

**STUDENT FINANCIAL AID GUIDELINES**

**HEALTH PROFESSIONS PROGRAMS**

**Loans for Disadvantaged Students Program  
(LDS)**

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U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES  
Public Health Service  
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Division of Student Assistance

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## **Chapter 1 INTRODUCTION**

The Public Health Service (PHS) Act, Title VII and VIII; as amended by the Health Professions Education Partnerships Act of 1998; contains authority for an array of programs, including student financial assistance, that are intended to attain two fundamental goals. First, Congress designed the programs to sustain and develop an adequate supply of health care providers to meet the needs of all Americans, in general, and underserved populations, in particular. Second, these funds were established to minimize barriers and enhance access to health professions education, especially for minorities and students from disadvantaged backgrounds.

The Health Professions Education Assistance Act of 1963; within Title VII of the Public Health Service Act; established the Health Professions Student Loan (HPSL) Program to provide long-term, low interest loans to students having need for financial assistance to undertake the course of study to become a physician, osteopathic physician, dentist, optometrist, pharmacist, podiatrist, or veterinarian. In recent years, Congress has used the HPSL program as a mechanism to meet certain policy goals. Specifically, variations on the HPSL program in the form of the Primary Care Loan (PCL) Program and the Loans for Disadvantaged Students (LDS) Program are intended to increase the number of primary health care providers and encourage greater participation of disadvantaged populations in the health professions, respectively.

Public Law (P.L) 101-527, the Disadvantaged Minority Health Improvement Act of 1990 (enacted November 6, 1990) created a program of financial assistance for disadvantaged health professions students. This program falls within the existing legislative authority for the Health Professions Student Loan (HPSL) program. There are, however, some important differences between the HPSL and LDS programs. Specifically, the purpose of the LDS program is to provide new funding for long-term, low-interest rate loans to eligible individuals from disadvantaged backgrounds that are enrolled full-time at eligible health professions schools.

The LDS program is governed by the same requirements associated with the HPSL program. The remainder of the section describes the program requirement for LDS.

## ***Section 1 ELIGIBILITY CRITERIA***

Institutions must meet certain criteria in order to be eligible to participate in the LDS program, which fall into the following categories:

- discipline and degree programs;
- location of the institution;
- accreditation;
- written agreement between the institution and the Secretary of Health and Human Services;
- default rate performance standard;
- non-discrimination requirements;
- non-delinquency of the institution on Federal debt;
- drug-free workplace, schools and campuses requirements;
- lobbying and disclosure of lobbying requirements; and
- debarment and suspension provisions.

### ***DISCIPLINE AND DEGREE PROGRAMS***

Any public or other nonprofit institution that offers degrees to full-time students in disciplines as specified below may apply to participate in the LDS program:

- doctor of allopathic medicine;
- doctor of osteopathic medicine;
- doctor of dentistry;
- bachelor or doctor of science in pharmacy;
- doctor of podiatric medicine;
- doctor of optometry; and
- doctor of veterinary medicine.

### ***LOCATION OF THE INSTITUTION***

The health professions school must be located in a State, the District of Columbia, the Commonwealth of Puerto Rico, the Northern Mariana Islands, the Virgin Islands, Guam, American Samoa or the Trust Territory of the Pacific.

*[Section 799(9) of the Public Health Service Act]*

### ***ACCREDITATION***

A health professions school that is interested in participating in the LDS program must be accredited by an appropriate accrediting body that is recognized by the Secretary of Education. If a new school has not been operating for a sufficient time to be accredited, the Department of

Health and Human Services will consider the school accredited if the Secretary of Education finds, after consultation with the appropriate accreditation body or bodies, that there is reasonable assurance that the school will meet the specified accreditation standards prior to the beginning of the academic year following the normal graduation date of the first entering class in such school or program.

The approved accrediting bodies for health professions schools, but is not limited to:

- allopathic medicine: Liaison Committee on Medical Education, the American Medical Association, and the Association of American Medical Colleges
- osteopathic medicine: American Osteopathic Association
- dentistry: Commission on Dental Accreditation
- pharmacy: American Council on Pharmaceutical Education
- podiatric medicine: Council on Education of the American Podiatric Association
- optometry: Council on Optometric Education of the American Optometric Association
- veterinary medicine: American Veterinary Medical Association

*[Section 799(1)(A) of the Public Health Service Act]*

#### *WRITTEN AGREEMENT*

Health professions schools must enter into an agreement with the Secretary of Health and Human Services as a criterion for participation. The agreement requires that the institution:

- establish a fund for the LDS program;
- deposit in the fund Federal Capital Contribution (FCC), Institutional Capital Contribution (ICC), collections from loans in repayment, and any other earnings;
- provide an ICC of at least one-ninth of the FCC;
- permit the funds only to be used for student loans and the costs associated with collection;
- award funds only to students who are studying full-time in eligible discipline and degree programs;
- inform borrowers of the terms and conditions of LDSs; and
- submit an annual operating report that describes the use of the fund.

*[Sections 721(a) and 721(b) of the Public Health Service Act]*

### *DEFAULT RATE PERFORMANCE STANDARD*

Each June 30, a school must have a LDS default rate that does not exceed five percent. Schools that exceed the five percent performance standard are subject to probation, suspension or termination from program participation.

The regulations require a school to meet a performance standard for participation in the Loan for Disadvantaged Student FCC Loan Programs.

Each year on June 30 a school must have a default rate of not more than five percent. The default rate is the ratio (stated as a percentage) that the defaulted principal amount outstanding of the school bears to the matured loans of the school. For this purpose:

- the term “defaulted principal amount outstanding” means the total amount borrowed from the loan of a school that has reached the repayment stage (minus any principal amount repaid or cancelled) on loans in default for 120 days or more.
- the term “matured loans” means the total principal amount of all loans made by a school minus the total principal amount of loans made by the school to students who are enrolled in a full-time course of study at the school or are in their grace period.

For your convenience, an abbreviated borrower account worksheet and the formula for calculating the default rate can be found on the Internet. The address is

<http://bhpr.hrsa.gov/dsa/ratecalc.htm>

Any school that has a default rate greater than five percent on June 30 of any year will be required to:

- Reduce its default rate by fifty percent (or a school with a default rate below 10 percent must reduce its rate to five percent) by the close of the following six month period; and
- By the end of each succeeding six month period, reduce its default rate to 50 percent of the required rate for the previous six month period until it reaches five percent.

### *FAILURE TO MEET THE PERFORMANCE STANDARD*

Any school which fails to comply with the requirements will receive no new Federal Funds and will be required to:

- Maintain the funds and all subsequent collections in an interest-bearing account;
- Make no loan disbursements; and
- By the end of the succeeding six month period, reduce its default rate to 50 percent of the rate it failed to achieve or five percent. A school that meets this requirement will be permitted to resume the use of its funds, but must continue to comply with the requirements of a 50 percent reduction of the required rate for the previous six month period until it reaches five percent.

Any school which fails to comply with these requirements will be subject to termination. The secretary will provide the school with a written notice specifying his or her intention to terminate the school's participation in the program and stating that the school may request, within 30 days of the receipt of this notice, a formal hearing. If the school requests a hearing, it must be within 90 days of the receipt of the notice. Submit material, factual issues in dispute to demonstrate that there is cause for a hearing. These issues must be both substantive and relevant. The hearing will be held in the Washington, DC metropolitan area. The Secretary will deny a hearing if:

- The request for a hearing is untimely (i.e. fails to meet the 30 days requirement);
- The school does not provide a statement of material, factual issues in dispute within the 90 days required period; or
- The statement of factual issues in dispute is frivolous or inconsequential.

In the event that the Secretary denies a hearing, the Secretary will send a written denial to the school setting forth the reasons for denial. If a hearing is denied, or if as a result of the hearing, termination is still determined to be necessary, the school will be terminated from participation in the program and will be required to return the Federal share of the fund to the Department of Health and Human Services. A school terminated for failure to comply with the performance standard requirements must continue to pursue collections and may reapply for participation in the program only when it has attained a default rate of five percent or less.

