We have not heard that the Administration is considering including the PCL program in a loan forgiveness or income-based repayment plan.

Administration of the PCL Program

16) Are the annual grant awards for PCL funded through recycled funds?

PCL grant awards are funded from returned excess cash from PCL programs, PCL penalty assessments, and money returned from PCL programs that are closing.

17) Can you explain the school's match of 1/9 of the grant award?

The school must maintain an institutional contribution in the PCL fund equal to at least 1/9th of the total Federal contribution to the fund. Each time the institution receives a Notice of Award, the school must match 1/9th of the grant award amount indicated and maintain these monies in a separate account or maintain records which clearly account for the match. These numbers need to be reported each year on the Annual Operating Report.

18) What is your view on Regulation Z and the Truth-in-Lending disclosure?

Regulation Z and its Truth-in-Lending disclosures were created and are enforced by the Federal Reserve. Any questions and concerns about the disclosures should be directed to the Federal Reserve. The code is referenced in Title 12 Banks and Banking Part 226 Truth in Lending (Regulation Z) § 226.46

19) Are PCL loans exempt from the Truth-in-Lending provisions?

The Federal Reserve's August 14, 2009 final rule applies to schools that meet Regulation Z's definition of "creditor" and extend "private education loans" to their students. Loans made, insured, or guaranteed by the Federal government under Title IV of the Higher Education Act of 1965 are specifically exempt from the TILA and the definition of "private education loan." *However loans made under Titles VII and VIII of the Public Health Service Act (such as LDS)*

are not exempt from the TILA or the definition of “private education loan.” See 15 U.S.C. Section 1650(a)(7) and 12 C.F.R. Section 226.46(b)(5).

20) Can you give an example of the institutional requirement of the “not less than 50%...” meaning?

Any medical school that wishes to participate in the PCL program must show that it has enough of its graduating students going into primary health care practices after graduation. The ideal medical school for the PCL program is one in which not less than 50% of its graduating students prefer to practice in primary health care. So, for example, if a medical school usually graduates an average of 100 medical students that have completed an allopathic medicine course of study, and four years later 50% or more of those graduates are practicing in primary health care, that PCL program is meeting its performance standard.

21) Can the PCL be cancelled in the case of death or total and permanent disability?

Yes, upon the death of a borrower, the unpaid balance of the loan and the accrued interest can be cancelled. To grant cancellation, the school must obtain a death certificate or other official proof of death. A borrower is also eligible for cancellation of the PCL in the event of total and permanent disability. The school must submit to us complete, legible and current medical evaluation (not more than 4 months old) which outlines the disability from onset to present. This should include a diagnosis, prognosis statement, and rehabilitation plan. The medical record should be sufficiently detailed to provide for a comprehensive review to determine the nature, duration and extent of impairment. Supporting documents should include history of illness, current medical examination(s), inpatient/outpatient treatments, hospital records and current medications.

A signed and witnessed Medical Release Form should be included that accompanies a signed and dated statement from the borrower’s physician documenting total and permanent disability and certifying that the borrower is unable to engage in any kind of gainful employment because of a medically determined impairment which is expected to continue for a long and indefinite period of time or to result in death. The Medical Release Form, as well as the Disability Checklist, may be obtained at this website: <http://bhpr.hrsa.gov/scholarshipsloans/forms/index.html>.

Finally, a cover letter from the school requesting the disability write-off must accompany the other documents. This cover letter should include the total amount of interest, principal, and penalty of the outstanding loan. The final determination to grant a cancellation of the loan is made by the Secretary on the recommendation of the school.