Health Education Assistance Loan (HEAL) Program

AGENCY: Office of Postsecondary Education, Department of Education.

ACTION: Final rule.

SUMMARY: On July 1, 2014, the HEAL Program was transferred from the U.S. Department of Health and Human Services (HHS) to the U.S. Department of Education (the Department). To reflect this transfer and to facilitate the servicing of all HEAL loans that are currently held by the Department, the Secretary adds the HEAL Program regulations to the Department’s chapter in the Code of Federal Regulations (CFR).

DATES: These final regulations are effective [INSERT DATE OF PUBLICATION IN THE FEDERAL REGISTER].

FOR FURTHER INFORMATION CONTACT: Ms. Vanessa Freeman, U.S. Department of Education, 400 Maryland Avenue, SW., room 6W236, Washington, DC 20202. Telephone: (202) 453-7378 or by email: Vanessa.Freeman@ed.gov.
If you use a telecommunications device for the deaf (TDD) or a text telephone (TTY), you may call the Federal Relay Service (FRS), toll free, at 1-800-877-8339.

SUPPLEMENTARY INFORMATION

Background: The HEAL Program is authorized by sections 701-720 of the Public Health Service Act (the Act), 42 U.S.C. 292-292o. The HEAL Program was first administered by the Office of Education in the former Department of Health, Education, and Welfare. On May 21, 1980, the HEAL Program was transferred from the Office of Education to HHS until July 1, 2014, when Congress transferred the program to the Department pursuant to Division H, title V, section 525 of the Consolidated Appropriations Act, 2014 (Pub. L. 113-76) (Consolidated Appropriations Act, 2014). From fiscal year (FY) 1978 through FY 1998 the HEAL Program insured loans made by participating lenders to eligible graduate students in schools of medicine, osteopathy, dentistry, veterinary medicine, optometry, podiatry, public health, pharmacy, and chiropractic, and in programs in health administration and clinical psychology.

Lenders such as banks, savings and loan associations, credit unions, pension funds, State agencies, HEAL schools, and insurance companies made HEAL loans, which were insured
by the Federal Government against loss due to borrowers’
dearth, disability, bankruptcy, and default. The purpose of
the program was to ensure the availability of funds for
loans to eligible students who need to borrow money to pay
for their educational costs.

Authorization to fund new HEAL loans to students
legislation allowing for the refinancing or consolidation
However, the reporting, notification, and recordkeeping
burden associated with refinancing HEAL loans, servicing
outstanding loans, and administering and monitoring of the
HEAL Program regulations continues. On July 1, 2014, the
HEAL Program was transferred from HHS to the Department.
To reflect this transfer and to facilitate the servicing of
HEAL loans that are currently held by the Department, the
Secretary adds the HEAL Program regulations that are
currently part of HHS’s regulations (42 CFR part 60) to
Title 34 Subpart B Chapter VI Part 681 of the CFR.
Consistent with this regulatory action, HHS intends to
remove the HEAL Program regulations from its regulations.

Significant Regulations:
In adding the HEAL Program regulations to Title 34 of the CFR, we have made a limited number of technical changes to the regulations. It is important to note, we have removed references to the making of HEAL loans to streamline the regulations and avoid confusion, where possible. However, in many places we have retained those provisions, even though there is no authority to fund new HEAL loans, because those provisions may continue to form the basis of a claim by a lender, holder, borrower, or the Secretary relating to an outstanding HEAL loan. In addition, we note that the Consolidated Appropriations Act, 2014 provided that, in servicing, collecting, and enforcing HEAL loans, all the authorities under part B of title IV of the Federal Family Education Loan Program (FFELP program) would be available. Accordingly, we have made a number of technical changes to conform the HEAL Program servicing, collection, and enforcement regulations with those in the FFELP program regulations.

Specifically, the changes to the final regulations include:

- Revising §681.1(c) to specifically note that administrative wage garnishment (AWG) may be used as a method of loan collection for HEAL loans, in
accordance with the Consolidated Appropriations Act, 2014;

- Deleting outdated references in §681.8(b)(3) to reflect the phaseout of the HEAL program and that no new HEAL loans have been issued since September 30, 1998;

- Revising §681.11(f)(6) by adding a cross-reference to include title IV repayment plans available for FFELP borrowers for eligible HEAL loans, in accordance with the Consolidated Appropriations Act, 2014;

- Revising §681.18 to reflect that HEAL loans may be consolidated in accordance with section 525 of the Consolidated Appropriations Act, 2014;

- Revising §681.20(a) by deleting the reference to the statute of limitations on collection of HEAL loans in accordance with 42 U.S.C 292f(i);

- Revising §681.20(d) by adding a cross-reference to update the procedures and standards to determine if a borrower is totally and permanently disabled in accordance with section 525(d) of the Consolidated Appropriations Act, 2014;

- Revising §681.34(c) by deleting outdated information and modernizing the language to reflect current
practices related to how a lender may contact HEAL loan borrowers to obtain updated information;

- Revising §681.34(d) to reflect current practices related to skip tracing procedures for HEAL loans as outlined in §682.411 and in accordance with section 525 of the Consolidated Appropriations Act, 2014;

- Revising §681.35(a)(2) by deleting obsolete information related to actions a lender may take to contact a delinquent HEAL loan borrower;

- Revising §681.35(g)(2) to reflect current practices for lenders that obtain public records electronically rather than requiring submission of paperwork from a HEAL loan borrower;

- Revising §681.38(a)(3) by deleting obsolete information and to reflect that all HEAL loans are currently in repayment;

- Revising §681.39(a) by adding a cross-reference to update the death discharge procedures for HEAL loan borrowers in accordance with section 525 of the Consolidated Appropriations Act, 2014;

- Revising §681.39(b) to reference the Department’s total and permanent disability discharge procedures
in accordance with the Consolidated Appropriations Act, 2014;

- Updating references related to publication of HEAL loan data to reflect the Department’s student aid website as an online resource;
- Changing references to HHS to the Department or the Department’s servicer, as appropriate;
- Changing HHS OMB control numbers for information collections to the Department’s control numbers; and
- Making technical changes such as updating the names of student loan servicing companies and medical associations.

We are not making any significant substantive changes to the HEAL regulations. The regulations are being transferred from HHS’s regulations at 42 CFR part 60 to the Department’s regulations at 34 CFR part 681 to reflect the Department’s authority to administer and service outstanding HEAL loans. For more information on the substance of the regulations please see the final rule published in the Federal Register on August 26, 1983 (48 FR 38988) and subsequent amendments published on August 28, 1986 (51 FR 30644); January 8, 1987 (52 FR 746); and June 29, 1992 (57 FR 28794).
Executive Orders 12866, 13563, and 13771

Regulatory Impact Analysis

Under Executive Order 12866, the Secretary must determine whether this regulatory action is “significant” and, therefore, subject to the requirements of the Executive order and subject to review by the Office of Management and Budget (OMB). Section 3(f) of Executive Order 12866 defines a “significant regulatory action” as an action likely to result in a rule that may---

(1) Have an annual effect on the economy of $100 million or more, or adversely affect a sector of the economy, productivity, competition, jobs, the environment, public health or safety, or State, local, or Tribal governments or communities in a material way (also referred to as an “economically significant” rule);

(2) Create serious inconsistency or otherwise interfere with an action taken or planned by another agency;

(3) Materially alter the budgetary impacts of entitlement grants, user fees, or loan programs or the rights and obligations of recipients thereof; or
(4) Raise novel legal or policy issues arising out of legal mandates, the President’s priorities, or the principles stated in the Executive order.

This regulatory action is not a significant regulatory action subject to review by OMB under section 3(f) of Executive Order 12866.

Under Executive Order 13771, for each new regulation that the Department proposes for notice and comment or otherwise promulgates that is a significant regulatory action under Executive Order 12866 and that imposes total costs greater than zero, it must identify two deregulatory actions. For FY 2017, any new incremental costs associated with a new regulation must be fully offset by the elimination of existing costs through deregulatory actions. The final regulations are not a significant regulatory action. Therefore, the requirements of Executive Order 13771 do not apply.

We have also reviewed these regulations under Executive Order 13563, which supplements and explicitly reaffirms the principles, structures, and definitions governing regulatory review established in Executive Order 12866. To the extent permitted by law, Executive Order 13563 requires that an agency--
(1) Propose or adopt regulations only upon a reasoned determination that their benefits justify their costs (recognizing that some benefits and costs are difficult to quantify);

(2) Tailor its regulations to impose the least burden on society, consistent with obtaining regulatory objectives and taking into account--among other things and to the extent practicable--the costs of cumulative regulations;

(3) In choosing among alternative regulatory approaches, select those approaches that maximize net benefits (including potential economic, environmental, public health and safety, and other advantages; distributive impacts; and equity);

(4) To the extent feasible, specify performance objectives, rather than the behavior or manner of compliance a regulated entity must adopt; and

(5) Identify and assess available alternatives to direct regulation, including economic incentives--such as user fees or marketable permits--to encourage the desired behavior, or provide information that enables the public to make choices.

Executive Order 13563 also requires an agency “to use the best available techniques to quantify anticipated
present and future benefits and costs as accurately as possible.” The Office of Information and Regulatory Affairs of OMB has emphasized that these techniques may include “identifying changing future compliance costs that might result from technological innovation or anticipated behavioral changes.”

We are issuing these final regulations only on a reasoned determination that their benefits would justify their costs. In choosing among alternative regulatory approaches, we selected those approaches that would maximize net benefits. Based on the analysis that follows, the Department believes that these final regulations are consistent with the principles in Executive Order 13563.

We have also determined that this regulatory action would not unduly interfere with State, local, and Tribal governments in the exercise of their governmental functions.

In accordance with the applicable Executive orders, the Department has assessed the potential costs and benefits, both quantitative and qualitative, of this regulatory action. The final regulations are not expected to have a significant impact on Federal, State, or local government, institutions, or borrowers. The potential
costs associated with this regulatory action are those resulting from statutory requirements and those we have determined are necessary for administering the Department’s programs and activities. The final regulations support the Department’s efforts to facilitate the servicing of student loans and consolidate Federal student loan oversight.