*[Section 721(c)(1) of the Public Health Service Act; 42 CFR Part 57.216 and Part 42 CFR Part 57.316]*

#### *NON-DISCRIMINATION REQUIREMENTS*

Participating health professions institutions must adhere to statutes and regulations addressing non-discrimination. These include:

- Section 794 of the Public Health Service Act and its implementing regulations 45 CFR Part 83, which prohibit discrimination in the admissions process on the basis of sex;
- Title VI of the Civil Rights Act of 1964 and its implementing regulations 45 CFR Part 80, which prohibit discrimination in federally assisted programs on the basis of race, color or national origin;
- Title IX of the Education Amendments of 1972 and its implementing regulations 45 CFR Part 86, which prohibit discrimination in federally assisted education programs on the basis of sex;
- Section 504 of the Rehabilitation Act of 1973 and its implementing regulation, 45CFR Part 84, which prohibit discrimination in federally assisted programs on the basis of handicap;

- Section 798(C) of the Public Health Service Act, which prohibits institutions from charging higher tuition to students that benefit from Federal financial aid funds; and
- 45 CFR Part 91, which prohibits discrimination on the basis of age.

In addition, institutions may not discriminate on the basis of religion in the admissions process.

*[42 CFR Part 57.216]*

#### *DRUG-FREE WORKPLACE, SCHOOLS AND CAMPUSES*

Participating schools must comply with the requirements in 45 CFR Part 76, Subpart F. This section of the regulations stipulates that institutions must certify that they will provide and maintain a drug-free workplace.

The Drug-Free Schools and Communities Act Amendments of 1989 and its implementing regulations 34 CFR Part 86 apply to any public or private institution of higher education (including independent hospitals conducting training programs for health care personnel), State educational agency, or local educational agency. As a condition of funding from Federal financial assistance programs, the statute requires these entities to certify to the Secretary of Education that they have adopted and implemented a drug prevention program. These provisions also apply to sub-grantees of Federal funds whether or not the primary grantee is an institution of higher education, a State educational agency, or a local educational agency.

#### *NON-DELINQUENCY OF THE INSTITUTION ON FEDERAL DEBT*

Participating institutions must comply with non-delinquency on Federal debt requirements. Examples of Federal debt or possible sources include delinquent taxes, audit disallowances, FHA loans, and other unpaid administrative debts. Specific examples include:

- a scheduled payment on a direct loan that is more than 31 days past due;
- the unpaid disallowed amount in a "Notice of Grants Cost Disallowance" unless otherwise unresolved; and
- unpaid Social Security tax payment or other administrative payment owed to the Federal Government.

#### *LOBBYING AND DISCLOSURE OF LOBBYING*

Institutions must adhere to restrictions on lobbying and provide a disclosure statement about lobbying activities for each Federal award to the institution in excess of \$100,000. The Office of Management and Budget published guidance for restrictions on lobbying in the *Federal Register*.

#### *DEBARMENT AND SUSPENSION OF CAMPUSES*

According to regulations in 45 CFR Part 76, an institution must certify that neither it nor any of its principals are debarred, suspended, proposed for debarment, declared ineligible, or voluntarily

excluded from covered transactions by any Federal dependent or agency. Subawardees (e.g., other corporations, partnerships, or other legal entities) also must provide the same certification to the institution.

## ***Section 2 - FEDERAL CAPITAL CONTRIBUTIONS***

### ***SOURCES AND DISTRIBUTION OF FEDERAL CAPITAL CONTRIBUTION FUNDS***

Most of the money to finance Federal Capital Contributions (FCC) to the LDS program was initially provided through appropriations from Congress. Congress appropriated funds to capitalize the LDS revolving fund through 1983. Congress did not provide any additional funds to the FCC after 1983.

In 1986, Congress gave the Secretary of Health and Human Services the authority to redistribute FCC funds returned from institutions to the Department. When redistributing funds, the law requires the Secretary to give preference to health professions schools of the same discipline as the schools returning funds. In addition, funds returned to the Secretary in any fiscal year must be obligated before the end of the succeeding fiscal year.

*[Section 735(e) of the Public Health Service Act]*

Since 1991, Congress has authorized and appropriated funds to be used for the LDS program. In addition to the Federal Capital Contribution (FCC) earmarked for LDS, borrower repayments from LDS will also provide a source of funding.

*[Section 724(f)(1) of the Public Health Service Act]*

### ***INSTITUTIONAL APPLICATIONS FOR FEDERAL CAPITAL CONTRIBUTIONS (FCC)***

#### ***Procedures***

Institutions must submit applications as required by the Secretary of Health and Human Services. The application establishes or maintains the institution's participation in the LDS program and its use of FCC. Applications and instructions for the LDS program are available from the Division of Student Loans and Scholarships (DSLS), Campus Based Branch (CBB), Room 9-105, 5600 Fishers Lane, Rockville, MD 20857. An institution must complete and return applications to the Division by the date specified in the instructions.

The Division reviews the eligibility of the school and determines the reasonableness of the amount of Federal support an institution will receive. The Division may require the applicant to submit an application with additional data for these purposes.

*[Section 735(a) of the Public Health Service Act; 42 CFR Part 57.203]*

### ***Terms and Conditions***

A written agreement between the institution and the Secretary of Health and Human Services specifies the terms and conditions for institutional participation. The agreement specifies:

- institutional eligibility criteria;
- how funds will be managed;
- how funds will be awarded to students;
- to whom the funds will be awarded;
- Federal non-discrimination and other requirements; and
- other provisions as necessary to protect the interests of the United States.

*[Section 721(b) of the Public Health Service Act]*

### ***Designation of Institutional Contact Person***

The program's Project Director is the individual who will be responsible for distributing DSLS program mailings to the appropriate offices and individuals within the institution and will be responsible for ensuring the return of material. The designated person will receive all mail (electronic or paper) from DSLS. The designated person must be also familiar with the institution's Annual Operating Report (AOR). Only the Project Director, who is the program's contact person on record or an appropriate school official, can make changes to the Contact Person information.

### ***AWARDS TO INSTITUTIONS***

#### ***Determination of Amounts***

The amount of LDS funds a school may receive be the lesser of the amount requested or the amount determined through a projection of needed funds or the amount determined by a statutory formula for allocating FCC for the LDS program that is based upon the ratio of:

- the number of full-time students estimated to be enrolled in each health professions school for the academic year for which funds will be awarded; and
- the total number of full-time students enrolled during the period in schools that have submitted approved applications.

If sufficient funds are available, each school will receive the amount it requests. If the total amount requested by schools exceeds the amount of Federal funds available, the Department will determine each school's allotment of loan funds using the statutory formula described above. In no case will a school receive an award greater than the amount it has requested. In addition to these basic procedures, the Department of Health and Human Services may use funding preferences to make institutional awards. The annual application announcements for the LDS program specify the preferences. Any funding preference defines the order in which institutions would be considered for FCC.

*Note: 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 work together in identifying eligible students and funding requests. For example, every school should calculate its need for LDS funds by determining all resources available to the school's eligible students. In addition, prior to requesting monies for an academic year, the school should carefully evaluate its cash needs by reviewing the cash balance (including monies drawn down from the prior year award) and projected collections and disbursements to determine the unmet need for the academic year. The Division of Student Loans and Scholarships will carefully review each institution's estimated need in conjunction with the projections given on the Annual Operating Report.*

*[Section 735(b) of the Public Health Service Act; 42 CFR Part 57.204]*

In addition to these basic procedures, the Department of Health and Human Services may use funding preferences to make institutional awards. The annual application announcements for the LDS program specify the preferences. Any funding preference defines the order in which institutions would be considered for FCC.

Students who are considered racial and ethnic minorities for the purpose of calculating underrepresented populations at an institution include American Indians or Native Alaskans, Blacks and Hispanics. Definitions of these populations appear below:

- **American Indian or Alaskan Native:** A person having origins in any of the original peoples of North America, and who maintains cultural identification through tribal affiliation or community recognition.
- **Black:** A person having origins in any of the black racial groups of Africa.
- **Hispanic:** A person of Mexican, Puerto Rican, Cuban, Central or South American, or other Spanish culture or origin without regard to race.

Funds are awarded on a per capita basis by comparing the enrollment of each eligible school-weighted with any special consideration--with the total enrollment of all eligible institutions. A school with an above average underrepresented minority enrollment will be given double credit--that is, its enrollment will be doubled for awarding purposes.

*(Note that Asians and Pacific Islanders are not considered underrepresented student populations, but certain Asian subgroups are considered to be underrepresented in the health professions and are included as minorities for the purpose of program requirements related to faculty recruitment.)*

*[Sections 724(b)(1) and 724(e) of the Public Health Service Act]*

### ***Notification of Award***

The Department sends a Notice of Grant Award to the designated contact person notifying the school of the amount of Federal funds awarded for the LDS program.

## ***OVERVIEW OF FISCAL MANAGEMENT OF FUNDS***

This section offers a brief introduction to the institutional management of the LDS funds. It is intended to give financial aid personnel a brief summary of responsibilities associated with administering the LDS program.

