

**DEPARTMENT OF HEALTH & HUMAN SERVICES**

**Bureau of Health Professions**

Public Health Service  
Health Resources and  
Services Administration  
Rockville MD 20857

**JUN 2 1997**

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

Subject: New **HEAL** lender contracts and initial insurance authority allocations for the period of July 1, 1997 - September 30, 1997  
Lender Policy Memorandum L-1997-5  
School Policy Memorandum S-1997-8

A new lender contract cycle will begin July 1, 1997 and extend for 12 months through June 30, 1998. Four lenders will participate in the **HEAL** program during this period-- Pennsylvania Higher Education Assistance Agency, Mellon Bank, Star Bank (as trustee for Brazos), and Vermont Student Assistance Corporation. Rhode Island Higher Education Assistance Authority dropped out since we released our March 13, 1997 policy memorandum first announcing participating lenders.

Many lenders currently have used almost all available discipline specific fiscal year (FY) 1997 insurance authority and can no longer make loans to certain disciplines. The **HEAL** program cannot further redistribute the FY 1997 insurance authority between lenders before July 1 because there is simply no more insurance authority available for these disciplines. Consequently, financial aid administrators will have problems finding lenders with insurance authority for dentistry, optometry, veterinary medicine, clinical psychology, and health administration prior to July 1. Please contact your current **HEAL** lender, especially if it is not continuing after June 30, prior to sending your **HEAL** loan applications to determine if your applications can or will be funded. You may wish, instead, to send your applications to one of the four participating lenders mentioned above. In an effort to ease discipline shortages, we will redistribute remaining FY 1997 insurance authority by discipline on July 1 consistent with our practice last year. This will give all disciplines at least limited access to remaining FY 1997 insurance authority prior to the start of FY 1998.

On July 1, remaining FY 1997 insurance authority (estimated to be \$10.0 million) will be redistributed by discipline based on the proportionate discipline usage during the period October 1, 1996 through June 30, 1997. A lender will receive an initial discipline specific allocation determined by the dollar amount of disbursements it has scheduled for the period July 1 through September 30, 1997, plus the amount of applications in process reported to the **HEAL** program, plus a proportion of (remaining) discipline specific insurance authority. For example, if a lender has

\$500,000 of dental disbursements scheduled and/or applications in process for the period July 1 through September 30, 1997 that lender would receive \$500,000 plus a proportionate share of remaining dental insurance authority. The proportionate shares listed on the attached table are based on an estimate that \$10 million FY 1997 insurance authority will be remaining July 1. This does not take into account the dollar amount of scheduled disbursements and applications a lender may have in process, since it is too early to determine these amounts.

We have been informed that the lenders continuing in the **HEAL** Program July 1 will process loan applications on a first-come first-serve basis by discipline. Please act early, but even that may not ensure that your students will get loans prior to October 1, 1997. It depends on demand for, and availability of, insurance authority by discipline.

**It is also important to remember that initial allocations serve only as a starting point and that lenders are allowed to use up to 10% of their total allocation to fund any HEAL disciplines. Thus, a student at a school in a discipline that does not have a stated allocation for the period July 1 through September 30 (chiropractic, public health, and health administration) can, nevertheless, have his/her application funded by a lender.** Lenders that are receiving applications and scheduling disbursements may request additional insurance authority (if available) from the **HEAL** program as needed. Re-allocations among lenders will be made as quickly as possible.

Educational institutions are advised that the lenders' new rates will be effective for new loans issued July 1, 1997 through June 30, 1998. In contrast, the lenders that will continue to participate after June 30, second and third disbursements (scheduled after June 30) will carry the terms on the original promissory note. **Lenders that are not continuing after June 30, 1997 will not make any second or third disbursements that were scheduled after June 30, 1997.** Lenders are informing educational institutions which borrowers are being affected. In these cases, a new loan application must be completed to fund any remaining borrowing needs.

We will keep the lending community and educational institutions apprised of insurance authority availability especially through September 30, 1997. Appropriate notifications will be made if and when FY 1997 insurance authority is fully disbursed by discipline. Insurance authority allocations for FY 1998, which begins October 1, 1997 will be based on congressional appropriation action. Absent **HEAL** reauthorization, our best estimate, at this time, is that \$85 million will be available for continuing borrowers in FY 1998 which would be the last year of **HEAL** loan making activity. **Therefore, as in the past 2 years, only continuing HEAL borrowers are eligible --disbursements cannot be made to first-time HEAL borrowers.**

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Thank you for your continued support of the **HEAL** program. During this uncertain time, it is our goal to provide you with prompt and effective service. Please contact Ms. Terri Ehrenfeld of the **HEAL** Branch at (301) 443-1540 if you have any questions.