Elsewhere in this document under Paperwork Reduction Act of 1995, we identify and explain burdens specifically associated with information collection requirements.

In this Regulatory Impact Analysis we discuss the need for regulatory action; costs, benefits, and transfers; net budget impacts, assumptions, limitations, and data sources; and regulatory alternatives we considered.

**Need for Regulatory Action**

Section 525 of the Consolidated Appropriations Act, 2014 establishes the need for regulatory action. This legislation authorizes, and the final regulations reflect, the transfer of the collection of HEAL loans from HHS to the Department effective July 1, 2014. As part of this transfer, the Department also received information collections from HHS required to operate the program. As of December 31, 2016, there were 22,265 HEAL loans outstanding; 11,390 unique borrowers; and a total value of
$187,029,585. The mean loan balance is $8,400 with a range of $1 to $341,907. At that date, 99.5 percent of outstanding HEAL loans were in repayment.

**Discussion of Costs, Benefits, and Transfers**

The final regulations are not expected to have a significant economic impact either by imposing additional costs or providing additional benefits.

*Borrowers*

The final regulations reflect that, as of July 1, 2014, borrowers’ loans are insured by the Department rather than HHS. The final regulations do not change borrowers’ loan servicers or lenders nor do they cause any change in cost or benefit for borrowers.

*Lenders and Holders*

These final regulations reflect that, as of July 1, 2014, in the event of borrower default, death, disability, or bankruptcy, lenders and loan holders file insurance claims with the Department, rather than HHS. The final regulations do not impact the future incidence of these events; therefore, we do not estimate any change in lenders’ costs or benefits as a result of the regulations.

---

1 Federal Student Aid (FSA), HEAL Online Processing System (HOPS) (December 2016). Data extracted from an internal system by FSA in April 2017.
Loan Servicers

The final regulations do not change the lenders or borrowers for any loan servicers. Therefore, we do not estimate any change in loan servicers’ costs or benefits as a result of the regulations.

Federal Government

All aspects of administering the HEAL Program transferred from HHS to the Department. This includes program costs the Department incurs and proceeds it receives. Therefore, we do not anticipate any additional costs or benefits to the Federal government as a result of the final regulations.

Net Budget Impacts

The final regulations are not expected to have a significant net budget impact. No change in costs or benefits to borrowers, lenders, or loan servicers is expected as a result of the regulations. The final regulations do reflect the change in the insurer of the HEAL loans and the department to which lenders submit insurance claims; however, these changes are transfers within the Federal government and result in no change in fiscal burden to lenders or the Federal government. Based
on this, the Department estimates no significant net budget impact from the final regulations.

Assumptions, Limitations, and Data Sources

We considered HEAL Program data obtained from FSA to assess whether the final regulations affect the costs or benefits to borrowers, the Federal government, lenders, and loan servicers. Because we determined that the final regulations only result in transfers, we did not include the data in the Regulatory Impact Analysis.

Alternatives Considered

The transfer of the HEAL Program was authorized by section 525 of the Consolidated Appropriations Act, 2014. To reflect this transfer and to facilitate the servicing of all HEAL loans that are currently held by the Department, the Secretary adds the HEAL Program regulations to Title 34 Subpart B Chapter VI Part 681 of the CFR. The final regulations reflect the program’s transfer to the Department and make the other technical changes described under Significant Regulations. Accordingly, no other alternatives were considered.

Clarity of the Regulations
Executive Order 12866 and the Presidential memorandum “Plain Language in Government Writing” require each agency to write regulations that are easy to understand.

The Secretary invites comments on how to make these regulations easier to understand, including answers to questions such as the following:

- Are the requirements in the regulations clearly stated?
- Do the regulations contain technical terms or other wording that interferes with their clarity?
- Does the format of the regulations (grouping and order of sections, use of headings, paragraphing, etc.) aid or reduce their clarity?
- Would the regulations be easier to understand if we divided them into more (but shorter) sections? (A “section” is preceded by the symbol “§” and a numbered heading; for example, §681.39.)
- Could the description of the regulations in the SUPPLEMENTARY INFORMATION section of this preamble be more helpful in making the regulations easier to understand? If so, how?
- What else could we do to make the regulations easier to understand?
Send any comments that concern how the Department could make these regulations easier to understand to the program contact person listed under FOR FURTHER INFORMATION CONTACT.

Waiver of Rulemaking and Delayed Effective Dates

Under the Administrative Procedure Act (APA) (5 U.S.C. 553), the Department generally offers interested parties the opportunity to comment on proposed regulations. However, the APA provides that an agency is not required to conduct notice and comment rulemaking when the agency for good cause finds that notice and public procedure thereon are impracticable, unnecessary, or contrary to the public interest. 5 U.S.C. 553(b)(B). Rulemaking is “unnecessary” when the agency is issuing a minor rule in which the public is not particularly interested. It applies in those situations in which “the administrative rule is a routine determination, insignificant in nature and impact, and inconsequential to the industry and to the public.” Utility Solid Waste Activities Group v. EPA, 236 F.3d 749, 755 (D.C. Cir. 2001), quoting U.S. Department of Justice, Attorney General’s Manual on the Administrative Procedure Act 31
There is good cause here for waiving rulemaking under the APA. Rulemaking is unnecessary because this rulemaking merely transfers the HEAL Program regulations from HHS to the Department in accordance with section 525 of the Consolidated Appropriations Act, 2014. The final regulations reflect the program’s transfer to the Department and make the other technical changes described under Significant Regulations.

The APA also generally requires that regulations be published at least 30 days before their effective date, unless the agency has good cause to implement its regulations sooner (5 U.S.C. 553(d)(3)). Again, because the final regulations merely implement the statutory mandate to transfer the HEAL Program from HHS to the Department, the Secretary is also waiving the 30-day delay in the effective date of these regulatory changes under 5 U.S.C. 553(d)(3).

For the same reasons, the Secretary has determined, under section 492(b)(2) of the Higher Education Act of 1965, as amended, that these regulations should not be subject to negotiated rulemaking.
Regulatory Flexibility Act Certification

The Regulatory Flexibility Act does not apply to this rulemaking because there is good cause to waive notice and comment under 5 U.S.C. 553.

Paperwork Reduction Act of 1995

As part of its continuing effort to reduce paperwork and respondent burden, the Department provides the general public and Federal agencies with an opportunity to comment on proposed and continuing collections of information in accordance with the Paperwork Reduction Act of 1995 (PRA) (44 U.S.C. 3506(c)(2)(A)). This helps ensure that: the public understands the Department’s collection instructions, respondents can provide the requested data in the desired format, reporting burden (time and financial resources) is minimized, collection instruments are clearly understood, and the Department can properly assess the impact of collection requirements on respondents.

The authorization to fund new HEAL loans to students expired September 30, 1998. Section 525 of the Consolidated Appropriations Act, 2014, transferred the servicing, collecting, and enforcing of the HEAL loans from HHS to the Department. To fulfill this mandate, the
Department reviewed the regulations and approved forms and then requested and received the transfer of the pertinent OMB approved information collections from HHS to the Department. This was completed in June 2014.

Information collection 1845-0125 contains information collection requirements pertaining to the regulatory language.

This filing also identifies separate information collections under 1845-0124, 1845-0126, 1845-0127, and 1845-0128 pertaining to required forms and reporting mechanisms. Since the transfer of the necessary ICRs from HHS, the Department has renewed each of the aforementioned collections.

A Federal agency may not conduct or sponsor a collection of information unless OMB approves the collection under the PRA and the corresponding information collection instrument displays a currently valid OMB control number. Notwithstanding any other provision of law, no person is required to comply with, or is subject to penalty for failure to comply with, a collection of information if the collection instrument does not display a currently valid OMB control number.
In the final regulations, we have displayed the control numbers assigned by OMB to any information collection requirements contained in the regulations.

Discussion

The language in the final regulations contains information collection requirements that have been assigned OMB Control number 1845-0125. The following figures represent revised information as of December 31, 2016, which we obtained from HOPS.

The calculations below represent updated figures since the latest renewal of the 1845-0125 collection in August, 2016, with an expiration date of August 31, 2019. The changes included here are due to an updating of the number of borrowers and loan holders but there has been no change to the regulatory language associated with this collection. We will be requesting a nonsubstantive change clearance for the updated figures.

This is a summary of the reporting, notification, and recordkeeping burden associated with the information collection in the supporting statement. The estimate for this information collection burden is based on 14 HEAL loan holders in the program; and a current cumulative total of 11,390 individuals with outstanding loans requiring a
variety of servicing transactions depending on loan status, i.e., internship/residency, repayment, or delinquent.

REPORTING REQUIREMENTS

<table>
<thead>
<tr>
<th>Entity</th>
<th>Respondents</th>
<th>Responses</th>
<th>Burden Hours</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan Holders</td>
<td>14</td>
<td>56 x .20 Hrs.</td>
<td>11 hours</td>
</tr>
</tbody>
</table>

NOTIFICATION REQUIREMENTS

<table>
<thead>
<tr>
<th>Entity</th>
<th>Respondents</th>
<th>Responses</th>
<th>Burden Hours</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan Holders</td>
<td>*</td>
<td>91,000 x .17 Hrs.</td>
<td>15,470 hours</td>
</tr>
<tr>
<td>Individuals</td>
<td>11,390</td>
<td>11,390 x .17 Hrs.</td>
<td>1,936 hours</td>
</tr>
</tbody>
</table>

RECORDKEEPING REQUIREMENTS

<table>
<thead>
<tr>
<th>Entity</th>
<th>Respondents</th>
<th>Responses</th>
<th>Burden Hours</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan Holders</td>
<td>*</td>
<td>36,400 x .23 Hrs.</td>
<td>8,372 hours</td>
</tr>
</tbody>
</table>

Revised Totals

<table>
<thead>
<tr>
<th>Entity</th>
<th>Respondents</th>
<th>Responses</th>
<th>Burden Hours</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan Holders</td>
<td>14</td>
<td>127,456</td>
<td>23,853</td>
</tr>
<tr>
<td>Individuals</td>
<td>11,390</td>
<td>11,390</td>
<td>1,936</td>
</tr>
<tr>
<td>Total</td>
<td>11,404</td>
<td>138,846</td>
<td>25,789</td>
</tr>
</tbody>
</table>
(The * represents the universe of 14 HEAL loan holders participating in the program and is done to avoid double counting the number of respondents.)