### ***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 LDS program must be accounted for separately from other funds of the school, (and from each other), providing a clear audit trail for all transactions.

### ***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.

*[42 CFR Part 57.205 and 57.305]*

### ***Institutional Capital Contribution***

The school must maintain an institutional contribution in the LDS fund equal to at least one-ninth of the total FCC. The institution also has the option of contributing a larger share to the LDS fund. A school that matches more than one-ninth may withdraw any of the institutional

contribution which exceeds its required one-ninth matching amount at any time. However, the school must maintain at least the one-ninth matching amount in the fund at all times.

*[Section 721(b)(2)(B) of the Public Health Service Act; 42 CFR Part 57.205]*

### ***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 into their Payment Management System (PMS) accounts.

Treasury Department Circular No. 1075 specifies the requirements for drawing down funds. Schools are allowed to retain as a safety margin amounts equivalent to three years worth of loans made. This allows the schools to retain the funds for a longer period instead of returning the funds due to excess cash.

It should be noted that the Department of Health and Human Services will not allocate funds to institutions 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.

*[Campus-Based Policy Memorandum 2003-1]*

### ***Cash Balances***

As long as a school continues to participate in the Primary Care Loan Program, collections of principal, interest, and penalty charges from borrowers in repayment status and other income may be kept in the programs FCC fund 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.

A school must review the balance in its Primary Care Loan 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. The school's determination of excess cash is subject to review and approval by the Secretary.

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 of 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. Monies identified as in excess of the school's needs must be reported on the AOR, and the Federal share returned to the Federal Government by the due date of the required report which identifies excess monies. Active schools are required to remit their excess cash payments by the due date of the AOR.

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 Grant Number
- the amount of principal, interest and other income, if any.

Send the remittance and letter to the following address:

Department of Health and Human Services  
Division of Fiscal Operations  
Collection Officer  
Room 16A-12, Parklawn Building  
5600 Fishers Lane  
Rockville, 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 Student Loans and Scholarships 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:

Department of Health and Human Services  
Division of Student Loans and Scholarships  
Campus Based Branch  
5600 Fishers Lane, Room 9-105  
Rockville, MD 20857

*[42 CFR Part 57.205 and 42 CFR Part 57.305]*

### ***INSTITUTIONAL TERMINATION AND WITHDRAWAL***

Institutions must return the Federal share of the LDS funds upon termination or withdrawal from the program. Upon withdrawal or termination of institutional participation in the program, the balance in the FCC fund will be distributed between the Department of Health and Human Services and the school in proportion to the amounts contributed by each. The school will then be required to submit reports to the Department of Health and Human Services and to remit the Federal Government's proportionate share of amounts received thereafter in payment of loan collections and any other earnings. Checks must be made payable to the Public Health Service, HRSA. At the time of each quarterly remittance, the school should withdraw its proportionate share of the quarterly cash accumulation from the fund.

*[Section 728 of the Public Health Service Act]*

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## **Chapter 2 INSTITUTIONAL PARTICIPATION IN THE LDS PROGRAM**

This chapter offers readers an overview of the criteria for institutional participation, the mechanisms in place that the Department of Health and Human Services uses to award Federal dollars for the LDS program, and an introduction to the fund management requirements that schools must follow.

### ***Section 1 ELIGIBILITY CRITERIA***

Certain LDS requirements differ from those under the HPSL program. These consist of:

- recruiting and retaining disadvantaged students;
- recruiting and retaining minority faculty;
- providing adequate instruction regarding minority health issues;
- establishing arrangements with clinics serving individuals from disadvantaged backgrounds;
- establishing linkages with feeder schools; and
- offering mentoring programs to help individuals from disadvantaged backgrounds obtain health professions degrees.

Schools must have recruitment and retention programs for disadvantaged students and minority faculty in place at the time of the first application for LDS funds. To continue as LDS institutions, they must put the remaining requirements in place within one year of having received their first Federal Capital Contribution (FCC) for the LDS program. Note that funds

awarded to a school under the LDS program may not be used to carry out any of these required activities. In addition, a school must continue to carry out all these activities as long as the LDS program is in operation at the school.

The following pages contain more detailed information about these requirements. There is also a discussion of special consideration for funding given to schools with underrepresented minority enrollments that exceed national averages.

### *RECRUITING AND RETAINING DISADVANTAGED STUDENTS*

To qualify for participation in the LDS program, schools must carry out a program for recruiting and retaining students from disadvantaged backgrounds.

An individual from a disadvantaged background is defined as someone who:

- comes from an environment that has inhibited the individual from obtaining the knowledge, skill and abilities required to enroll in and graduate from a school; or
- comes from a family with an annual income below a level based on low-income thresholds according to family size published by the U.S. Bureau of the Census, adjusted annually for changes in the Consumer Price Index, and adjusted by the Secretary of Health and Human Services for adaptation to this program.

The Department of Health and Human Services publishes the requisite income levels in the *Federal Register* periodically.

### *RECRUITING AND RETAINING MINORITY FACULTY*

LDS schools must have an active program for recruiting and retaining minority faculty. Faculty who are Black, Hispanic, Native American, Filipino, Korean, Pacific Islander or Southeast Asian are considered minorities if the total supply of practitioners in the applicable health profession is below that group's percentage in the total population.

*[Section 724(b)(2) of the Public Health Service Act]*

### *INSTRUCTION ON MINORITY HEALTH ISSUES*

Schools in the LDS program must ensure that adequate instruction about minority health issues is offered in their curricula. This does not include normal course work that by definition includes health issues (e.g., sickle cell anemia in a pathology class). Instead, instruction about minority health issues refers to course work reflecting an institutional awareness of the special health needs of minority populations.

*[Section 724(c)(1) of the Public Health Service Act]*

### *ARRANGEMENTS WITH CLINICS*

To participate in the LDS programs, schools are required to enter into arrangements with one or more health clinics that provide services to a significant number of individuals from disadvantaged backgrounds, including members of minority groups. These arrangements allow students at participating schools to gain experience in providing clinical services to individuals from disadvantaged backgrounds.

*[Section 724(c)(2) of the Public Health Service Act]*

### *LINKAGES WITH FEEDER SCHOOLS*

LDS schools must enter into arrangements with one or more public or nonprofit private secondary educational institutions and undergraduate institutions of higher education. The purpose of these arrangements is to:

- provide academic preparation to disadvantaged students, including those representing minority populations, for entry into programs of study in the health professions; and
- recruit these students into such programs.

*[Section 724(c)(3) of the Public Health Service Act]*

### *MENTORING PROGRAMS*

LDS schools must establish mentoring programs that assist disadvantaged students, including minority students, in completing the educational requirements needed to obtain a health professions degree. In developing a mentoring program, an institution may include the services of students, community, health professionals, faculty, alumni, past recipients of Health Career Opportunity Program (HCOP) funds, and faculty/staff of feeder schools. Services would include activities such as tutoring, counseling and summer/bridge programs.

*[Section 724(c)(4) of the Public Health Service Act]*

### *SPECIAL CONSIDERATION*

Special consideration will be given to eligible schools with an underrepresented minority enrollment that exceeds the national average for its particular discipline.

*[Section 724(f)(2) of the Public Health Service Act]*

## **Chapter 3 STUDENT AWARDS**

Institutions must make sure that students meet the eligibility criteria for receipt of LDS funds. In addition, schools must take certain other administrative steps such as:

- verifying the accuracy of applicant information;
- assessing that information in order to determine individual awards, responding to changes in students' financial circumstances;
- disbursing funds; and
- maintaining student records.

### ***Section 1 STUDENT ELIGIBILITY CRITERIA***

Institutions must be sure that students who receive LDS funds meet the set eligibility requirements specified in statute and in regulations. A description of the eligibility requirements follows.

#### ***CITIZENSHIP STATUS***

A student applicant must be a citizen or national of the United States, or a lawful permanent resident of the United States, the Commonwealth of Puerto Rico, the Northern Mariana Islands, the Virgin Islands, Guam, American Samoa or the Trust Territory of the Pacific. A student who remains in this country on a student or visitor's visa is not eligible.

*[42 CFR Part 57.206]*

#### ***ACADEMIC STATUS***

The student must be enrolled or accepted for enrollment as a full-time student in a health professions school participating in the LDS program. The student must be in good standing, as defined by the school, and capable in the opinion of the school of maintaining good standing in the course of study. Schools may choose to apply the satisfactory academic progress guidelines for programs under Title IV of the Higher Education Act, as amended, although statute and regulations specific to the LDS program do not require it.