Stephen J. Boehlert  
Associate Division Director,  
**HEAL**  
Division of Student Assistance

Attachments

1. Estimated discipline breakout  
for the remainder of FY 1997  
insurance authority
2. March 13, 1997  
policy memorandum

Table 1  
February 26, 1997

**FY 1997/1998 HEAL LENDER TERMS**  
**SORTED BY MEDICAL COST**

Lenders Receiving an Allocation

Lender Name	In School		Deferment		Grace		Repayment	Request	Medical Cost	Band
	Interest T-Bill Plus	Compounding	Interest T-Bill Plus	Compounding	Interest T-Bill Plus	Compounding	Interest T-Bill Plus			
Vermont	1.50	None	1.50	None	1.50	AT-END	1.50	\$1,600,000	\$28,253	1
PHEAA*	1.50	None	1.50	None	1.50	AT-END	1.50	\$49,130,000	\$28,253	1

Lenders without an Allocation

Lender Name	In School		Deferment		Grace		Repayment	Request	Medical Cost	Band
	Interest T-Bill Plus	Compounding	Interest T-Bill Plus	Compounding	Interest T-Bill Plus	Compounding	Interest T-Bill Plus			
Mellon Bank	2.50	None	1.70	None	1.70	AT-END	1.70	\$49,130,000	\$29,143	2
Star	1.59	Biennial	1.59	Biennial	1.59	AT-END	1.59	\$49,130,000	\$29,350	2
Ohio Pod	1.75	None	1.75	None	1.75	AT-END	1.85	\$49,130,000	\$29,412	2
Chase	1.85	None	1.85	None	1.85	AT-END	1.85	\$49,130,000	\$29,516	2
Kirksville	1.90	None	1.90	None	1.90	AT-END	1.90	\$17,255,000	\$29,699	2
Bank One	1.95	None	1.95	None	1.95	AT-END	1.95	\$49,130,000	\$29,883	2
Maximum	3.00	Annual	3.00	Annual	3.00	AT-END	3.00		\$35,612	
Total Requests								\$330,960,800		

MEDICAL COST = \$10,000 LOAN, 1 FINAL YEAR OF SCHOOL, 1 YEARS OF DEFERMENT, 9 MONTHS GRACE, 25 YEARS REPAYMENT, 5.5% T-BILL

- LOWERED RATES

\*\*INTEREST IS PAID BY LENDER DURING IN-SCHOOL PERIOD AND ONE YEAR OF DEFERMENT

Table 2  
February 26, 1997

**FY 1997/1998 HEAL LENDER TERMS**  
**SORTED BY OTHER COST**

Lenders Receiving an Allocation

Lender Name	In School		Grace		Repayment	Request	Other Cost	Band
	Interest T-Bill Plus	Compounding	Interest T-Bill Plus	Compounding	Interest T-Bill Plus			
Vermont	1.50	None	1.50	AT-END	1.50	\$35,870,000	\$23,801	1
Star	1.59	Biennial	1.59	AT-END	1.59	\$26,520,000	\$24,028	1
Mellon Bank	2.50	None	1.70	AT-END	1.70	\$35,870,000	\$24,480	1

Lenders without an Allocation

Lender Name	In School		Grace		Repayment	Request	Other Cost	Band
	Interest T-Bill Plus	Compounding	Interest T-Bill Plus	Compounding	Interest T-Bill Plus			
Ohio Pod	1.75	None	1.75	AT-END	1.85	\$35,870,000	\$24,654	2
Chase	1.85	None	1.85	AT-END	1.85	\$35,870,000	\$24,692	2
Bank One	1.95	None	1.95	AT-END	1.95	\$35,870,000	\$24,950	2
Maximum Total Requests	3.00	Annual	3.00	AT-END	3.00	\$206,018,677	\$27,881	

OTHER COST = \$10,000 LOAN, 1 FINAL YEAR OF SCHOOL, 9 MONTH GRACE, 25 YEAR REPAYMENT, 5.5% T-BILL.

- LOWERED RATES

\*\*INTEREST IS PAID BY LENDER DURING IN-SCHOOL PERIOD

Bureau of Health Professions

MAR 13 1997

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

Subject: Fiscal Year (FY) 1997/1998 HEAL Insurance Authority  
Allocations by Lender and Discipline  
School Policy Memorandum S-1997-5  
Lender Policy Memorandum L-1997-3

**Purpose**

The purpose of this memorandum is to notify the **HEAL** community which lenders will receive the balance of (any remaining) FY 1997 **HEAL** insurance authority as of July 1, 1997, and FY 1998 insurance authority.

**Background**

Section 702(b)(2)(B) of the Public Health Service Act requires that **HEAL** insurance authority be allocated to lenders offering more favorable terms to borrowers. Competition for an insurance authority allocation among lender has caused interest rates and interest compounding terms to be reduced from statutory maximum each and every year since a "bidding" methodology was first implemented in FY 1992. Rates have improved each year from T-bill plus 3.0 percent and annual compounding to T-bill plus 1.5 percent with compounding at repayment, resulting in savings to an individual borrower of up to \$7,359 on each \$10,000 loan over the life of the loan. This amounts to more than \$65.5 million in aggregate savings for borrowers for every \$85 million that is disbursed.