<table>
<thead>
<tr>
<th>FINAL TOTALS</th>
<th>Respondents</th>
<th>Responses</th>
<th>Burden Hours</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Totals</td>
<td>25,650</td>
<td>144,930</td>
<td>26,409</td>
</tr>
<tr>
<td>Revised Totals</td>
<td>11,404</td>
<td>138,846</td>
<td>25,789</td>
</tr>
<tr>
<td>Difference</td>
<td>-14,246</td>
<td>-6,084</td>
<td>-620</td>
</tr>
</tbody>
</table>

The final regulations contain reporting, recordkeeping, and notification requirements. As each of the noted ICRs was approved by OMB prior to the transfer of HEAL Program to the Department, the table below identifies the affected party and burden assessment approved by OMB by the ICR number.

<table>
<thead>
<tr>
<th>OMB Control Number</th>
<th>Topic &amp; Form Number</th>
<th>Burden hours by affected entity</th>
</tr>
</thead>
<tbody>
<tr>
<td>1845-0124</td>
<td>Physician’s Certification of Total Permanent Disability #539</td>
<td>Individual 15 hrs. State 3 hrs. TOTAL 18 hours</td>
</tr>
<tr>
<td></td>
<td>HEAL Repayment Schedules Form #502-1, #502-2</td>
<td>#502-1 &amp; #502-2 Private Not-for Profit 175 hrs.</td>
</tr>
<tr>
<td></td>
<td>Holder’s Report on HEAL Form #512</td>
<td>Private Not-for-Profit 30 hrs. TOTAL 205 hours</td>
</tr>
<tr>
<td>1845-0127</td>
<td>Lender Application for Insurance Claim #510</td>
<td>#510 Private For-Profit</td>
</tr>
</tbody>
</table>
### Intergovernmental Review

This program is subject to Executive Order 12372 and the regulations in 34 CFR part 79. One of the objectives of the Executive order is to foster an intergovernmental partnership and a strengthened federalism. The Executive order relies on processes developed by State and local governments for coordination and review of proposed Federal financial assistance.

This document provides early notification of our specific plans and actions for this program.
Assessment of Educational Impact

Based on our own review, we have determined that the final regulations do not require transmission of information that any other agency or authority of the United States gathers or makes available.

Accessible Format: Individuals with disabilities can obtain this document in an accessible format (e.g., braille, large print, audiotape, or compact disc) on request to the person listed under FOR FURTHER INFORMATION CONTACT.

Electronic Access to This Document:

The official version of this document is the document published in the Federal Register. Free internet access to the official edition of the Federal Register and the Code of Federal Regulations is available via the Federal Digital System at: www.gpo.gov/fdsys. At this site you can view this document, as well as all other documents of this Department published in the Federal Register, in text or Portable Document Format (PDF). To use PDF you must have Adobe Acrobat Reader, which is available free at the site.

You may also access documents of the Department published in the Federal Register by using the article
search feature at: www.federalregister.gov. Specifically, through the advanced search feature at this site, you can limit your search to documents published by the Department.

List of Subjects in 34 CFR Part 681

Educational study programs, Health professions, Loan programs-education, Loan programs-health, Medical and dental schools, Reporting and recordkeeping requirements, Student aid.

Dated: November 8, 2017.

_____________________
Betsy DeVos,
Secretary of Education.
For the reasons discussed in the preamble, the Secretary adds part 681 to title 34 of the Code of Federal Regulations as follows:

PART 681—HEALTH EDUCATION ASSISTANCE LOAN PROGRAM

Subpart A—General Program Description
Sec.
681.1 What is the HEAL program?

Subpart B—The Borrower
681.5 Who is an eligible student borrower?
681.6 Who is an eligible nonstudent borrower?
681.7 The loan application process.
681.8 What are the borrower's major rights and responsibilities?

Subpart C—The Loan
681.10 How much can be borrowed?
681.11 Terms of repayment.
681.12 Deferment.
681.13 Interest.
681.14 The insurance premium.
681.15 Other charges to the borrower.
681.16 Power of attorney.
681.17 Security and endorsement.
681.18 Consolidation of HEAL loans.
681.19 Forms.
681.20 The Secretary's collection efforts after payment of a default claim.
681.21 Refunds.

Subpart D—The Lender and Holder

681.30 Which organizations are eligible to apply to be HEAL lenders and holders?
681.31 The application to be a HEAL lender or holder.
681.32 The HEAL lender or holder insurance contract.
681.33 Making a HEAL loan.
681.34 HEAL loan account servicing.
681.35 HEAL loan collection.
681.36 Consequence of using an agent.
681.37 Forbearance.
681.38 Assignment of a HEAL loan.
681.39 Death and disability claims.
681.40 Procedures for filing claims.
681.41 Determination of amount of loss on claims.
681.42 Records, reports, inspection, and audit
requirements for HEAL lenders and holders.
681.43 Limitation, suspension, or termination of the eligibility of a HEAL lender or holder.

Subpart E—The School

681.50 Which schools are eligible to be HEAL schools?
681.51 The student loan application.
681.52 The student's loan check.
681.53 Notification to lender or holder of change in enrollment status.
681.54 Payment of refunds by schools.
681.55 Administrative and fiscal procedures.
681.56 Records.
681.57 Reports.
681.58 Federal access to school records.
681.59 Records and Federal access after a school is no longer a HEAL school.
681.60 Limitation, suspension, or termination of the eligibility of a HEAL school.
681.61 Responsibilities of a HEAL school.

§681.1 What is the HEAL program?

(a) The Health Education Assistance Loan (HEAL) program is a program of Federal insurance of educational loans that were made to graduate students in the fields of medicine, osteopathic medicine, dentistry, veterinary medicine, optometry, podiatric medicine, pharmacy, public health, chiropractic, health administration, and clinical psychology. The basic purpose of the program is to encourage lenders to make loans to students in these fields who desire to borrow money to pay for their educational costs. In addition, certain nonstudents (such as doctors serving as interns or residents) could borrow in order to pay the current interest charges accruing on earlier HEAL loans. By taking a HEAL loan, the borrower is obligated to repay the lender or holder the full amount of the money borrowed, plus all interest which accrues on the loan.
(b) HEAL loans were made by schools, banks, credit unions, State agencies, and other institutions eligible as lenders under §681.30. HEAL school eligibility is described in §681.50.

(c) The Secretary insures each lender or holder for the losses of principal and interest it may incur in the event that a borrower dies; becomes totally and permanently disabled; files for bankruptcy under chapter 11 or 13 of the Bankruptcy Act; files for bankruptcy under chapter 7 of the Bankruptcy Act and files a compliant to determine the dischargeability of the HEAL loan; or defaults on his or her loan. In these instances, if the lender or holder has complied with all HEAL statutes and regulations and with the lender's or holder's insurance contract, then the Secretary pays the amount of the loss to the lender or holder and the borrower's loan is assigned to the Secretary. Only after assignment does the Secretary become the holder of the HEAL loan and the Secretary will use all collection methods legally authorized to obtain repayment of the HEAL loan, including, but not limited to, reporting the borrower's default on the loan to consumer credit reporting agencies, certifying the debt for offset in the Treasury Offset Program (TOP), using available methods to
locate the debtor, utilizing administrative wage garnishment, and referring the debt to the Department of Justice for litigation.

(d) Any person who knowingly makes a false statement or misrepresentation in a HEAL loan 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 possible fine and imprisonment under Federal statute.

(e) In counting the number of days allowed to comply with any provisions of these regulations, Saturdays, Sundays, and holidays are to be included. However, if a due date falls on a Saturday, Sunday, or Federal holiday, the due date is the next Federal work day.

Subpart B—The Borrower

§681.5 Who is an eligible student borrower?

To receive a HEAL loan, a student must satisfy the following requirements:

(a) He or she must be a citizen, national, or lawful permanent resident of the United States, permanent resident of the Trust Territory of the Pacific Islands (the Republic of Palau), the Republic of the Marshall Islands, the
Federated States of Micronesia, the Commonwealth of the Northern Mariana Islands, or American Samoa, or lawful permanent resident of the Commonwealth of Puerto Rico, the Virgin Islands or Guam;

(b) He or she must be enrolled or accepted for enrollment at a HEAL school in a course of study that leads to one of the following degrees:

(1) Doctor of Medicine.

(2) Doctor of Osteopathic Medicine.

(3) Doctor of Dentistry or equivalent degree.

(4) Doctor of Veterinary Medicine or equivalent degree.

(5) Doctor of Optometry or equivalent degree.

(6) Doctor of Podiatric Medicine or equivalent degree.

(7) Bachelor or Master of Science in Pharmacy or equivalent degree.

(8) Graduate or equivalent degree in Public Health.

(9) Doctor of Chiropractic or equivalent degree.

(10) Doctoral degree in Clinical Psychology.

(11) Masters or doctoral degree in Health Administration.

(c) He or she must be carrying or plan to carry, during the period for which the loan is intended, the
normal work load of a full-time student, as determined by the school. The student's work load may include any combination of courses, work experience, research or special studies that the school considers sufficient to classify the student as full time.

(d) If currently enrolled in school, he or she must be in good standing, as determined by the school.

(e)(1) In the case of a pharmacy student, he or she must have satisfactorily completed 3 years of training toward the pharmacy degree. These 3 years of training may have been taken at the pharmacy school or at a different school whose credits are accepted on transfer by the pharmacy school.

(2) The Doctor of Pharmacy degree is considered to be an equivalent degree if it is taken in a school that does not require the Bachelor or Master of Science in pharmacy as a prerequisite for the Doctor of Pharmacy degree.

(f) In the case of a medical, dental or osteopathic student enrolled in a 6-year program that the student may enter directly from secondary school, the student must be enrolled in the last 4 years of the program.

(g) He or she must agree that all funds received under the proposed loan will be used solely for tuition, other
reasonable educational expenses, including fees, books, supplies and equipment, and laboratory expenses, reasonable living expenses, reasonable transportation costs (only to the extent that they are directly related to the borrower's education), and the HEAL insurance premium.