Should an LDS recipient cease to be a student in good standing because of academic failure, then the school is obligated to discontinue disbursement of LDS funds.

*[Section 722 of the Public Health Service Act; 42 CFR Part 57.206]*

#### ***ENROLLMENT STATUS***

Students must be enrolled full-time in programs leading to the following degrees in order to be eligible for LDS funds:

- doctor of allopathic medicine;
- doctor of osteopathic medicine;
- doctor of dentistry;
- bachelor or doctor of science in pharmacy;
- doctor of podiatric medicine;
- doctor of optometry; and
- doctor of veterinary medicine.

*[Section 722(b)(1) of the Public Health Service Act; 42 CFR Part 57.206]*

### *FINANCIAL NEED*

The student must be in need of financial assistance in order to pursue the full-time course of study at the health professions school in which he or she is enrolled or accepted for enrollment. In determining financial need, the school must take into consideration the:

- financial resources available to the student; and
- costs reasonably necessary for the student's attendance at the school.

*[Section 722 of the Public Health Service Act; 42 CFR Part 57.206]*

### *GENERAL REQUIREMENTS*

All schools participating in the LDS program must:

- use the expected family contribution calculated from the need analysis formulas legislated under the Higher Education Act of 1965, as amended;
- collect and assess parents' financial information even if the student is considered independent according to the definitions under Title IV of the Higher Education Act; and
- consider estimated resources and other financial aid before awarding LDS.

*[42 CFR Part 57.206]*

### *PARENTS' FINANCIAL INFORMATION*

Beginning with the 1993-94 academic year, all graduate students will be considered independent according to the need analysis formula in Title IV of the Higher Education Act. Nonetheless, institutions still must take parents' information into account for the purpose of awarding LDS funds. This requirement cannot be waived. In cases where the parents refuse to provide income

information, an affidavit documenting such a refusal cannot be accepted in lieu of the required information. Unless the parents are deceased, a student who does not provide parental income information may not be considered for LDS funds.

The amount of LDS funds awarded to a student plus the amount of the student's expected family contribution--including parents' contribution--may not exceed the student's cost of attendance. Note that Department of Education programs authorized under Title IV of the Higher Education Act, such as Federal Stafford Loans, Federal Perkins Loans and Federal College Work-Study, do not require parents' contribution to determine eligibility for independent students. LDS, however, requires parents' contribution for all students without regard to age, tax, marital or independent status. It is possible, therefore, that an independent student's expected family contribution figure will be lower for determining the amount of a student's need for these Department of Education Title IV programs than for the LDS program, because parents' financial information is not taken into account. For the purpose of awarding LDS, the Department of Education funds may replace the parents' contribution for students who meet the Higher Education Act's independent student definition for Title IV programs. An overaward will not result as long as the total of the independent student's contribution plus financial aid from all sources and actual other resources do not exceed the cost of attendance.

*[42 CFR Part 57.206]*

### *COST OF ATTENDANCE*

Developing student budgets requires careful identification of reasonable costs necessary for the student's attendance at the school, including any special needs or obligations of each student or costs common to particular groups of students. The school must develop student budgets which treat students within groups consistently, but are sensitive to individual circumstances. Schools must be able to document the various student budgets used in determining financial need. Using the Title IV requirements for developing costs of attendance is an appropriate approach for administering LDS funds.

The Department of Health and Human Services recognizes that from time to time an individual student's budget may deviate from the standard cost of attendance because of unusual circumstances. Financial aid administrators should use their authority to make changes to the standard student budget judiciously. Further, the school must carefully document all such changes.

*[42 CFR Part 57.206]*

### *SELECTIVE SERVICE REGISTRATION*

Schools may not provide LDS funds to students who are not in compliance with requirements to register for the draft if required to do so under section 3 of the Military Selective Service Act.

*[Section 722(b)(3) of the Public Health Service Act; 42 CFR Part 57.206]*

### *FINANCIAL AID TRANSCRIPTS*

Students must provide health professions schools with financial aid transcripts from any other previously attended institution of higher education. The financial aid transcript must include:

- student's name and social security number;
- amounts and sources of loans and grants previously received by the student for study at that institution;
- whether or not the student is in default on any loans, or owes a refund on any grants; and
- a statement--if applicable--that the student received no financial aid.

The financial aid transcript must be signed by an authorized official of the institution preparing the document.

*[42 CFR Part 57.206]*

### *DEFAULT ON OTHER FEDERAL LOANS*

The LDS program does not prohibit awarding LDS funds to students who are in default on other student loans. However, good practice suggests that the school may choose to establish an institutional policy which would prevent students who are in default from receiving LDSs. If the school does not have such a policy in place, it should carefully consider awarding LDS funds to any student who has failed to honor a previous loan commitment by discerning:

- the reason for default; and
- the likelihood that the student will be a "collection problem" with regard to the LDS funds

### *Section 2 VERIFICATION OF STUDENT INFORMATION*

LDS regulations require verification of student information. Methods for verification are suggested--not mandated--and include:

- Federal income tax returns; and
- other documentation that the school deems necessary.

Institutions may wish to consider using the Department of Education verification requirements for the LDS program. Note that the Department of Education does not use its verification edits on parental information for applicants who are independent according to the definition in the Higher Education Act, as amended. As a result, schools may use their own criteria for selecting LDS applicants for verification in conjunction with applying Department of Education verification procedures.

*[42 CFR Part 57.206]*

### ***Section 3 THE APPLICATION AND AWARD PROCESS***

#### ***APPLICATIONS***

Schools are responsible for making an LDS financial aid application form available to students. The application for LDS funds does not need to be separate or a different form from the one used for other financial aid programs administered by the institution. However, it must be able to collect the information necessary for the school to determine whether the student meets the eligibility criteria described on the previous pages. The school also must request information helpful in the collections process after the student leaves the school, such as names and addresses of parents, relatives or other individuals who are likely to know the whereabouts of LDS borrowers after they leave school. (See both [Chapter 3, Section 5C](#) in this book and [Fiscal Management, Collections, Chapter 2](#) for information on entrance interviews.)

#### ***ENTRANCE INTERVIEWS***

##### ***Timing***

Regulations require schools to conduct entrance interviews with its LDS borrowers. The school must conduct and document an entrance interview for each academic year during which the student receives LDS funds. The school also must obtain entrance interview documentation before it disburses loan funds to a borrower in any academic year. Please see [Exhibit C](#). The regulations do not require the school to conduct an entrance interview each time it makes a disbursement within a single academic year; however, many schools have indicated it is beneficial to the collections process to require a borrower to complete a new "borrower information" form at the time of each disbursement.

*[42 CFR Part 57.210]*

## *Content*

No matter what format or method a school uses to conduct an 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 any format the school chooses. For example, the school can use a:
  - separate statement listing the borrower's rights and responsibilities, which the borrower must sign and date to acknowledge that he or she has been provided with the information; or
  - statement of the borrower's rights and responsibilities that are incorporated into a disclosure document.

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 during which funds are disbursed. As an alternative, the school may permit the borrower to sign and date the original rights and responsibilities form or statement for each academic year in which he or she obtains additional LDS funds. In this case, the information on the original document must continue to be applicable to the additional loan funds. [Exhibit G](#) shows a statement of borrower's rights and responsibilities.

- The school must collect a document on which the borrower provides personal information to assist in skip tracing should this be necessary during the collection process. The borrower must sign and date the document to show when the information was provided or updated.

Personal borrower information can change between the time of application and loan disbursement; therefore, it must be collected during the entrance interview even if the borrower provided similar information on the financial aid application. A school may use any format it finds most effective to collect this information.

For a borrower who receives loans 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 sign and date again the information to state when the personal borrower information was updated.

*[42 CFR Part 57.210]*

### ***Format***

A school must complete the entrance interview requirement by conducting an individual or group meeting with the borrower, or through an exchange of 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 aid awarding process, as this will help prevent problems in the collections process. The school also has discretion in determining the specific format of the entrance interview, and may use innovative methods such as films or computer software programs that "test" the borrower's understanding of his/her rights and responsibilities. Finally, the school has discretion in deciding which office(s) (e.g., financial aid, fiscal, loan collection, dean's) will be responsible for entrance interviews.

*[42 CFR Part 57.210]*

### ***Documentation***

Institutions must document the entrance interviews by maintaining the papers signed by the borrower in his/her file. Documentation consists of evidence that the borrower:

- is aware of his/her rights and responsibilities; and
- has provided information which will assist with any skiptracing efforts.