The **HEAL** allocation was refined by the Department of Health and Human Services (HHS) after much consultation, discussion and input from the school and lending community and assures that the insurance allocation is granted to those lenders, grouped by "cost bands," offering the most favorable rates. It is designed to be responsive to the needs of schools and lenders, while at the same time, consistent with the statutory mandate, maintaining as its primary goal the provision of the most favorable loan terms to the borrower. Under this methodology, it has always been possible that a single eligible **HEAL** lender could capture the entire market (insurance authority allocation) by offering an interest rate and terms that yielded significant savings to the borrower when compared to the next closest competitor. Lenders were advised in February 1997 that HHS would be determining competitive "cost bands" of \$500-\$750 in accordance with the same methodology used in past years.

To determine which lenders would receive an insurance authority allocation starting July 1, 1997, the cost-to-the-borrower was calculated under two different scenarios. Lenders were placed into "bands" based on cost. Lenders having a cost within \$750 of each other were placed into the same band.

### Results of 1997/98 Bidding Process

This year one national lender has qualified for "band 1," under the "medical" scenario as reflected in Table 1. Three national lenders will receive an insurance authority allocation for the "other" disciplines as reflected in Table 2. Borrowing from the lender with the lowest cost in band 1 versus borrowing from the lender with the lowest cost in band 2, will save a medical borrower \$890 on every \$10,000 loan.

Aggregate savings would be more than \$7.5 million assuming \$85 million is disbursed. Similar savings are realized when savings are calculated using the cost scenario for other disciplines.

While we understand schools and students may object to switching from one lender to another, we are obligated to comply with the statutory requirement to allocate insurance authority to those lenders offering the most favorable loan terms, as well as to maintain the integrity of the allocation methodology which has been responsible for such dramatic cost savings. By so doing borrowers, schools, and taxpayers will be the benefactors of lower cost loans, lower default rates, and reduced claim payments, respectively. **If the HEAL program is reauthorized by Congress prior to September 30, 1998 it may be necessary for us to adjust the allocation, as it currently stands, to reflect the status of the program at that time.**

#### Approach

In keeping with changes made last year, contracts will be synchronized with the academic year of most schools, (i. e., July 1 through June 30). **As was the case in FY 1996 and FY 1997 insurance authority in FY 1998 will only cover loans made to previous HEAL borrowers.**

FY 1997/1998 contracts will cover a full 12 month period and straddle two fiscal years. The initial FY 1997/1998 contracts will cover 3 months from July 1, 1997 through September 30, 1997. The HEAL program will allocate any remaining FY 1997 insurance authority as of July 1, by discipline to these lenders. If a discipline has no remaining insurance authority, an allocation for that discipline will not be made. On or about October 1, 1997, the FY 1997/1998 contracts will be amended to cover the period through June 30, 1998 and will include insurance authority appropriated by Congress for FY 1998. (The Administration has requested \$85 million in HEAL insurance authority for FY 1998.) **If the HEAL program is not reauthorized prior to June 30, 1998, lenders will receive a contract amendment extending the term of the contract through September 30, 1998, the last day HEAL disbursements could be made and insured.**

Outcome

Tables 1 and 2 display lender dollar requests for insurance authority and rank the lenders according to the cost-to-the-borrower. The \$750 bands are also depicted. Allopathic and Osteopathic Medicine allocations were determined using the costs reflected in Table 1. The remaining discipline allocations were based on the costs reflected in Table 2. Table 3 displays each FY 1997/1998 lender, address, telephone number, the discipline(s) it will service, any geographic restrictions, and its interest rates and terms. The Pennsylvania Higher Education Assistance Agency (PHEAA) lowered its rates for this contract period and has no restrictions as to geographic area or disciplines supported. Bank One Indianapolis, Chase Manhattan Bank, Kirksville College of Osteopathic Medicine, Ohio College of Podiatric Medicine, PNC Bank, Household Bank, and Dartmouth Education Loan Corporation will not be making disbursements in the **HEAL** program effective July 1, 1997, since these institutions did not provide rates and terms that would place them in the top band or did not apply for a contract. All disbursements scheduled with these lenders after July 1, 1997 cannot be made. New applications must be submitted to the lenders listed on Table 3. Any new application submitted to a lender that did not receive a FY 1997/1998 contract should be returned by the lender to the appropriate school financial aid office so that it can properly be rerouted to a lender with an insurance authority allocation.

Thank you for participating in the FY 1997/1998 **HEAL** insurance authority allocation process. If you have any questions regarding this policy memorandum, please contact Ms. Terri M. Ehrenfeld of the **HEAL** Branch at (301) 443-1540.

Stephen J. Boehlert  
Associate Division Director, **HEAL**  
Division of Student Assistance  
Attachments