(h) He or she must require the loan to pursue the course of study at the school. This determination of the maximum amount of the loan will be made by the school, applying the considerations in §681.51(f).

(i) If required under section 3 of the Military Selective Service Act to present himself for and submit to registration under such section, he must have presented himself and submitted to registration under such section.

§681.6 Who is an eligible nonstudent borrower?

To receive a HEAL loan, a person who is not a student must satisfy all of the following requirements:

(a) He or she must have received a HEAL loan prior to August 13, 1981, for which he or she is required to make payments of interest, but not principal, during the period for which the new loan is intended. This may be the grace period or a period of internship, residency, or deferment.
(b) He or she must continue to meet the citizenship, nationality, or residency qualifications required of student borrowers.

(c) He or she must agree that all funds received under the proposed loan will be used solely for payment of currently accruing interest on HEAL loans and the HEAL insurance premium.

(d) If required under section 3 of the Military Selective Service Act to present himself for and submit to registration under such section, he must have presented himself and submitted to registration under such section.

§681.7 The loan application process.

(a)(1)(i) A student seeking a HEAL loan applies to a participating lender for a HEAL loan by submitting an application form supplied by the school.

(ii) The applicant must fill out the applicant sections of the form completely and accurately.

(2) The student applicant must have been informed of the Federal debt collection policies and procedures in accordance with the Health and Human Services (HHS) Claims Collection Regulation (45 CFR part 30) prior to the student receiving the loan. The applicant must sign a certification
statement attesting that the applicant has been notified of the actions the Federal Government can take in the event that the applicant fails to meet the scheduled payments. This signed statement must be maintained by the school and the lender or holder as part of the borrower's official record.

(3) A student applicant must have his or her school complete a portion of the application providing information relating to:

(i) The applicant's eligibility for the loan;

(ii) The cost of his or her education; and

(iii) The total financial resources that are actually available to the applicant for his or her costs of education for the period covered by the proposed HEAL loan, as determined in accordance with §681.51(f), and other student aid that the applicant has received or will receive for the period covered by the proposed HEAL loan.

(4) The student applicant must certify on the application that the information provided reflects the applicant's total financial resources actually available for his or her costs of education for the period covered by the proposed HEAL loan and the applicant's total indebtedness, and that the applicant has no other financial
resources that are available to the applicant or that the applicant will receive for the period covered by the proposed HEAL loan.

(5) A student applicant must certify on the application that if required under section 3 of the Military Selective Service Act to present himself for and submit to registration under such section, he has presented himself and submitted to registration under such section.

(b) The applicant pursuing a full-time course of study at an institution of higher education that is a "participating school" in the Guaranteed Student Loan Program but is not pursuing a course of study listed in §681.5(b), applies for a HEAL loan as a nonstudent under paragraph (c) of this section.

(c)(1)(i) A nonstudent seeking a HEAL loan applies to a participating lender for a HEAL loan by submitting an application form supplied by the lender.

(ii) The applicant must fill out the applicant sections of the form completely and accurately.

(2) The nonstudent applicant must have been informed of the Federal debt collection policies and procedures in accordance with HHS’ Claims Collection Regulation (45 CFR part 30) prior to the nonstudent receiving the loan. The
applicant must sign a certification statement attesting that the applicant has been notified of the actions the Federal Government can take in the event that the applicant fails to meet the scheduled payments. This signed statement will be maintained by the lender or holder as part of the borrower's official record.

(3) A nonstudent applicant must have his or her employer or institution, whichever is relevant, certify on the application that the applicant is:

(i) Enrolled as a full-time student in an eligible school, as described in §681.12;

(ii) A participant in an accredited internship or residency program, as described in §681.11(a);

(iii) A member of the Armed Forces of the United States;

(iv) A Peace Corps volunteer;

(v) A member of the National Health Service Corps; or


(4) The nonstudent applicant seeking a HEAL loan during the grace period applies to the lender directly.

(5) A nonstudent applicant must certify on the application that if required under section 3 of the
Military Selective Service Act to present himself for and submit to registration under such section, he has presented himself and submitted to registration under such section.

(6) The nonstudent applicant must have certified on the application that the information provided reflects the applicant's total financial resources and indebtedness.
(Approved by the Office of Management and Budget under control numbers 0915-0038 and 1845-0125)

§681.8 What are the borrower's major rights and responsibilities?

(a) The borrower's rights. (1) Once the terms of the HEAL loan have been established, the lender or holder may not change them without the borrower's consent.

(2) The lender must provide the borrower with a copy of the completed promissory note when the loan is made. The lender or holder must return the original note to the borrower when the loan is paid in full.

(3) A lender must disburse HEAL loan proceeds as described in §681.33(f).

(4) The lender or holder must provide the borrower with a copy of the repayment schedule before repayment begins.
(5) If the loan is sold from one lender or holder to another lender or holder, or if the loan is serviced by a party other than the lender or holder, the buyer must notify the borrower within 30 days of the transaction.

(6) The borrower does not have to begin repayment until 9 full months after leaving school or an accredited internship or residency program as described in §681.11.

(7) The borrower is entitled to deferment from repayment of the principal and interest installments during periods described in §681.12.

(8) The borrower may prepay the whole or any portion of the loan at any time without penalty.

(9) The lender or holder must allow the borrower to repay a HEAL loan according to a graduated repayment schedule.

(10) The borrower's total loan obligation is cancelled in the event of death or total and permanent disability.

(11) To assist the borrower in avoiding default, the lender or holder may grant the borrower forbearance. Forbearance, including circumstances in which the lender or holder must grant forbearance, is more fully described in §681.37.
(12) Any borrower who received a fixed interest rate HEAL loan in excess of 12 percent per year could have entered into an agreement with the lender which made this loan for the reissuance of the loan in accordance with section 739A of the Public Health Service Act (the Act).

(b) The borrower's responsibilities. (1) The borrower must pay any insurance premium that the lender may require as more fully described in §681.14.

(2) The borrower must pay all interest charges on the loan as required by the lender or holder.

(3) The borrower must immediately notify the lender or holder in writing in the event of:

   (i) Change of address;
   (ii) Change of name; or
   (iii) Change of status that authorizes deferment.

(4) The borrower must repay the loan in accordance with the repayment schedule.

(5) A borrower may not have a HEAL loan discharged in bankruptcy during the first 5 years of the repayment period. This prohibition against the discharge of a HEAL loan applies to bankruptcy under any chapter of the Bankruptcy Act, including Chapter 13. A borrower may have a HEAL loan discharged in bankruptcy after the first 5 years
of the repayment period only upon a finding by the
Bankruptcy Court that the non-discharge of such debt would
be unconscionable and upon the condition that the Secretary
shall not have waived his or her rights to reduce any
Federal reimbursements or Federal payments for health
services under any Federal law in amounts up to the balance
of the loan.

(6) If the borrower fails to make payments on the loan
on time, the total amount to be repaid by the borrower may
be increased by additional interest, late charges,
attorney's fees, court costs, and other collection charges.
In addition, the Secretary may offset amounts attributable
to an unpaid loan from reimbursements or payment for health
services provided under any Federal law to a defaulted
borrower practicing his or her profession.

(Approved by the Office of Management and Budget under
control number 1845-0125)

Subpart C—The Loan

§681.10 How much can be borrowed?

(a) Student borrower. An eligible student may borrow
an amount to be used solely for expenses, as described in
§681.5(g), incurred or to be incurred over a period of up
to an academic year and disbursed in accordance with §681.33(f). The maximum amount he or she may receive for that period shall be determined by the school in accordance with §681.51(f) within the following limitations:

(1) A student enrolled in a school of medicine, osteopathic medicine, dentistry, veterinary medicine, optometry or podiatric medicine may borrow up to $80,000 under this part. The amount received may not exceed $20,000 in any academic year.

(2) A student enrolled in a school of public health, pharmacy, or chiropractic, or a graduate program in health administration, clinical psychology, or allied health, may borrow up to $50,000 under this part. The amount received may not exceed $12,500 per academic year.

(3) For purposes of this paragraph, an academic year means the traditional approximately 9-month September-to-June annual session. For the purpose of computing academic year equivalents for students who, during a 12-month period, attend for a longer period than the traditional academic year, the academic year will be considered to be 9 months in length.

(4) The student's estimated cost of attendance shall not exceed the estimated cost of attendance of all students
in like circumstances pursuing a similar curriculum at that school.

(b) Non-student borrower. An eligible nonstudent may borrow amounts under this authority with the following restrictions:

(1) In no case may an eligible nonstudent borrower receive a loan that is greater than the sum of the HEAL insurance premium plus the interest that is expected to accrue and must be paid on the borrower's HEAL loans during the period for which the new loan is intended.

(2) An eligible nonstudent in the field of medicine, osteopathic medicine, dentistry, veterinary medicine, optometry, or podiatric medicine may borrow up to $80,000 under this part including loans obtained while the borrower was a student. The loan amount may not exceed $20,000 in any 12-month period.

(3) An eligible nonstudent in the field of pharmacy, public health, chiropractic, health administration, or clinical psychology may borrow up to $50,000 under this part including loans obtained while the borrower was a student. The loan amount received under this part may not exceed $12,500 in any 12-month period.
§681.11 Terms of repayment.

(a) Commencement of repayment. (1) The borrower's repayment period begins the first day of the 10th month after the month he or she ceases to be a full-time student at a HEAL school. The 9-month period before the repayment period begins is popularly called the “grace period.”

(i) Postponement for internship or residency program. However, if the borrower becomes an intern or resident in an accredited program within 9 full months after leaving school, then the borrower's repayment period begins the first day of the 10th month after the month he or she ceases to be an intern or resident. For a borrower who receives his or her first HEAL loan on or after October 22, 1985, this postponement of the beginning of the repayment period for participation in an internship or residency program is limited to 4 years.

(ii) Postponement for fellowship training or educational activity. For any HEAL loan received on or after October 22, 1985, if the borrower becomes an intern or resident in an accredited program within 9 full months after leaving school, and subsequently enters into a fellowship training program or an educational activity, as described in §681.12(b)(1) and (2), within 9 months after
the completion of the accredited internship or residency program or prior to the completion of such program, the borrower's repayment period begins on the first day of the 10th month after the month he or she ceases to be a participant in the fellowship training program or educational activity. Postponement of the commencement of the repayment period for either activity is limited to 2 years.