*[42 CFR Part 57.210]*

### ***AWARDING POLICIES***

In awarding LDSs, the school must coordinate available funds with the demonstrated financial need of student applicants. Awarding LDS funds should be governed by written policies and procedures that have been adopted by the school to:

- lend equity, consistency and objectivity to the awarding process; and
- comply with statutory and regulatory requirements.

## *AWARD LETTERS*

After the school has determined individual LDS awards, it should prepare an award letter to be forwarded directly to each applicant. The award letter should provide a space for the student to accept or reject the LDS award. Duplicate copies should be provided so that the student can retain one copy and return the original copy to the school.

## *Section 4 CHANGES IN STUDENT FINANCIAL NEED*

The student has an obligation to report changes in financial circumstances, including receipt of additional funds. Based upon information received by the institution, the student's award should be adjusted to reflect the change as follows:

- increases of awards will be limited to the amount of LDS funds available to the institution and statutory maximum for individual awards; and
- if the change in the student's situation results in resources exceeding expenses, the institution must adjust the budget or the financial aid package to assure that there is no overaward.

Adjustments are determined by the financial aid administrator based on the facts available about the student's situation and the judgment of the financial aid administrator. All adjustments must be adequately documented. In addition, the institution should have a written refund policy that fairly allocates refunds to financial aid programs authorized under Titles VII and VIII of the Public Health Service Act.

## *Section 5 DISBURSEMENT OF FUNDS TO STUDENTS*

### *THE PROMISSORY NOTE*

Each LDS must be documented by a promissory note approved by the Secretary of Health and Human Services. It is made available to schools through the Division of Student Loans and Scholarships (DSLSS). The note describes the loan conditions and benefits set forth in the Public Health Service Act and in the regulations.

The school has the option of designing its own promissory note rather than using the form provided by the Division. However, the school must receive approval from the Division to use any proposed promissory note that differs from the note provided by the Division.

Because the promissory note is the legal document which binds the student to his/her repayment obligations, and thus represents a major asset of the school's loan fund, it must be properly

completed and adequately safeguarded against fire, theft, and tampering. The particular method of insuring this protection is the school's responsibility.

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.

The promissory note must be signed by the borrower prior to disbursement of funds. It is not necessary to have a separate promissory note signed each time a student receives an advance of funds. A copy of the promissory note must be supplied by the school to the student borrower. Any change in the Act or regulations which affects the terms of the promissory note requires that a new promissory note be signed for future loans.

A LDS shall be made without collateral or cosignature unless the borrower is a minor and the promissory note signed by the student borrower would not, under the State law, create a binding obligation. In addition, LDS promissory notes or any other evidence of a LDS may not be sold by the school, unless the borrower transfers to another institution participating in the LDS program. In this case, the school from which the borrower originally obtained an LDS may sell that loan to the school the borrower is now attending.

*[Section 722 of the Public Health Service Act; 42 CFR Part 57.208]*

Standards have been established for the use of electronic signatures and implementation of certain provisions of the Electronic Signatures in Global and National Commerce Act (E-sign Act) as they apply to electronic transactions conducted by schools and borrowers of PCL. The passage of the E-sign Act (Public Law 106-229, § 1, June 30, 2000, 114 Stat. 464, codified at 15 U.S.C. §§ 7001- 7006) makes it possible for schools to use electronic signatures and promissory notes in place of paper records and handwritten signatures to carry out these requirements. These standards are based on the guidance used by the U.S. Department of Education for the Federal Family Education Loan and the Federal Perkins Loan Programs.

A school will not be subject to any liabilities or be required to reimburse its FCC revolving fund if the loan is determined to be legally unenforceable by a court based solely on the processes used for electronic signature or related records, provided the processes for electronic signatures and related electronic records satisfy the above mentioned standards. On the other hand, if the school's electronic processes for a loan do not satisfy these standards and the loan is held by a

court to be unenforceable based solely on the school's processes for an electronic signature or related records, the Department will determine on a case-by-case basis whether the school will be held responsible for the loss of the loan amount.

*[Campus-Based Policy Memorandum 2003-3]*

### *DISCLOSURE REQUIREMENTS*

Schools are required to disclose certain information to students at the time the promissory note is signed, or during the entrance interview if it occurs prior to the student signing the note. Some of the information that schools must disclose to students appears on the promissory note. Other information does not appear on the promissory note, and so it must be provided on a separate document. The disclosure requirements are listed below.

- The yearly and cumulative maximum amounts that may be borrowed by the student. This information is not in the LDS promissory note and, therefore, must be provided elsewhere. It is recommended that schools include it in (or as an attachment to) the statement of rights and responsibilities which the borrower must review and sign as part of the entrance interview.
- The terms of the loan when repayment will begin. This information is in the LDS promissory note.
- The maximum number of years in which the loan must be repaid. This information is in the LDS promissory note.
- The interest rate that will be paid by the borrower and the minimum amount of the required monthly payment. This information is in the LDS promissory note.
- The amount of any other fees charged to the borrower by the lender. This information is in the LDS promissory note.
- Any options the borrower may have for deferral, cancellation, prepayment, consolidation or refinancing of the loan. This information, where applicable to the LDS program, is in the LDS promissory note.
- 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. This information is in the LDS promissory note.
- To the extent practicable, the effect of accepting the loan on the eligibility of the borrower for other forms of student assistance. Under the LDS program statute and regulations, accepting a LDS does not affect the borrower's eligibility for other forms of student assistance--except that the student's total aid package may not exceed the student's unmet need, as determined by the school. Therefore, an institution does not have to provide the borrower with any additional information under this requirement unless the

school is aware of provisions of other programs which would make an LDS borrower ineligible for other forms of aid.

- 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 under the loan program regulations; or any other person involved in the collection of a loan under the regulations. Complete information to satisfy this requirement is not in the LDS promissory note and, therefore, must be provided elsewhere. It is recommended that schools include it in (or as an attachment to) the statement of rights and responsibilities which the borrower can review and sign as part of the entrance interview.

For any LDS loans 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 under the loan program regulations;
- the total amount borrowed by the student under the loan program regulations; and
- a schedule for repayment of the amounts borrowed under the loan program regulations, including the number, amount, and frequency of payments to be made.

In addition to the requirements set forth above, the school must comply with the applicable requirements of Truth-in-Lending Regulation Z, which consist of the following:

- the identity of the institution making the disclosures;
- the "amount financed" (using that term, which is equal to the total principal loaned) and a brief description such as "the amount of LDS funds provided to you or on your behalf";
- a separate written itemization of the amount financed, including LDS funds disbursed directly to the borrower, and LDS funds credited to the borrower's account, or a statement that the borrower has the right to receive a written itemization of the amount financed, together with a space for the borrower to indicate whether it is desired;
- the "finance charge" (using that term) and a brief description such as "the dollar amount the LDS funds will cost you";
- the "annual percentage rate" (using that term) and a brief description such as "the cost of your credit as a yearly rate";
- the number, amounts, and timing of payments scheduled to repay the obligation--the institution may comply with this requirement by disclosing the dollar amounts of the largest and smallest payments in the series and a reference to the variations in the other payments in the series;

- the "total of payments" (using that term) and a descriptive explanation such as "the amount you will have paid when you have made all scheduled payments";
- a statement indicating that a penalty may not be imposed if the borrower chooses to prepay any or all of the loan obligation;
- the penalty charge that may be imposed due to a late payment; and
- a statement that the borrower should refer to the promissory note for information about nonpayment, default, the right to accelerate the maturity of the obligation, and prepayment.

[Exhibit B](#) includes a sample format for a Truth-in-Lending statement. Schools are urged to consult with institutional legal counsel to determine the actual format and wording appropriate to the school's particular situation. Although the Department of Health and Human Services can provide general guidance relative to the Truth-in-Lending requirements, responsibility for compliance with the law rests with the school.

The truth-in-lending statement can 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

*[Section 726 of the Public Health Service Act; 42 CFR Part 57.208]*

### ***PAYMENTS TO STUDENTS***

Institutions determine the amount of installments paid to the student. However, installments may not exceed what the institution determines is necessary for the student to pay for any installment period (e.g., semester, term, quarter). Note that students enrolled less than full-time or are no longer in good standing are not eligible to receive LDS proceeds.

The school may advance payments directly to the student or it may credit the disbursement to the student's tuition account. In either case, payments must be clearly documented.

*[42 CFR Part 57.209]*

### ***Section 6 STUDENT RECORDS***

The school must maintain an individual file for each student applying for financial aid and maintain these records for at least five years after the borrower ceases to be a full-time student.

