

DEPARTMENT OF HEALTH & HUMAN SERVICES

Bureau of Health Professions

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Public Health Service

Health Resources and

**Services Administration
Rockville MD 20857**

To: Schools, Lenders, and Holders Participating in the
Health Education Assistance Loan (HEAL) Program
Subject: Income-Contingent Loan (ICL) Repayment
HEAL School Policy Memorandum 42
HEAL Lender/Holder Policy Memorandum 93-17

Background

Section 705(f) of the Public Health Service Act (the Act), as amended by Public Law (P.L.) 102-408, the Health Professions Education Extension Amendments of 1992, requires HEAL lenders and holders to offer borrowers graduated loan repayment schedules that, during the first 5 years of loan repayment, are based on the borrower's debt-to-income ratio. This option is in addition to the previously existing repayment options, which allow a borrower to choose a repayment plan that provides for either equal payments over the life of the loan, or graduated payments that increase over time (but have no relationship to the borrower's income). This memorandum provides schools, lenders, and holders with guidance on the implementation of the income contingent loan repayment provision.

Minimum Requirements of Income-Contingent Loan Repayment

Under the income-contingent loan repayment provision, the Department is requiring that the lender or holder give the borrower the option, during the first 5 years of repayment, of paying 5 percent of the borrower's gross annual income toward the reduction of his or her HEAL indebtedness.

Any borrower interested in repaying in accordance with the income-contingent repayment provision must provide the lender or holder with a self-certification of his or her gross annual income for the most recent calendar year at the time the repayment schedule is being developed (sample form attached). Thereafter, the borrower must provide updates of this information annually in accordance with time frames established by the lender or holder. If, during the first year of employment, the borrower was not employed for the full year, his or her self-certification of gross annual income should also indicate any period of unemployment (e.g., January to June). Failure by the borrower to provide this self-certification annually, in accordance with the lender or holder's requested time period, will result in the borrower forfeiting his or her right to this option, and will allow the lender or holder to place the borrower on a repayment schedule of equal monthly payments.

Employed during most recent 12 months but currently unemployed:

If the borrower is currently unemployed, he or she should be placed in forbearance for no longer than 6 months, with the income reevaluated at the end of the forbearance period in accordance with the above procedures.

Interest Accrual and Capitalization

During the 5-year period of income-contingent loan repayment, any unpaid accrued interest may be capitalized in accordance with the terms of the promissory note. When notifying the borrower of the various repayment options, the lender or holder must clearly explain the potential costs that could result from interest capitalization if income-contingent repayment is chosen.

Repayment Schedule for Remainder of Repayment Period

After 5 years of income-contingent repayments, the lender or holder must give the borrower the option of choosing either a level or graduated repayment plan for the remaining years of the repayment period. The monthly payment amounts must be determined by the lender based on the remaining unpaid balance of the HEAL debt; gross annual income would no longer be a factor to be considered in determining the payment amount. If the borrower fails to respond to the lender or holder's request regarding the preferred repayment schedule for the remaining years of repayment, the lender or holder must place the borrower on a repayment schedule of equal monthly payments.

Changing from ICL Prior to End of 5-Year Period

If a borrower chooses an income-contingent repayment plan, and subsequently decides that during the first 5 years he or she would rather make equal or graduated payments (based on total HEAL indebtedness rather than gross annual income), he may do so, provided there is mutual agreement by the lender and the borrower. While lenders and holders are not obligated to allow changes in the repayment agreement once it has been established, they are encouraged to work with each borrower as necessary to facilitate the repayment process. In addition, a borrower continues to have the option of requesting forbearance if payments are unmanageable, or of prepaying the loan if he or she would like to retire the debt more quickly than is required by the repayment schedule.

Additional Options Regarding Percentage of Income to be Paid

If a borrower is interested in income-contingent repayment, but would prefer to base the payment amount on a higher percentage of income, the lender or holder may adjust the percentage of income to be paid to as high as 10 percent, provided that the percentage is mutually agreed upon by the lender or holder and the borrower.

For example, a borrower may determine that he or she would like to pay 8 percent of gross annual income toward the HEAL indebtedness. This is permissible, provided that the lender or holder is able to provide a repayment plan based on the 8 percent level. Even if a lender or holder were unable to develop a repayment schedule using the 8 percent level, the borrower has the option of prepaying the loan in any amount he or she chooses.

If a borrower chooses to pay at a level higher than 5 percent, and subsequently finds that the payments are too difficult to meet, the lender or holder is encouraged to amend the repayment schedule to provide for payments at the 5 percent level. Except for the cases cited above as a result of unusual circumstances, an income-contingent repayment plan may not allow payments of less than 5 percent of gross annual income. A borrower who needs relief beyond the 5 percent level should request forbearance.

Effective Date

Although this policy memorandum establishes guidance for implementing the income-contingent loan repayment option, it is expected that lenders and holders will need additional time to implement the loan servicing adaptations necessary to offer income-contingent loan repayment. Schools and borrowers should contact their individual lenders and holders to find out when they will have this option available.

Once available, income-contingent loan repayment must be permitted for any borrower who entered repayment on or after October 13, 1992, if requested, and must be offered to any borrower who enters repayment subsequent to its availability. In addition, lenders and holders may offer this repayment option to any borrower who entered repayment prior to October 13, 1992, but who has not yet completed the first 5 years of the repayment period. In any case, the income-contingent repayment option can only be offered during the first 5 years of the repayment period (e.g., a borrower who has already been in repayment for 2 years could only receive 3 years of income-contingent repayments). For purposes of determining the first 5 years of repayment, periods of forbearance are included in the 5-year period, but periods of deferment are not considered part of the 5-year period.

We appreciate your continued patience and assistance during implementation of the provisions of P.L.102-408. Questions regarding this memorandum should be directed to the HEAL Branch at 301 443-1540.

Michael Heningburg
Director
Division of Student Assistance

Request for Income-Contingent Repayment Schedule

Borrower's name: _____

SSN: _____

Borrower's address: _____
Street

_____ City State Zip
Code

Borrower's account number: _____

Please provide following data for the most recent calendar year:

Gross annual income: _____

Dates of unemployment, if any: _____ to _____

Are you currently employed? Yes _____

No _____

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If you are not employed, do you want to receive forms for
requesting forbearance? Yes _____
No _____

Has your current income dropped substantially compared with that
reported above for the most recent calendar year?

Yes _____ No _____

If there has been a substantial drop in your income, and you will
be unable to make the payments required based on the most recent
calendar year's gross annual income, please indicate your most
recent gross monthly income: _____ for the period _____

(mo/yr)

I certify that the above information is true and correct to the best of my knowledge.

Borrower's signature

Date

**WARNING: Any person who knowingly makes a false statement or
misrepresentation in a HEAL transaction, bribes, or attempts to**

bribe a Federal official, fraudulently obtains a HEAL loan or commits any other illegal action in connection with a HEAL loan is subject to fine or imprisonment under Federal statute.

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