(iii) Non-student borrower. If a nonstudent borrower obtains another HEAL loan during the grace period or period of internship, residency, or deferment (as defined in §681.12), the repayment period on this loan begins when repayment on the borrower's other HEAL loans begins or resumes.

(2) An accredited internship or residency program must be approved by one of the following accrediting agencies:

(i) Accreditation Council for Graduate Medical Education.

(ii) Council on Optometric Education.

(iii) Commission on Accreditation of Dental and Dental Auxiliary Programs.


(v) Council on Podiatry Education.
(vi) American Council on Pharmaceutical Education.
(viii) American College of Veterinary Surgeons.
(ix) Council on Chiropractic Education.

(b) Length of repayment period. In general, a lender or holder must allow a borrower at least 10 years, but not more than 25 years, to repay a loan calculated from the beginning of the repayment period. A borrower must fully repay a loan within 33 years from the date that the loan is made.

(1) For a HEAL borrower who received any HEAL loan prior to October 22, 1985, periods of deferment (as described in §681.12) are not included when calculating the 10 to 25 or 33 year limitations.

(2) For a borrower who receives his or her first HEAL loan on or after October 22, 1985, periods of deferment (as described in §681.12) are included when calculating the 33 year limitation, but are not included when calculating the 10 to 25 year limitation.

(c) Prepayment. The borrower may prepay the whole or any part of the loan at any time without penalty.

(d) Minimum annual payment. During each year of repayment, a borrower's payments to all holders of his or
her HEAL loans must total the interest that accrues during the year on all of the loans, unless the borrower, in the promissory note or other written agreement, agrees to make payments during any year or any repayment period in a lesser amount.

(e) Repayment schedule agreement. At least 30 and not more than 60 days before the commencement of the repayment period, a borrower must contact the holder of the loan to establish the precise terms of repayment. The borrower may select a monthly repayment schedule with substantially equal installment payments or a monthly repayment schedule with graduated installment payments that increase in amount over the repayment period. If the borrower does not contact the lender or holder and does not respond to contacts from the lender or holder, the lender or holder may establish a monthly repayment schedule with substantially equal installment payments, subject to the terms of the borrower's HEAL note.

(f) Supplemental repayment agreement. (1) A lender or holder and a borrower may enter into an agreement supplementing the regular repayment schedule agreement. Under a supplemental repayment agreement, the lender or holder agrees to consider that the borrower has met the
terms of the regular repayment schedule as long as the borrower makes payments in accordance with the supplemental schedule.

(2) The purpose of a supplemental repayment agreement is to permit a lender or holder, at its option, to offer a borrower a repayment schedule based on other than equal or graduated payments. (For example, a supplemental repayment agreement may base the amount of the borrower's payments on his or her income.)

(3) The supplemental schedule must contain terms which, according to the Secretary, do not unduly burden the borrower and do not extend the Secretary's insurance liability beyond the number of years specified in paragraph (b) of this section. The supplemental schedule must be approved by the Secretary prior to the start of repayment.

(4) The lender or holder may establish a supplemental repayment agreement over the borrower's objection only if the borrower's written consent to enter into a supplemental agreement was obtained by the lender at the time the loan was made.

(5) A lender or holder may assign a loan subject to a supplemental repayment agreement only if it specifically notifies the buyer of the terms of the supplemental
agreement. In such cases, the loan and the supplemental agreement must be assigned together.

(6) As authorized by section 525 of the Consolidated Appropriations Act, 2014, any repayment plan available under part B of title IV of the HEA (the Federal Family Education Loan Program (FFELP)) is available for servicing, collecting, or enforcing HEAL loans. Such repayment plans are set forth in 34 CFR part 682, and in particular in §§682.102, 682.209, and 682.215.

(Approved by the Office of Management and Budget under control numbers 1845-0125 and 1845-0126)

§681.12 Deferment.

(a) After the repayment period has commenced, installments of principal and interest need not be paid during any period:

(1) During which the borrower is pursuing a full-time course of study at a HEAL school or at an institution of higher education that is a “participating school” in the William D. Ford Federal Direct Loan Program;

(2) Up to 4 years during which the borrower is a participant in an accredited internship or residency
program, as described in §681.11(a)(2). For a borrower who receives his or her first HEAL loan on or after October 22, 1985, this total of 4 years for an internship or residency program includes any period of postponement of the repayment period, as described in §681.11(a)(1);

(3) Up to 3 years during which the borrower is a member of the Armed Forces of the United States;

(4) Up to 3 years during which the borrower is in service as a volunteer under the Peace Corps Act;

(5) Up to 3 years during which the borrower is a member of the National Health Service Corps; or

(6) Up to 3 years during which the borrower is a full-time volunteer under title I of the Domestic Volunteer Service Act of 1973.

(b) For any HEAL loan received on or after October 22, 1985, after the repayment period has commenced, installments of principal and interest need not be paid during any period for up to 2 years during which the borrower is a participant in:

(1) A fellowship training program, which:

(i) Is directly related to the discipline for which the borrower received the HEAL loan;
(ii) Begins within 12 months after the borrower ceases to be a participant in an accredited internship or residency program, as described in §681.11(a)(2), or prior to the completion of the borrower's participation in such program;

(iii) Is a full-time activity in research or research training or health care policy;

(iv) Is not a part of, an extension of, or associated with an internship or residency program, as described in §681.11(a)(2);

(v) Pays no stipend or one which is not more than the annual stipend level established by the Public Health Service for the payment of uniform levels of financial support for trainees receiving graduate and professional training under Public Health Service grants, as in effect at the time the borrower requests the deferment; and

(vi) Is a formally established fellowship program which was not created for a specific individual; or

(2) A full-time educational activity at an institution defined by section 435(b) of the HEA which:

(i) Is directly related to the discipline for which the borrower received the HEAL loan;
(ii) Begins within 12 months after the borrower ceases to be a participant in an accredited internship or residency program, as described in §681.11(a)(2), or prior to the completion of the borrower's participation in such program;

(iii) Is not a part of, an extension of, or associated with an internship or residency program, as described in §681.11(a)(2); and

(iv) Is required for licensure, registration, or certification in the State in which the borrower intends to practice the discipline for which the borrower received the HEAL loan.

(c)(1) To receive a deferment, including a deferral of the onset of the repayment period (see §681.11(a)), a borrower must at least 30 days prior to, but not more than 60 days prior to, the onset of the activity and annually thereafter, submit to the lender or holder evidence of his or her status in the deferment activity and evidence that verifies deferment eligibility of the activity (with the full expectation that the borrower will begin the activity). It is the responsibility of the borrower to provide the lender or holder with all required information or other information regarding the requested deferment. If
written evidence that verifies eligibility of the activity and the borrower for the deferment, including a certification from an authorized official (e.g., the director of the fellowship activity, the dean of the school, etc.), is received by the lender or holder within the required time limit, the lender or holder must approve the deferment. The lender or holder may rely in good faith upon statements of the borrower and the authorized official, except where those statements or other information conflict with information available to the lender or holder. When those verification statements or other information conflict with information available to the lender or holder, to indicate that the applicant fails to meet the requirements for deferment, the lender or holder may not approve the deferment until those conflicts are resolved.

(2) For those activities described in paragraphs (b)(1) or (b)(2) of this section, the borrower may request that the Secretary review a decision by the lender or holder denying the deferment by sending to the Secretary copies of the application for deferment and the lender's or holder's denial of the request. However, if information submitted to the lender or holder conflicts with other information
available to the lender or holder, to indicate that the borrower fails to meet the requirements for deferment, the borrower may not request a review until such conflicts have been resolved. During the review process, the lender or holder must comply with any requests for information made by the Secretary. If the Secretary determines that the fellowship or educational activity is eligible for deferment and so notifies the lender or holder, the lender or holder must approve the deferment.

(Approved by the Office of Management and Budget under control numbers 1845-0125 and 1845-0128)

§681.13 Interest.

(a) Rate. At the lender's option, the interest rate on the HEAL loan may be calculated on a fixed rate or on a variable rate basis. However, whichever method is selected must continue over the life of the loan, except where the loan is consolidated with another HEAL loan.

(1) For all loans made on or after October 22, 1985, for each calendar quarter, the Secretary determines the maximum annual HEAL interest rate by determining the average of the bond equivalent rates reported for the 91-day U.S. Treasury bills auctioned for the preceding calendar quarter, adding
3 percentage points, and rounding that amount to the next higher one-eighth of 1 percent.

(2) Interest that is calculated on a fixed rate basis is determined for the life of the loan during the calendar quarter in which the loan is executed. It may not exceed the rate determined for that quarter by the Secretary under paragraph (a)(1) of this section.

(3) Interest that is calculated on a variable rate basis varies every calendar quarter throughout the life of the loan as the market price of U.S. Treasury bills changes. For any quarter it may not exceed the rate determined by the Secretary under paragraph (a)(1) of this section.

(4) The Secretary announces the rate determined under paragraph (a)(1) of this section on a quarterly basis through a notice published on the Department’s student aid website at www.ifap.ed.gov.

(b) Compounding of interest. Interest accrues from the date the loan is disbursed until the loan is paid in full. Unpaid accrued interest shall be compounded not more frequently than semiannually and added to principal. However, a lender or holder may postpone the compounding of interest before the beginning of the repayment period or during periods of deferment or forbearance and add interest.
to principal at the time repayment of principal begins or resumes.

(c) **Payment.** Repayment of principal and interest is due when the repayment period begins. A lender or holder must permit a borrower to postpone paying interest before the beginning of the repayment period or during a period of deferment or forbearance. In these cases, payment of interest begins or resumes on the date repayment of principal begins or resumes.

(d) **Usury laws.** No provision of any Federal or State law that limits the rate or amount of interest payable on loans shall apply to a HEAL loan.