This file should contain clear evidence of how the school evaluated each application for financial assistance. Even if no funds were awarded, documentation of rejection, cancellation, or declination must be retained and safeguarded against fire, theft and tampering.

The student file should contain documents relating to each academic year application so that each application cycle is complete and auditable. The contents of the file must include:

- approved student applications for LDSs;
- documentation of the financial need of applicants; and
- financial aid transcripts.

The types of documents that support this information include:

- copy of the need analysis document;
- copy of the student budget used to determine need;
- complete written documentation of assessment of resources and need;
- award letter-institutional copy;
- record of advances (i.e., receipts or vouchers);
- copy of signed promissory note(s);
- signed disclosure (i.e., truth-in-lending statement includes borrower's rights and responsibilities); and
- financial aid transcript, if applicable.

The Department of Health and Human Services permits institutions to maintain their records in a variety of formats at the option of the school. Record keeping formats include:

- computer;
- electronic;
- microfiche;
- microfilm; or
- paper.

*[42 CFR Part 57.215]*

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## **Chapter 4 TERMS AND CONDITIONS**

### ***Section 1 LOAN AMOUNTS***

Loans made on or after November 13, 1998, may be made in amounts that do not exceed the cost attendance (including tuition, other reasonable educational expenses, and reasonable living

expenses). Previously the maximum loan amount was tuition plus \$2,500. Before making decisions about how much an individual student receives in LDS funds, schools must be sure that students meet the statutory and regulatory eligibility criteria.

*[Section 722(a) of the Public Health Service Act]*

#### **EXCEPTION TO LOAN AMOUNTS FOR THIRD- AND FOURTH-YEAR MEDICAL STUDENTS**

Allopathic and osteopathic medical schools have the authority to increase awards from Loans for Disadvantaged Students (LDS) beyond the cost of attendance annual maximum limit. However, amounts beyond the annual maximum limit are only available to third- and fourth-year students. In addition, the funds must be used to repay outstanding balances on loans taken out while the borrower was in attendance at that school. Funds may not be used to repay previous LDS.

This authority allows allopathic and osteopathic medical schools to help students reduce the level of their indebtedness from loans with less favorable terms, such as loans with higher interest rates or loans that compound interest. For example, a school of medicine could provide a third-year student with an LDS that would not only cover a portion of the student's cost of attendance, but would also repay--in part or in total--the student's HEAL debt assumed during the first or second year in medical school.

Schools are responsible for implementing this provision and assuring that the loans funds are used appropriately. The school and the student must agree that amounts received LDS above the legal annual maximum will be applied solely to the repayment of other educational loans. Further, the school must make checks copayable to the student and the school. The purpose of making checks copayable is to assure that the funds are actually used to repay designated prior loans.

*[Section 722(a) of the Public Health Service Act]*

#### **Section 2 INTEREST RATES**

A uniform interest rate of five percent per year applies to all loans made on or after November 4, 1988. Interest is computed on the unpaid principal balance and begins to accrue upon expiration of the grace period unless a borrower is eligible for deferment status.

LDS have the following interest rates based on the date they were incurred:

- on or after November 4, 1988--5%
- on or after August 13, 1981--9%
- from October 1, 1977 through August 13, 1981--7%
- from July 1, 1969 through September 30, 1977--3%
- from July 1, 1968 through June 30, 1969 (FY 1969)--5 3/8%
- from July 1, 1967 through June 30, 1968 (FY 1968)--4 3/4%
- from July 1, 1966 through June 30, 1967 (FY 1967)--4 5/8%
- from July 1, 1964 through June 30, 1966 (FY 1965 & 66)--4 1/4%

After July 1, 1969, borrowers who received LDS at different interest rates must have each loan computed at its respective interest rate.

*[Section 722(e) of the Public Health Service Act; 42 CFR Part 57.208]*

### ***Section 3 INSURANCE PREMIUM***

Statute and regulations permit schools to charge an insurance premium to cover loss of the institutional share of a LDS in cases of death and disability cancellations. 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 disbursed to the student. Proceeds collected from LDS disbursements as insurance premiums:

- may only be used to reimburse the school for the institutional share of losses for loans made on or after October 22, 1985; and
- must be placed in interest-bearing accounts from which earnings must be credited to the insurance fund.

Regulations state that the school is required to maintain separate accountability for the insurance premium fund even though the school does not have to establish a separate account.

*[Section 722(h) of the Public Health Service Act; 42 CFR Part 57.213a]*

### ***Section 4 GRACE PERIOD***

The grace period for a LDS is one year long during which repayment of principal is not required and interest does not accrue. 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. The following example illustrates.

**Example:**

*A student who borrowed from the LDS program graduates from medical school. She is going directly into a three-year residency for which she can obtain deferment on the payment of her LDSs. Because the grace period begins as soon as she graduates, she must use her grace period for the first year of her residency and then apply for deferments for the last two years of her residency. She is not allowed to obtain deferments for all three years of residency and then use the grace period after her residency training is completed.*

Borrowers who have not graduated do not lose the grace period or any portion of it unless they are out of school for the full year. This means that a borrower who reenters the same or another health professions school within the one-year period maintains the entire grace period. The following examples illustrate.

**Example:**

*A student in a podiatric medicine program borrowed an LDS for his first year of school. He went home during the three-month summer break between his first and second year of the program to work. Because he was out of school for less than one year, he still has not lost the one-year grace period on his LDS.*

**Example:**

*A student withdraws from a dental school. After being out of dental school for seven months, she enrolls in a school of veterinary medicine. Because her enrollment at the second institution began before the grace period was over, she still has the full year of grace remaining once she graduates or terminates attendance at the school of veterinary medicine.*

Similarly, a borrower who has graduated from a health professions school retains the full grace period if enrollment in another health profession school begins before the grace period expires.

*[Section 722(c) of the Public Health Service Act; 42 CFR 57.210]*

**Section 5 DEFERMENT PROVISIONS**

A deferment period on an LDS means that interest does not accrue and the borrower does not have to make payments on the loan. The following three statements describe the general mechanics of LDS deferments:

- Deferments are only available for participation in certain activities prescribed in statute and regulations.
- Deferment periods do not count against the borrower's right to repay the loan within 10 years. For example, a borrower who has used three years of deferments still has a total of 10 years--not seven years--to repay the LDS.

- Borrowers are allowed to move in and out of deferment and repayment. For example, a borrower may be in repayment, and then participate in an activity for which deferments are available, go back into repayment, and then begin another deferrable activity.

Although borrowers engaged in specific activities are entitled to deferments on their LDSs, the deferments are not automatic. Borrowers must request deferments at least 30 days before the beginning of:

- an activity that makes the borrower eligible for deferment; or
- the repayment period (i.e., the due date of the first payment) if the borrower is beginning the activity during the grace period.

Borrowers then must file deferment forms annually for each additional year of deferment. A copy of an LDS deferment form appears as [Exhibit E](#). For the institution to acknowledge that the borrower is in deferment, the borrower must provide evidence that the:

- activity is one for which deferments are permissible; and
- borrower is actually participating in that activity.

The evidence must include certification by a program official or other authorized official that the borrower's activity meets the deferment requirements. The borrower is also responsible for providing any other information necessary for the school to process and acknowledge the deferment. The school has the right to deny a request for deferment if the borrower does not comply with the information requirements as prescribed by regulations. Note that the responsibility for granting a deferment is the institution's and cannot be transferred to a third party, such as a billing agent. In addition to being responsible for requesting deferments and submitting the necessary documentation, the borrower also must contact the institution when he/she has completed or terminated the deferrable activity.

*[Section 722(c) of the Public Health Service Act; 42 CFR Part 57.210]*

### ***ELIGIBLE ACTIVITIES***

Borrowers may obtain deferments if they participate in certain activities. The chart below briefly identifies those activities and the corresponding maximum period of time for which the borrower can be in deferment.

<b>Type of Activity</b>	<b>Maximum Number of Years for Deferment</b>
Active duty in the uniformed services	Up to three years
Peace Corps volunteer	Up to three years
Advanced professional training	Unlimited
Leave of absence to pursue related educational activity	Up to two years
Training fellowship, training programs and related educational activities for graduates of health professions schools	Up to two years

Further descriptions of the allowable deferment activities appear below.

