

DEPARTMENT OF HEALTH & HUMAN SERVICES

Bureau of Health Professions

**Public Health Service
Health Resources and
Services Administration
Rockville MD 2M7**

DEC 22 1994

To: Schools and Lenders Participating in the Health
Education Assistance Loan (HEAL) Program

Subject: Electronic Funds Transfer
Lender Policy Memorandum L-95-04
School Policy Memorandum S-95-03

The purpose of this policy memorandum is to notify HEAL lenders and schools that the Department of Health and Human Services (DHHS) is authorizing the use of Electronic Funds Transfer (EFT). This procedure will help facilitate the movement of student loan proceeds between lenders and schools. The use of EFT is optional. If a school and lender choose to use EFT, the guidelines listed below must be followed.

A contract must be executed between the school and the lender before EFT commences. This contract should detail school and lender responsibilities.

The lender and school must certify that all applicable DHHS legislation, regulations and policy guidelines concerning or related to loan disbursement and disclosure will be followed.

In addition, lenders and schools should accept and agree to the following provisions to be included in the contract:

I. LENDER'S RESPONSIBILITIES

Loan proceeds transferred by EFT must be directed to an account identified by the school as a separate account that restricts distribution of funds exclusively for EFT.

HEAL policy requires that a loan disbursement should not be made by the lender to the school more than 15 days prior to the latter of: the enrollment date, the beginning of the loan period, or the requested installment date. The school should retain its portion and disburse the remaining funds to the borrower within 15 days.

The lenders must maintain documentation sufficient to show that the disbursement of funds was transferred via EFT to the school, the insurance premium was paid to DHHS, and the loan was guaranteed. Lenders must also send disclosures to borrowers the same day first disbursements are electronically transferred to the schools. Disbursement date is defined as the date the funds leave the lender's account.

The lenders must also send to the school electronically, through facsimile, express mail or courier, a disbursement roster which contains essential information related to the loan disbursement. The roster should be in an attachment to the contract.

Disbursement Roster

The roster should include the information needed to process the disbursement at the school and credit the funds to the borrower. The following is considered essential information:

- o Disbursement Date
- o School Name
- o Borrower Name
- o Borrower SSN
- o Gross Principal Amount
(Insurance Premium + Net Disbursement Amount)
- o Insurance Premium
- o Disbursement Amount

Proof of Disbursement

The computer files of borrower information should provide adequate evidence that the funds were transferred and disbursed.

II. SCHOOL'S RESPONSIBILITIES

The school must designate and maintain a restricted account for receipt of electronically disbursed student loan proceeds. The account shall be maintained in strict accordance with the following DHHS requirements. A statement should be provided authorizing the lender to credit (or debit) this restricted account and to include the account number and American Banking Association (ABA) routing number. This statement should be an attachment to the contract.

The school must obtain written authorization from the borrower for the release of funds via EFT. Written authorization will be incorporated into the new HEAL student application and the promissory note which will be available on or about January 1, 1995. For earlier use of EFT, a separate form must be signed by the borrower and retained by the lender.

The school must maintain disbursement information for each borrower in accordance with Section 60.56 of the HEAL regulations. Borrower files should include adequate evidence that funds were transferred and disbursed. This evidence may be needed for disputes, legal actions and audit purposes. Adequate records must also be kept in the event of a future claim. In addition, the school should develop standardized reports with input from lenders to inform lenders of returns, refunds and cancellations.

School Reporting to Lenders

Standardized school reporting requirements must address and include the following:

Report Type	Frequency
Disbursement Activity	Monthly
Loans pending disbursement (loans that have been disbursed to schools but not yet to borrowers)	Monthly
Returns, refunds and cancellations	Monthly

Report Elements

A Report Header including:

- o Report title (e.g. refunds and cancellations)
- o Report identification number
- o Report date
- o School name and HEAL school ID
- o Lender name and HEAL lender ID
- o School contact (name and phone number)
- o Time period the report covers

For each individual loan:

- Borrower name and Social Security Number
- Last date of borrower's attendance (if applicable)
- Gross and net loan amounts
- Disbursement date
- Date the funds were released to the borrower (for reporting purposes only)
- Date the funds were released to the lender (for returns, refunds and cancellations)
- Reason for the return, refund or cancellation

Responsibility for Maintaining Proof of Disbursement

We recommend that schools in addition to lenders maintain proof of disbursement (in an automated or manual format) for a period of 5 years from the last day of a borrower's attendance. Since schools are assuming the burden for releasing the funds to students, records must be kept to adequately document the loan in the event it goes to claim. This proof is necessary to settle borrower disputes or legal actions by any party, and for audit purposes.