§681.14 **The insurance premium.**

(a) **General.** (1) The Secretary insures each lender or holder for the losses of principal and interest it may incur in the event that a borrower dies; becomes totally and permanently disabled; files for bankruptcy under chapter 11 or 13 of the Bankruptcy Act; files for bankruptcy under chapter 7 of the Bankruptcy Act and files a complaint to determine the dischargeability of the HEAL loan; or defaults on his or her loan. For this insurance, the Secretary charges the lender an insurance premium. The
insurance premium is due to the Secretary on the date of
disbursement of the HEAL loan.

(2) The lender may charge the borrower an amount equal
to the cost of the insurance premium. The cost of the
insurance premium may be charged to the borrower by the
lender in the form of a one-time special charge with no
subsequent adjustments required. The lender may bill the
borrower separately for the insurance premium or may deduct
an amount attributable to it from the loan proceeds before
the loan is disbursed. In either case, the lender must
clearly identify to the borrower the amount of the
insurance premium and the method of calculation.

(3) If the lender does not pay the insurance premium on
or before 30 days after disbursement of the loan, a late
fee will be charged on a daily basis at the same rate as
the interest rate that the lender charges for the HEAL loan
for which the insurance premium is past due. The lender may
not pass on this late fee to the borrower.

(4) HEAL insurance coverage ceases to be effective if
the insurance premium is not paid within 60 days of the
disbursement of the loan.

(5) Except in cases of error, premiums are not
refundable by the Secretary, and need not be refunded by
the lender to the borrower, even if the borrower graduates or withdraws from the school, defaults, dies or becomes totally and permanently disabled.

(b) Rate. The rate of the insurance premium shall not exceed the statutory maximum. The Secretary announces changes in the rate of the insurance premium through a notice published on the Department’s student aid website: www.ifap.ed.gov.

(c) Method of calculation—(1) Student borrowers. For loans disbursed prior to July 22, 1986, the lender must calculate the insurance premium on the basis of the number of months beginning with the month following the month in which the loan proceeds are disbursed to the student borrower and ending 9 full months after the month of the student's anticipated date of graduation. For loans disbursed on or after July 22, 1986, the insurance premium shall be calculated as a one-time flat rate on the principal of the loan at the time of disbursement.

(2) Non-student borrowers. For loans disbursed prior to July 22, 1986, the lender must calculate the insurance premium for nonstudent borrowers on the basis of the number of months beginning with the month following the month in which the loan proceeds are disbursed to the borrower and
ending at the conclusion of the month preceding the month in which repayment of principal is expected to begin or resume on the borrower's previous HEAL loans. For loans disbursed on or after July 22, 1986, the insurance premium shall be calculated as a one-time flat rate on the principal of the loan at the time of disbursement.

(3) Multiple installments. In cases where the lender disburses the loan in multiple installments, the insurance premium is calculated for each disbursement.

§681.15 Other charges to the borrower.

(a) Late charges. If the borrower fails to pay all of a required installment payment or fails to provide written evidence that verifies eligibility for the deferment of the payment within 30 days after the payment's due date, the lender or holder will require that the borrower pay a late charge. A late charge must be equal to 5 percent of the unpaid portion of the payment due.

(b) Collection charges. The lender or holder may also require that the borrower pay the holder of the note for reasonable costs incurred by the holder or its agent in collecting any installment not paid when due. These costs may include attorney's fees, court costs, telegrams, and
long-distance phone calls. The holder may not charge the borrower for the normal costs associated with preparing letters and making personal and local telephone contacts with the borrower. A service agency's fee for normal servicing of a loan may not be passed on to the borrower, either directly or indirectly. No charges, other than those authorized by this section, may be passed on to the borrower, either directly or indirectly, without prior approval of the Secretary.

(c) Other loan making costs. A lender may not pass on to the borrower any cost of making a HEAL loan other than the costs of the insurance premium.

§681.16 Power of attorney.

Neither a lender nor a school may obtain a borrower's power of attorney or other authorization to endorse a disbursement check on behalf of a borrower. The borrower must personally endorse the check and may not authorize anyone else to endorse it on his or her behalf.

§681.17 Security and endorsement.

(a) A HEAL loan must be made without security.
(b) With one exception, it must also be made without endorsement. If a borrower is a minor and cannot under State law create a legally binding obligation by his or her own signature, a lender may require an endorsement by another person on the borrower's HEAL note. For purposes of this paragraph, an “endorsement” means a signature of anyone other than the borrower who is to assume either primary or secondary liability on the note.

§681.18 Consolidation of HEAL loans.

HEAL loans may be consolidated as permitted in 34 CFR 685.220.

§681.19 Forms.

All HEAL forms are approved by the Secretary and may not be changed without prior approval by the Secretary. HEAL forms shall not be signed in blank by a borrower, a school, a lender or holder, or an agent of any of these. The Secretary may prescribe who must complete the forms, and when and to whom the forms must be sent. All HEAL forms must contain a statement that any person who knowingly makes a false statement or misrepresentation in a HEAL loan 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 possible fine and imprisonment under Federal statute.

§681.20 The Secretary's collection efforts after payment of a default claim.

After paying a default claim on a HEAL loan, the Secretary attempts to collect from the borrower and any valid endorser in accordance with the Federal Claims Collection Standards (4 CFR parts 101 through 105), the Office of Management and Budget Circular A-129, issued January 2013, and the Department's Claims Collection Regulation (34 CFR parts 30, 31, and 34). The Secretary attempts collection of all unpaid principal, interest, penalties, administrative costs, and other charges or fees, except in the following situations:

(a) The borrower has a valid defense on the loan. The Secretary refrains from collection against the borrower or endorser to the extent of any defense that the Secretary concludes is valid. Examples of a valid defense include infancy or proof of repayment in part or in full.
(b) A school owes the borrower a refund for the period covered by the loan. In this situation, the Secretary refrains from collection to the extent of the unpaid refund if the borrower assigns to the Secretary the right to receive the refund.

(c) The school or lender or holder is the subject of a lawsuit or Federal administrative proceeding. In this situation, if the Secretary determines that the proceeding involves allegations that, if proven, would provide the borrower with a full or partial defense on the loan, then the Secretary may suspend collection activity on all or part of a loan until the proceeding ends. The Secretary suspends collection activity only for so long as the proceeding is being energetically prosecuted in good faith and the allegations that relate to the borrower's defense are reasonably likely to be proven.

(d) The borrower dies or becomes totally and permanently disabled. In this situation, the Secretary terminates all collection activity against the borrower. The Secretary follows the procedures and standards in 34 CFR 685.213 and 34 CFR 685.212(a) to determine if the borrower is totally and permanently disabled. If the borrower dies or becomes
totally and permanently disabled, the Secretary also terminates all collection activity against any endorser.

§681.21 Refunds.

(a) Student authorization. By applying for a HEAL loan, a student authorizes a participating school to make payment of a refund that is allocable to a HEAL loan directly to the original lender (or to a subsequent holder of the loan note, if the school has knowledge of the holder's identity).

(b) Treatment by lenders or holders. (1) A holder of a HEAL loan must treat a refund payment received from a HEAL school as a downward adjustment in the principal amount of the loan.

(2) When a lender receives a school refund check for a loan it no longer holds, the lender must transfer that payment to the holder of the loan and either inform the borrower about the refund check and where it was sent or, if the borrower's address is unknown, notify the current holder that the borrower was not informed. The current holder must provide the borrower with a written notice of the refund payment.

(Approved by the Office of Management and Budget under control number 1845-0125)


Subpart D—The Lender and Holder

§681.30 Which organizations are eligible to apply to be HEAL lenders and holders?

(a) A HEAL lender may hold loans under the HEAL program.

(b) The following types of organizations were eligible to apply to the Secretary to be HEAL lenders:

(1) A financial or credit institution (including a bank, savings and loan association, credit union, or insurance company) which is subject to examination and supervision in its capacity as a lender by an agency of the United States or of the State in which it has its principal place of business;

(2) A pension fund approved by the Secretary;

(3) An agency or instrumentality of a State; and

(4) A private nonprofit entity, designated by the State, regulated by the State, and approved by the Secretary.

(c) The following types of organizations are eligible to apply to the Secretary to be HEAL holders:

(1) Public entities in the business of purchasing student loans;
(2) Navient (formerly known as the Student Loan Marketing Association, or “Sallie Mae”); and

(3) Other eligible lenders.

(d) HEAL holders must comply with any provisions in the regulations required of HEAL lenders including, but not limited to, provisions regarding applications, contracts, and due diligence.

§681.31 The application to be a HEAL lender or holder.

(a) In order to be a HEAL lender or holder, an eligible organization must submit an application to the Secretary annually.

(b) In determining whether to enter into an insurance contract with an applicant and what the terms of that contract should be, the Secretary may consider the following criteria:

(1) Whether the applicant is capable of complying with the requirements in the HEAL regulations applicable to lenders and holders;

(2) The amount and rate of loans which are currently delinquent or in default, if the applicant has had prior
experience with similar Federal or State student loan programs; and

(3) The financial resources of the applicant.

(c) The applicant must develop and follow written procedures for servicing and collecting HEAL loans. These procedures must be reviewed during the biennial audit required by §681.42(d). If the applicant uses procedures more stringent than those required by §§681.34 and 681.35 for its other loans of comparable dollar value, on which it has no Federal, State, or other third party guarantee, it must include those more stringent procedures in its written procedures for servicing and collecting its HEAL loans.

(d) The applicant must submit sufficient materials with his or her application to enable the Secretary to fairly evaluate the application in accordance with these criteria.

(Approved by the Office of Management and Budget under control numbers 1845-0125 and 1845-0128)

§681.32 The HEAL lender or holder insurance contract.

(a)(1) If the Secretary approves an application to be a HEAL lender or holder, the Secretary and the lender or holder must sign an insurance contract. Under this
contract, the lender or holder agrees to comply with all the laws, regulations, and other requirements applicable to its participation in the HEAL program and the Secretary agrees to insure each eligible HEAL loan held by the lender or holder against the borrower's default, death, total and permanent disability, bankruptcy under chapter 11 or 13 of the Bankruptcy Act, or bankruptcy under chapter 7 of the Bankruptcy Act when the borrower files a complaint to determine the dischargeability of the HEAL loan. The Secretary's insurance covers 100 percent of the lender's or holder's losses on both unpaid principal and interest, except to the extent that a borrower may have a defense on the loan other than infancy.