*[Section 722(C) of the Public Health Service Act; 42 CFR Part 57.210]*

#### **UNIFORMED SERVICES**

Borrowers who perform active duty as a member of a uniformed service (Army, Navy, Marine Corps, Air Force, Coast Guard, the National Oceanic and Atmospheric Administration Corps, or the U.S. Public Health Service Commissioned Corps) are eligible for deferment for up to three years. Such service performed during the grace period does not count as part of the maximum deferment period for which the borrower is eligible, nor does it entitle the borrower to a grace period after the deferment period ends. This deferment provision is specifically limited by statute to borrowers on active duty who are members of a uniformed service and does not apply to borrowers who are employed by one of the uniformed services in a civilian capacity. For example, a borrower who is working for the Public Health Service (PHS) and who is not a member of the Commissioned Corps would not qualify for deferment.

A borrower who is fulfilling an NHSC scholarship obligation through the "private practice option" or through the "private placement option" rather than as a PHS commissioned officer would not be eligible for deferment. Institutions should be certain that borrowers understand this provision prior to graduation to avoid subsequent problems in administering deferments based on participation in the uniformed services.

*[Section 722(c)(1)(A) of the Public Health Service Act; 42 CFR Part 57.210]*

### *PEACE CORPS*

Borrowers who volunteer under the Peace Corps Act are eligible for deferment for up to three years. Such service performed during the grace period does not count as part of the maximum deferment period for which the borrower is eligible, nor does it entitle the borrower to a grace period after the deferment period ends. Service in VISTA does not qualify for deferment.

*NOTE: The total period of deferment for uniformed service and service as a Peace Corps volunteer may not exceed three years for each activity, or a total of six years.*

*[Section 722(c)(1)(B) of the Public Health Service Act; 42 CFR Part 57.210]*

### *ADVANCED PROFESSIONAL TRAINING*

Borrowers can qualify for deferment on the basis of advanced professional training for the duration of that training if it is:

- intended to further the borrower's knowledge and skills in the health professions discipline for which the loan was received;
- a prerequisite for professional practice; and
- an internship or residency program or other full-time training beyond the first professional degree.

A borrower who completes advanced professional training at an institution in a foreign country may be eligible for deferment, provided that the borrower will receive credit towards his or her board certification. It is the school's responsibility to make the final determination in this case.

*[Section 722(c)(1)(C) of the Public Health Service Act; 42 CFR Part 57.210]*

### *LEAVE OF ABSENCE TO PURSUE RELATED EDUCATIONAL ACTIVITY*

An LDS borrower, who is still a full-time student in a health professions school, may obtain deferments for a leave of absence to pursue full-time educational activities that are directly related to the health profession for which the borrower is preparing. The borrower must be taking the leave of absence with the intent of returning to the original school as a full-time student. The deferment is limited to two years.

The related educational activity must meet the following criteria for the borrower to obtain a deferment:

- The activity must be part of a joint-degree program or a formal program of joint study that is offered in conjunction with the health professions program for which the borrower is preparing;

**OR**

- The activity must enhance the borrower's knowledge and skills in the health profession for which the borrower is preparing as determined by the school.

The borrower must request this deferment at least 60 days before beginning the related educational activity. The institution must determine whether it will grant the deferment at least 30 days before the borrower plans to begin the activity in question.

A borrower who qualifies for this type of deferment receives the grace period upon completion or termination of his/her studies leading to the first professional degree. If the borrower does not return to the original school, then the school must begin the borrower's grace period retroactively from the beginning of the "leave of absence" when the borrower terminated study at that institution. The repayment period must then begin after the grace period has expired.

*[Section 722(c)(2)(A) of the Public Health Service Act; 42 CFR Part 57.210]*

#### ***FELLOWSHIP TRAINING PROGRAMS AND RELATED EDUCATIONAL ACTIVITIES FOR GRADUATES OF HEALTH PROFESSION SCHOOLS***

##### ***Fellowship Training Programs***

Graduates of health professions schools who borrowed LDS funds are eligible for deferments if they participate in certain fellowship training programs. The fellowship training must be directly related to the health profession for which the borrower obtained the LDS. In addition, the borrower must enter into the fellowship either prior to the end of his/her advanced professional training or no later than 12 months after the borrower completed participation in that advanced professional training. The fellowship training itself must meet certain criteria in order for the borrower to obtain the deferment. Specifically, the fellowship training must be a:

- full-time activity in research, research training or health care policy; and
- formally established fellowship program which was not created solely for the borrower.

*[Section 722(c)(2)(B) of the Public Health Service Act; 42 CFR Part 57.210]*

### ***Related Educational Activities For Graduates Of Health Profession Schools***

Graduates of health professions schools who borrowed LDS funds are also eligible for deferments if they participate in certain educational activities. The educational activity must be directly related to the health profession for which the borrower obtained the LDS. In addition, the borrower must enter into the activity either prior to the end of his/her advanced professional training or no later than 12 months after the borrower completed participation in that advanced professional training.

The related educational activity must meet the following criteria for the borrower to obtain a deferment:

- The activity must be part of a joint-degree program in conjunction with the health professions program for which the borrower received the LDS;

**OR**

- The activity is required for licensure, registration or certification in the health profession for which the borrower received the LDS;

**OR**

- The activity is a full-time educational program in public health, health administration, or a health care discipline directly related to the health profession for which the borrower received the LDS.

*[Section 722(c)(2)(B) of the Public Health Service Act; 42 CFR Part 57.210]*

## ***Section 6 REPAYMENT PROVISIONS***

### ***REPAYMENT SCHEDULES***

Installment payments must be made during the repayment period immediately following the expiration of the grace period and excluding any allowable periods of deferment. Installment payments must be made no less often than quarterly, in equal or graduated installments, in accordance with the terms of the schedule provided by the school and agreed to by the borrower at the time of the exit interview. Under no circumstances may a school agree to a payment schedule which does not require at least a quarterly payment of principal and accrued interest. A borrower who is more than 60 days past due in the repayment of an LDS must be placed on a monthly repayment schedule, regardless of when he or she entered repayment status.

*[Section 722(C) of the Public Health Service Act; 42 CFR Part 57.210]*

### *MINIMUM REPAYMENTS*

Institutions may require borrowers to repay LDSs at a rate that is not less than \$40 per month.

*[Section 722(j) of the Public Health Service Act; 42 CFR Part 57.210]*

### *LENGTH OF REPAYMENT*

Repayment of the principal, together with accrued interest, shall be made over a period of not less than 10 years nor more than 25 years, at the discretion of the institution. The Senate Report accompanying P.L. 105-392 directs that this revision to the repayment period be available for any borrowers who have not yet completed repayment of their loans.

The Department intends that school officials use their professional judgment to determine which borrowers need an extended time period to repay their loans, based on factors such as the amount of the borrower's indebtedness and projected income. Although this provision provides flexibility in determining the length of repayment, school officials should be guided by the need to collect these funds in a manner that maximizes the amount of revolving funds available annually for loaning to current students. The Department cautions schools not to grant extended repayment periods except as needed to assure manageable repayment and avoid default, since longer repayment periods will reduce the amount of loan funds available annually for making loans to current students. The Department does not plan to issue further guidance regarding the use of this authority unless schools indicate a need for such.

The school may reduce the repayment period without the borrower's consent when the total payments at the minimum monthly rate would require less than the required amount of years to repay.

*[Section 722(C) of the Public Health Service Act; 42 CFR Part 57.210]*

### *PREPAYMENT*

The borrower may, at his or her option and without penalty, prepay all or any part of the principal and accrued interest at any time. If an accelerated payment is made, that prepayment must first be applied to accrued interest and penalties, if any, and then to the principal balance.

*[Section 722(C) of the Public Health Service Act; 42 CFR Part 57.210]*

### *PENALTY CHARGES*

Borrowers must be charged a late fee for installment payments on LDSs that are more than 60 days past due. For loans disbursed on or after October 22, 1985 or for which promissory notes

have been signed on or after October 22, 1985, the late fee cannot exceed six percent of the installment payment.

This provision is intended to assist schools in collecting LDS funds by providing delinquent borrowers with an incentive to remit their payments on a timely basis to avoid any additional costly charges. Accordingly, each school is encouraged to implement the provision at an amount and frequency that will be of greatest benefit for improving its ability to collect from its borrowers.

For loans extended prior to October 22, 1985, schools may impose a late charge for failure by the borrower to pay all or any part of an installment when it is due, or for failure to file timely evidence of deferment or cancellation of part or all of a loan. The late charge may be up to \$1 for the first month or part of a month following the due date, and \$2 for each subsequent month or part of a month.

