DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of the Secretary

Washington, D.C. 20201

Please Copy to: Tom R
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MEMORANDUM TO THE SECRETARY

THRU: DS ___
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FROM: John J. Callahan
Assistant Secretary for Management and Budget

SUBJECT: National Health Service Corps Loan Repayment

I want to provide you with a brief update of the situation raised in Sunday's *New York Times* article about the National Health Service Corps Loan Repayment Program. We have had a dialogue with Dr. Earl Fox about what actually is occurring in the program and to clarify some of the potential confusion arising from the news story. HRSA is working with Melissa Skolfield on a possible response to the *New York Times* article. We have also discussed possible actions that may be helpful in addressing the concerns raised. There are nine basic points that we are making in our discussions with OMB, the White House and others.

Clarifications:

1. The health professionals featured in the article had no legal commitment from HRSA for a Loan Repayment. Simply being hired to deliver health services in a Health Professional Shortage Area (HPSA) does not create any legal obligation to receive a Loan Repayment. HRSA's Loan Repayment commitment is a separate contract from the salary and benefits package agreed upon between the provider and their employer. The Loan Repayment contract is only entered into after completing a separate application process and is contingent on the individual being employed or having a firm employment commitment in a HPSA. Each year, HRSA receives far many more applications for Loan Repayments than it can finance. HRSA typically funds only about 60 percent of all new applications.

Why This Happened in FY 2000:

2. HRSA reallocated $7 million to the Scholarship side of the program, reducing the pool of resources available for Loan Repayments from $37 million to $30 million. This reallocation is based on program judgement and compliance with the statutory requirement that 40 percent of the funding for the NHSC go to the Scholarship program.

3. For the first time, HRSA used a priority system for awarding loan repayments rather than first come first serve. Priority was given to applicants employed in 800 high priority areas.
4. HRSA gave priority status to approved but unfunded applications from the FY 1999 new applicant cohort over the FY 2000 cohort. While this practice of funding prior year applications is not new, the fact that over 80 percent of the Loan Repayments were awarded to prior year applications left little money to support FY 2000 applicants.

External Concerns:

5. The National Association of Community Health Centers and the Rural Health Association have raised concerns to HRSA that an inadequate number of loan repayments have been awarded to health professionals employed by the Community Health Centers.

Proposed Actions:

6. HRSA intends to reallocate $1.5 million from within the Bureau of Primary Health Care to fund more Loan Repayments (approximately 20 to 50).
7. HRSA will no longer carry over and give priority to the previous year's new application cohorts.
8. HRSA will examine the policy of when a loan repayment commitment should be made to a health care provider. The goal is to ensure that there is no misunderstanding on the part of a health care provider as they make their decision on whether or not to accept employment in a HPSA.
9. For FY 2001, we would support an increase of $10 million over the President's Budget specifically for additional loan repayments for those applicants (estimated 140 to 160) disadvantaged this year. The President's Budget had straightlined the NHSC Scholarships and Loans program at $76 million.

need to discuss

I will keep you informed as things progress.

Cc: Rich Tarplin
Melissa Skolficld