(2) HEAL insurance, however, is not unconditional. The Secretary issues HEAL insurance on the implied representations of the lender that all the requirements for the initial insurability of the loan have been met. HEAL insurance is further conditioned upon compliance by the holder of the loan with the HEAL statute and regulations, the lender's or holder's insurance contract, and its own loan management procedures set forth in writing pursuant to §681.31(c). The contract may contain a limit on the duration of the contract and the number or amount of HEAL
loans a lender may make or hold. Each HEAL lender has either a standard insurance contract or a comprehensive insurance contract with the Secretary, as described below.

(b) Standard insurance contract. A lender with a standard insurance contract must submit to the Secretary a borrower's loan application for HEAL insurance on each loan that the lender determines to be eligible. The Secretary notifies the lender whether the loan is or is not insurable, the amount of the insurance, and the expiration date of the insurance commitment. A loan which has been disbursed under a standard contract of insurance prior to the Secretary's approval of the application is considered not to have been insured.

(c)(1) Comprehensive insurance contract. A lender with a comprehensive insurance contract may disburse a loan without submitting an individual borrower's loan application to the Secretary for approval. All eligible loans made by a lender with this type of contract are insured immediately upon disbursement.

(2) The Secretary will revoke the comprehensive contract of any lender who utilizes procedures which are inconsistent with the HEAL statute and regulations, the lender's insurance contract, or its own loan management
procedures set forth in writing pursuant to §681.31(c), and require that such lenders disburse HEAL loans only under a standard contract. When the Secretary determines that the lender is in compliance with the HEAL statute and regulations and its own loan management procedures set forth in writing pursuant to §681.31(c), the lender may reapply for a comprehensive contract.

(3) In providing comprehensive contracts, the Secretary shall give priority to eligible lenders that:

(i) Make loans to students at interest rates below the rates prevailing during the period involved; or

(ii) Make loans under terms that are otherwise favorable to the student relative to the terms under which eligible lenders are generally making loans during the period involved.

(Approved by the Office of Management and Budget under control number 1845-0125)

§681.33 Making a HEAL loan.

The loan-making process includes the processing of necessary forms, the approval of a borrower for a loan, determination of a borrower's creditworthiness, the
determination of the loan amount (not to exceed the amount approved by the school), the explanation to a borrower of his or her responsibilities under the loan, the execution of the promissory note, and the disbursement of the loan proceeds. A lender may rely in good faith upon statements of an applicant and the HEAL school contained in the loan application papers, except where those statements are in conflict with information obtained from the report on the applicant's credit history, or other information available to the lender. Except where the statements are in conflict with information obtained from the applicant's credit history or other information available to the lender, a lender making loans to nonstudent borrowers may rely in good faith upon statements by the borrower and authorizing officials of internship, residency, or other programs for which a borrower may receive a deferment.

(a) Processing of forms. Before making a HEAL loan, a lender must determine that all required forms have been completed by the borrower, the HEAL school, the lender, and the authorized official for an internship, a residency, or other deferment activity.

(b) Approval of borrower. A lender may make a HEAL loan only to an eligible student or nonstudent borrower.
(c) Lender determination of the borrower’s creditworthiness. The lender may make HEAL loans only to an applicant that the lender has determined to be creditworthy. This determination must be made at least once for each academic year during which the applicant applies for a HEAL loan. An applicant will be determined to be “creditworthy” if he or she has a repayment history that has been satisfactory on any loans on which payments have become due. The lender may not determine that an applicant is creditworthy if the applicant is currently in default on any loan (commercial, consumer, or educational) until the delinquent account is made current or satisfactory arrangements are made between the affected lender(s) and the HEAL applicant. The lender must obtain documentation, such as a letter from the authorized official(s) of the affected lender(s) or a corrected credit report indicating that the HEAL applicant has taken satisfactory actions to bring the account into good standing. It is the responsibility of the HEAL loan applicant to assure that the lender receives each such documentation. No loan may be made to an applicant who is delinquent on any Federal debt until the delinquent account is made current or satisfactory arrangements are made between the affected
agency and the HEAL applicant. The lender must receive a letter from the authorized Federal official of the affected Federal agency stating that the borrower has taken satisfactory actions to bring the account into good standing. It is the responsibility of the loan applicant to assure that the lender has received each such letter. The absence of any previous credit, however, is not an indication that the applicant is not creditworthy and is not to be used as a reason to deny the status of creditworthy to an applicant. The lender must determine the creditworthiness of the applicant using, at a minimum, the following:

(1) A report of the applicant's credit history obtained from an appropriate consumer credit reporting agency, which must be used in making the determinations required by paragraph (c) of this section; and

(2) For student applicants only, the certification made by the applicant's school under §681.51(e).

(d) 

(d) Determination of loan amount. A lender may not make a HEAL loan in an amount that exceeds the permissible annual and aggregate maximums described in §681.10.

(e) Promissory note. (1) Each loan must be evidenced by a promissory note approved by the Secretary. A lender must
obtain the Secretary's prior approval of the note form before it makes a HEAL loan evidenced by a promissory note containing any deviation from the provisions of the form most currently approved by the Secretary. The lender must give the borrower a copy of each executed note.

(2) The lender must explain to the borrower that the loan must be repaid and that the loan proceeds may be applied toward educational expenses only.

(f) Disbursement of HEAL loan. (1) A lender must disburse HEAL loan proceeds:

(i) To a student borrower, by means of a check or draft payable jointly to the student borrower and the HEAL school. Except where a lender is also a school, a lender must mail the check or draft to the school. A lender may not disburse the loan proceeds earlier than is reasonably necessary to meet the cost of education for the period for which the loan is made.

(ii) To a nonstudent borrower, by means of a check or draft payable to the borrower. However, when a previous loan is held by a different lender, the current lender must make the HEAL loan disbursement check or draft payable jointly to the borrower and the holder of the previous HEAL loan for which interest is payable.
(2) Effective July 1, 1987, a lender must disburse the HEAL loan proceeds in two or more installments unless the loan is intended to cover a period of no more than one-half an academic year. The amount disbursed at one time must correspond to the borrower's educational expenses for the period for which the disbursement is made, and must be indicated by the school on the borrower's application. If the loan is intended for more than one-half an academic year, the school must indicate on the borrower's application both the approximate dates of disbursement and the amount the borrower will need on each such date. In no case may the lender disburse the proceeds earlier than is reasonably necessary to meet the costs of education for the period for which the disbursement or the loan is made.

(g) If the lender determines that the applicant is not creditworthy, pursuant to paragraph (c) of this section, the lender must not approve the HEAL loan request. If the applicant is a student, the lender must notify the applicant and the applicant's school named on the application form of the denial of a HEAL loan, stating the reason for the denial.

(h) The lender must report a borrower's HEAL indebtedness to one or more national credit bureaus within
120 days of the date the final disbursement on the loan is made.

(Approved by the Office of Management and Budget under control numbers 1845-0125 and 1845-0126)

§681.34  HEAL loan account servicing.

HEAL loan account servicing involves the proper maintenance of records, and the proper review and management of accounts. Generally accepted account servicing standards ensure that collections are received and accounted for, delinquent accounts are identified promptly, and reports are produced comparing actual results to previously established objectives.

(a) Borrower inquiries. A lender or holder must respond on a timely basis to written inquiries and other communications from a borrower and any endorser of a HEAL loan.

(b) Conversion of loan to repayment status. (1) At least 30 and not more than 60 days before the commencement of the repayment period, the lender or holder must contact the borrower in writing to establish the terms of repayment. Lenders or holders may not charge borrowers for
the additional interest or other charges, penalties, or fees that accrue when a lender or holder does not contact the borrower within this time period and a late conversion results.

(2) Terms of repayment are established in a written schedule that is made a part of, and subject to the terms of, the borrower's original HEAL note.

(3) The lender or holder may not surrender the original promissory note to the borrower until the loan is paid in full. At that time, the lender or holder must give the borrower the original promissory note.

(c) Borrower contacts. The lender or holder must contact each borrower to request updated contact information for the borrower and to notify the borrower of the balance owed for principal, interest, insurance premiums, and any other charges or fees owed to the lender, at least every 6 months from the time the loan is disbursed. The lender or holder must use this notice to remind the borrower of the option, without penalty, to pay all or part of the principal and accrued interest at any time.

(d) Skip-tracing. If, at any time, the lender or holder is unable to locate a borrower, the lender or holder must initiate skip-tracing procedures as described in §682.411.
§681.35 **HEAL loan collection.**

A lender or holder must exercise due diligence in the collection of a HEAL loan with respect to both a borrower and any endorser. In order to exercise due diligence, a lender or holder must implement the following procedures when a borrower fails to honor his or her payment obligations:

(a) When a borrower is delinquent in making a payment, the lender or holder must remind the borrower within 15 days of the date the payment was due by means of a written contact. If payments do not resume, the lender or holder must contact both the borrower and any endorser at least 3 more times at regular intervals during the 120-day delinquent period following the first missed payment of that 120-day period. The second demand notice for a delinquent account must inform the borrower that the continued delinquent status of the account will be reported to consumer credit reporting agencies if payment is not made. Each of the required four contacts must consist of at least a written contact which has an address correction request on the envelope. The last contact must consist of a
telephone contact, in addition to the required letter, unless the borrower cannot be contacted by telephone. The lender or holder may choose to substitute a personal contact for a telephone contact. A record must be made of each attempt to contact and each actual contact, and that record must be placed in the borrower's file. Each contact must become progressively firmer in tone. If the lender or holder is unable to locate the borrower and any endorser at any time during the period when the borrower is delinquent, the lender or holder must initiate the skip-tracing procedures described in §681.34(d).

(b) When a borrower is 90 days delinquent in making a payment, the lender or holder must immediately request preclaim assistance from the Department’s servicer. The Secretary does not pay a default claim if the lender or holder fails to request preclaim assistance.