*[Section 722(I) of the Public Health Service Act; 42 CFR Part 57.210]*

#### ***REFUNDS***

No refunds are permitted to borrowers once payments have been made. Refunds to borrowers for errors made by the school must come from institutional funds, not the LDS fund.

#### ***CHANGE OF ADDRESS***

The borrower is required to inform the school of any change of address after ceasing to be a student at the school.

#### ***REPAYMENT OPTIONS***

##### ***Combining LDSS***

When a borrower has more than one LDS outstanding, the sum of the amounts loaned may be combined for repayment purposes. However, separate accounts must be kept when a borrower has loans made under different statutory provisions, so that the appropriate benefits may be applied to the proportionate amount of indebtedness. It is also necessary to keep separate repayment schedules whenever a borrower has loans made at different grace periods and interest rates.

### ***Loan Consolidation***

The Federal Loan Consolidation Program permits borrowers to combine their Federal student loans from different programs into a single, new loan. It also permits the loans to be repaid over a longer period of time. In addition to repaying in equal installments, borrowers can obtain graduate and income-sensitive repayments for loans consolidated under this Federal program.

For more information on Federal Loan Consolidation, refer to Department of Education publications (e.g., *The Federal Student Financial Aid Handbook*).

*Note: Although LDSs are eligible for Federal Loan Consolidation at the option of the lender, PCLs are not eligible for Federal Loan Consolidation.*

### ***Forbearance and Renegotiation***

Forbearance and renegotiation are two separate methods for dealing with a borrower who is unable to make payments as required by his or her existing repayment schedule. Periods of forbearance and of renegotiation are similar, because both must be counted as part of the 10-year repayment period. However, forbearance differs from renegotiation, because:

- payments towards principal are temporarily suspended due to extraordinary circumstances; and, therefore,
- these accounts are excluded from the delinquency rate calculation (i.e., they are neither current nor delinquent).

Renegotiated loans do not have payments towards principal temporarily suspended. As a result, renegotiated loans are included in the delinquency rate calculation:

- as current accounts, if the borrower adheres to the renegotiated repayment schedule; or
- as delinquent accounts, if the borrower does not adhere to the renegotiated repayment schedule.

### ***Forbearance***

Due to a borrower's extraordinary circumstances, and at the discretion of the institution, the borrower may be placed in forbearance. This has the effect of temporarily suspending payment of principal; however, interest continues to accrue. Extraordinary circumstances include unemployment, poor health or other personal problems that have a short-term impact on the borrower's ability to make payments on LDSs as scheduled.

During periods of forbearance, interest continues to accrue on the unpaid principal balance of the loan. Further, a minimum payment must be made on all accrued interest during the period in which the borrower is in forbearance (e.g., six months, one year). Schools are urged to make every effort to keep forbearance periods to a minimum, because the borrower may be faced with unmanageable payments as a result of the reduced period of time for making repayments.

Note that penalties are not charged to borrowers with loans in forbearance--provided that the borrower is complying with the terms of forbearance agreed upon by the borrower and the school--since a loan in forbearance is not considered to be past due.

The school is responsible for determining whether there are "extraordinary circumstances" which warrant granting forbearance, based on a borrower's financial situation and other pertinent information. Examples of extraordinary circumstances which might place an undue hardship on the borrower and prevent him or her from making scheduled payments include the following:

- A borrower changes his or her health professions program by graduating from one program and going into a second program after the grace period has expired.
- A borrower changes his or her health professions program by transferring from a discipline covered by the LDS program to a discipline not covered by the LDS program.
- A borrower changes his or her health professions discipline to a non-health discipline.
- A borrower suffers a drastic change in his or her financial situation which makes it impossible to repay the LDS according to schedule. Events that can have such an affect on an individual's financial circumstances include prolonged illness, unemployment, or a natural disaster (e.g., flood, fire).

The institution must obtain documentation at least annually that supports the borrower's request for forbearance. This means that the borrower's institutional file should contain some combination of the following documents:

- verification from the school in which the student is now enrolled regarding his or her full-time status and evidence of continuing financial need.
- copies of medical bills and correspondence from the attending physician pertaining to the financial burden of prolonged illness;
- unemployment records and correspondence; and
- correspondence from reputable individual(s) or agencies verifying the hardship or disaster.

The institution must notify the borrower in writing of its approval or disapproval to grant forbearance. The basis for that decision must be thoroughly documented in the borrower's file. Institutions are accountable for limiting the use of forbearance to situations in which the borrower clearly intends to repay the LDS obligation, but is unable to comply with the existing repayment schedule.

*[42 CFR Part 57.210]*

### ***Renegotiation***

A school should use renegotiation when a borrower is able to make payments on a regular basis, but is unable to pay the amount required to keep the account current according to the existing repayment schedule. To renegotiate the repayment schedule:

- the school must be satisfied that the borrower's financial situation precludes compliance with the existing schedule; and
- the school and the borrower must mutually agree to replace the existing schedule with a revised one.

The school must maintain documentation of the agreement in the borrower's file. A borrower with a renegotiated loan is considered to be current with the repayment schedule as long as the borrower complies with the terms of the renegotiation, because the renegotiated schedule supersedes the previous repayment schedule. As a result, the new schedule is used to determine whether a borrower is current or past due. Penalties are not charged to borrowers with renegotiated loans--provided that the borrower is complying with the terms of the renegotiation agreed upon by the borrower and the school--since a renegotiated loan is not considered to be past due.

Note that borrowers with renegotiated LDSs must still repay their obligations within the 10-year limitation. Institutions are accountable for limiting the use of renegotiation to situations in which the borrower clearly intends to repay the LDS obligation but is unable to comply with the existing repayment schedule.

### ***Cancellation***

LDSs may be canceled because of the death of the borrower, or because the borrower has become permanently and totally disabled.

### ***Death***

Upon the death of a borrower, the unpaid balance of the loan and accrued interest will be canceled. To grant cancellation, the school must obtain a death certificate or other official proof of death. The school retains the document in the borrower's file for audit purposes. The amount canceled must be reported on the Annual Operating Report.

*[Section 722(d) of the Public Health Service Act; 42 CFR Part 57.211]*

### ***Permanent and Total Disability***

A borrower is entitled to cancellation of LDSs in the event of permanent and total disability. Permanent and total disability is defined as being unable to engage in gainful employment of any kind because of a medically determinable impairment which is expected to continue for a long

and indefinite period of time or to result in death. The review and final determination shall be made by the Secretary on the recommendation of the school, supported by required medical certification relating to the borrower's disability.

To claim cancellation for disability, a borrower should submit a formal request to the school that awarded the loan along with the following documentation:

- date entered and date graduated or date studies terminated;
- total amount of loans obtained;
- amount of unpaid balance;
- nature and date of onset of the disability;
- employment history prior to disability;
- statement of financial support; and
- current medical examination and/or treatment.

The medical report must be sufficiently detailed to provide for a comprehensive review to determine the nature, duration, and extent of the impairment and prognosis. Supporting documentation should include history of illness, medical examination(s), inpatient and outpatient treatments, and current medications. Include copies of all pertinent past medical records and a prognosis and rehabilitation plan. The medical documentation must be accompanied by a signed and dated statement from the borrower's physician documenting permanent and total disability according to the definition above.

The school should obtain from the borrower consent for release of information allowing the release of any required information on the disability to the Department.

The school will be formally notified of the Secretary's and/or designee's decision and must retain the written notification of the decision on file for audit and other review purposes. The school must report the amount of the loan canceled on its Annual Operating Report.

Documentation must be submitted to the Division of Student Loans and Scholarships, Parklawn Building, Room 9-105, 5600 Fishers Lane, Rockville, Maryland 20857.

A disability checklist is provided at [Exhibit F](#) as guidance for obtaining the required documentation. This checklist should not be used in lieu of obtaining the required documentation described above.

**NOTE: SCHOOLS/LENDERS DO NOT HAVE THE AUTHORITY TO CANCEL LOANS BASED ON PERMANENT AND TOTAL DISABILITY. THIS AUTHORITY REMAINS WITH THE DEPARTMENT OF HEALTH AND HUMAN SERVICES.**

## **Chapter 5 INSTITUTIONAL RESPONSIBILITIES IN THE REPAYMENT PROCESS**

Institutional responsibilities in the LDS repayment process are considerable. These responsibilities are often shared between the school's financial aid administrator and the fiscal officer. The exit interview is a primary example and is discussed below.

### ***Section 1 EXIT INTERVIEW***

The regulations require a school to conduct and document an exit interview with its borrowers (individually or in groups). 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 upon by the borrower and the school, 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.
- Update 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).
- 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.