

TO: LENDERS PARTICIPATING IN THE HEALTH
EDUCATION ASSISTANCE LOAN (HEAL) PROGRAM

and

ADMINISTRATORS OF STUDENT FINANCIAL AID
AT HEALTH PROFESSIONS SCHOOLS

Revision of Bulletin #5: Reporting the Annual Percentage Rate (APR)
On the HEAL Variable Rate Promissory Note

The variable interest rate is 11% for the HEAL Program for the current calendar quarter ending September 30, 1979. This rate is the result of adjusting the average rate over four consecutive quarters so as not to exceed the 12% statutory limit. Because the announcement of the variable rate in the Federal Register at the beginning of each quarter has been delayed, you will continue to be informed by telephone by the HEAL Staff as soon as the rate becomes available.

In HEAL Bulletin #5 of May 14 we directed lenders to report the APR on the HEAL variable rate promissory note based on the actual current quarter's variable rate. At the time we did not have the agreement of the Federal Reserve Board to report the Annual Percentage Rate on an estimated basis. Since writing that bulletin, we have obtained the agreement of the Federal Reserve to use an estimate in reporting the Annual Percentage Rate (APR) on the HEAL variable rate note. Therefore we are rescinding our instructions under paragraph two, bulletin four which begins "In reporting the APR on a HEAL loan,..." In its place, please substitute the following instruction:

"In reporting the APR on a HEAL loan, the lender should use the best estimate of the Annual Percentage Rate. That estimate should include 1/4 of 1% insurance premium. The maximum Annual Percentage Rate permitted by law under the HEAL Program is 12 1/4%. The calculations for the variable rate for the last four quarters led to the maximum rate of 12 1/4% for HEAL loans. The lender should enter "12 1/4% (estimate)" after "ANNUAL PERCENTAGE RATE" on the HEAL variable rate note for this quarter. The lender should continue to use the best available estimates and designate them as such on subsequent notes (e.g. APR 12 1/4% (estimate)). This will meet the truth-in-lending requirements of the Federal Reserve."

HEAL variable rate notes which were made based on our previous instructions are still valid. We hope that the new instructions found in this bulletin will make it easier to understand the Annual Percentage Rate on variable rate notes.

We also wish to take this opportunity to inform you of an optional chance to the promissory note which we are approving for any lender using the variable rate. Thanks to the request of the Continental Bank, in Chicago, Illinois we have approved the following addition to the wording of the "Interest" section of the HEAL variable rate promissory note. This addition is not required at the present time. However, it will be incorporated in the reprinting of the notes in the future. The change has been approved by the OE General Counsel and the Federal Reserve and may be used by any lender. The addition is as follows:

Item 2B "Interest" The language underscored may be added to the Variable Rate Promissory Note.

"B. The sum of the variable rates which are calculated by the U.S. Commissioner of Education for each of four consecutive calendar quarters. For each calendar quarter the rate is computed by ..."

We believe this change makes the computation of the variable rate clearer. A revised list of questions and answers regarding the variable rate is enclosed to replace the previous list we provided with Bulletin #5. These questions are helpful in explaining the variable rate to borrowers.

Sincerely yours,

David C. Bayer
Chief
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and Program Development

Health Education Assistance Loan (HEAL) Program

The Variable Interest Rate

What is the variable interest rate?

The variable interest rate is a method of calculating interest on a loan on a quarterly basis using a formula derived from the average bond equivalent rates of the 91-day U.S. Treasury bills.

How is the variable interest rate calculated?

At the beginning of every calendar quarter, the U.S. Commissioner of education announces the rate of interest to be used by HEAL lenders holding variable rate notes. A fixed rate of 7% plus an additional variable factor are combined to achieve the variable interest rate. The variable factor is calculated quarterly according to the following formula:

Determine the average of the bond equivalent rates reported for the ninety-one day U.S. Treasury Bills auctioned during the preceding quarter. Subtract 3.5 percent. Round the difference up to the nearest 1/8 of one percent. Divide by four. The results of four calendar quarters derived from the above formula just be added together and the sum must be added to the fixed rate of 7% to arrive at the variable interest rate for a 12-month period.

Is there a ceiling on the amount of annual interest which may be charged at the variable rate?

Yes. By law, the annual rate of interest on a HEAL loan may not exceed 12%. However, for a lender using the variable interest rate, for any individual quarter the annualized rate may exceed 12% provided that the average of the quarterly rates for any 12-month period does not exceed 12%. In announcing the rate of interest to be used by HEAL lenders holding variable rate notes, The U.S. Commissioner of Education adjusts the rate for a quarter if necessary to keep within the 12% annual limit.

How has the variable interest rate fluctuated over the past year?

The rates for the last four quarters were as follows:

<u>Period Ending</u>	<u>Variable Rate</u>	<u>Annual Percentage Rate (APR) (Including 1/4 of 1% Insurance Premium) for four quarters</u>
Sept. 30, 1979 (present quarter)	11 %*	
June 30, 1979	13 1/4%	12 1/4%
March 31, 1979	15 5/8 %	
Dec. 31, 1978	11 1/8 %	

*Although the formula would have resulted in a Variable rate of 13 3/8% for this quarter, the Commissioner adjusted the rate down to 11% to meet the requirement of a 12% maximum average for any four consecutive quarters.