(c) Prior to the filing of a default claim, a lender or holder must use, at a minimum, collection practices that are at least as extensive and effective as those used by the lender or holder in the collection of its other loans. These practices must include, but need not be limited to:

(1) Using collection agents, which may include its own collection department or other internal collection agents;
(2) Immediately notifying an appropriate consumer credit reporting agency regarding accounts overdue by more than 60 days; and

(3) Commencing and prosecuting an action for default unless:

(i) In the determination of the Secretary that:

(A) The lender or holder has made reasonable efforts to serve process on the borrower involved and has been unsuccessful in these efforts; or

(B) Prosecution of such an action would be fruitless because of the financial or other circumstances of the borrower;

(ii) For loans made before November 4, 1988, the loan involved was made in an amount of less than $5,000; or

(iii) For loans made on or after November 4, 1988, the loan involved was made in an amount of less than $2,500.

(d) If the Secretary's preclaim assistance locates the borrower, the lender or holder must implement the loan collection procedures described in this section. When the Secretary's preclaim assistance is unable to locate the borrower, a default claim may be filed by the lender as described in §681.40. The Secretary does not pay a default claim if the lender or holder has not complied with the
HEAL statute and regulations or the lender's or holder's insurance contract.

(e) If a lender or holder does not sue the borrower, it must send a final demand letter to the borrower and any endorser at least 30 days before a default claim is filed.

(f) If a lender or holder sues a defaulted borrower or endorser, it may first apply the proceeds of any judgment against its reasonable attorney's fees and court costs, whether or not the judgment provides for these fees and costs.

(g) Collection of chapter 7 bankruptcies. (1) If a borrower files for bankruptcy under chapter 7 of the Bankruptcy Act and does not file a complaint to determine the dischargeability of the HEAL loan, the lender or holder is responsible for monitoring the bankruptcy case in order to pursue collection of the loan after the bankruptcy proceedings have been completed.

(i) For any loan for which the lender or holder had not begun to litigate against the borrower prior to the imposition of the automatic stay, the period of the automatic stay is to be considered as an extended forbearance authorized by the Secretary, in addition to the 2-year period of forbearance which lenders and holders are
authorized to grant without prior approval from the Secretary. Only periods of delinquency following the date of receipt (as documented by a date stamp) of the discharge of debtor notice (or other written notification from the court or the borrower's attorney of the end of the automatic stay imposed by the Bankruptcy Court) can be included in determining default, as described in §681.40(c)(1)(i). The lender or holder must attempt to reestablish repayment terms with the borrower in writing no more than 30 days after receipt of the discharge of debtor notice (or other written notification from the court or the borrower's attorney of the end of the automatic stay imposed by the Bankruptcy Court), in accordance with the procedures followed at the end of a forbearance period. If the borrower fails to make a payment as scheduled, the lender or holder must attempt to obtain repayment through written and telephone contacts in accordance with the intervals established in paragraph (a)(1) of this section, and must perform the other HEAL loan collection activities required in this section, before filing a default claim.

(ii) For any loan for which the lender or holder had begun to litigate against the borrower prior to the imposition of the automatic stay, the lender or holder
must, upon written notification from the court or the borrower's attorney that the bankruptcy proceedings have been completed, either resume litigation or treat the loan in accordance with paragraph (g)(1)(i) of this section.

(2) If the lender or holder has not received written notification of discharge within 12 months of the date that the borrower filed for bankruptcy, the lender or holder must contact the court and the borrower's attorney (if known) within 30 days to determine if the bankruptcy proceedings have been completed. If no response is received within 30 days of the date of these contacts, the lender or holder must resume its collection efforts, in accordance with paragraph (g)(1) of this section. If a written response from the court or the borrower's attorney indicates that the bankruptcy proceedings are still underway, the lender or holder is not to pursue further collection efforts until receipt of written notice of discharge, except that follow-up in accordance with this paragraph must be done at least once every 12 months until the bankruptcy proceedings have been completed. A lender or holder may utilize PACER (Public Access to Court Electronic Records) in place of contact with the court and/or borrower’s attorney.
(3) If, despite the lender or holder's compliance with required procedures, a loan subject to the requirements of paragraph (g)(1) of this section is discharged, the lender or holder must file a claim with the Secretary within 10 days of the initial date of receipt (as documented by a date stamp) of written notification of the discharge from the court or the borrower's attorney, in accordance with the procedures set forth in §681.40(c)(4). The lender or holder also must file with the bankruptcy court an objection to the discharge of the HEAL loan, and must include with the claim documentation showing that the bankruptcy proceedings were handled properly and expeditiously (e.g., all documents sent to or received from the bankruptcy court, including evidence which shows the period of the bankruptcy proceedings).

(Approved by the Office of Management and Budget under control numbers 1845-0125 and 1845-0127)

§681.36 Consequence of using an agent.

The delegation of functions to a servicing agency or other party does not relieve a lender or holder of its responsibilities under the HEAL program.
§681.37 Forbearance.

(a) Forbearance means an extension of time for making loan payments or the acceptance of smaller payments than were previously scheduled to prevent a borrower from defaulting on his or her payment obligations. A lender or holder must notify each borrower of the right to request forbearance.

(1) Except as provided in paragraph (a)(2) of this section, a lender or holder must grant forbearance whenever the borrower is temporarily unable to make scheduled payments on a HEAL loan and the borrower continues to repay the loan in an amount commensurate with his or her ability to repay the loan. Any circumstance which affects the borrower's ability to repay the loan must be fully documented.

(2) If the lender or holder determines that the default of the borrower is inevitable and that forbearance will be ineffective in preventing default, the lender or holder may submit a claim to the Secretary rather than grant forbearance. If the Secretary is not in agreement with the determination of the lender or holder, the claim will be
returned to the lender or holder as disapproved and forbearance must be granted.

(b) A lender or holder must exercise forbearance in accordance with terms that are consistent with the 25- and 33-year limitations on the length of repayment (described in §681.11) if the lender or holder and borrower agree in writing to the new terms. Each forbearance period may not exceed 6 months.

(c) A lender or holder may also exercise forbearance for periods of up to 6 months in accordance with terms that are inconsistent with the minimum annual payment requirement if the lender or holder complies with the requirements listed in paragraphs (c)(1) through (4) of this section. Subsequent renewals of the forbearance must also be documented in accordance with the following requirements:

(1) The lender or holder must reasonably believe that the borrower intends to repay the loan but is currently unable to make payments in accordance with the terms of the loan note. The lender or holder must state the basis for its belief in writing and maintain that statement in its loan file on that borrower.
(2) Both the borrower and an authorized official of the lender or holder must sign a written agreement of forbearance.

(3) If the agreement between the borrower and lender or holder provides for forbearance of all payments, the lender or holder must contact the borrower at least every 3 months during the period of forbearance in order to remind the borrower of the outstanding obligation to repay.

(4) The total period of forbearance (with or without interruption) granted by the lender or holder to any borrower must not exceed 2 years. However, when the borrower and the lender or holder believe that there are bona fide reasons why this period should be extended, the lender or holder may request a reasonable extension beyond the 2-year period from the Secretary. This request must document the reasons why the extension should be granted. The lender or holder may grant the extension for the approved time period if the Secretary approves the extension request.

(Approved by the Office of Management and Budget under control number 1845-0125)

§681.38 Assignment of a HEAL loan.
A HEAL note may not be assigned except to another HEAL lender or organization as specified in §681.30 and except as provided in §681.40. In this section “seller” means any kind of assignor and “buyer” means any kind of assignee.

(a) Procedure. A HEAL note assigned from one lender or holder to another must be subject to a blanket endorsement together with other HEAL notes being assigned or must individually bear effective words of assignment. Either the blanket endorsement or the HEAL note must be signed and dated by an authorized official of the seller. Within 30 days of the transaction, the buyer must notify the following parties of the assignment:

(1) The Secretary; and

(2) The borrower. The notice to the borrower must contain a clear statement of all the borrower's rights and responsibilities which arise from the assignment of the loan, including a statement regarding the consequences of making payments to the seller subsequent to receipt of the notice.

(b) Risks assumed by the buyer. Upon acquiring a HEAL loan, a new holder assumes responsibility for the consequences of any previous violations of applicable statutes, regulations, or the terms of the note except for
defects under §681.41(d). A HEAL note is not a negotiable instrument, and a subsequent holder is not a holder in due course. If the borrower has a valid legal defense that could be asserted against the previous holder, the borrower can also assert the defense against the new holder. In this situation, if the new holder files a default claim on a loan, the Secretary denies the default claim to the extent of the borrower's defense. Furthermore, when a new holder files a claim on a HEAL loan, it must provide the Secretary with the same documentation that would have been required of the original lender.

(c) Warranty. Nothing in this section precludes the buyer of a HEAL loan from obtaining a warranty from the seller covering certain future reductions by the Secretary in computing the amount of insurable loss, if any, on a claim filed on the loan. The warranty may only cover reductions which are attributable to an act or failure to act of the seller or other previous holder. The warranty may not cover matters for which the buyer is charged with responsibility under the HEAL regulations.

(d) Bankruptcy. If a lender or holder assigns a HEAL loan to a new holder, or a new holder acquires a HEAL loan under 20 U.S.C. 1092a (the Combined Payment Plan
authority), and the previous holder(s) subsequently receives court notice that the borrower has filed for bankruptcy, the previous holder(s) must forward the bankruptcy notice to the purchaser within 10 days of the initial date of receipt, as documented by a date stamp, except that if it is a chapter 7 bankruptcy with no complaint for dismissal, the previous holder(s) must file the notice with the purchaser within 30 days of the initial date of receipt, as documented by a date stamp. The previous holder(s) also must file a statement with the court notifying it of the change of ownership. Notwithstanding the above, the current holder will not be held responsible for any loss due to the failure of the prior holder(s) to meet the deadline for giving notice if such failure occurs after the current holder purchased the loan.

(Approved by the Office of Management and Budget under control numbers 1845-0125 and 1845-0128)

§681.39 Death and disability claims.

(a) Death. The Secretary will discharge a borrower's liability on the loan in accordance with section 738 of the
Act upon the death of the borrower. The holder of the loan may not attempt to collect on the loan from the borrower's estate or any endorser. The holder must secure a certification of death or whatever official proof is conclusive under State law. The holder must return to the sender any payments in accordance with §685.212(a) received from the estate of the borrower or paid on behalf of the borrower after the date of death.

(b) Disability. The Secretary will discharge a borrower's liability on the loan in accordance with 34 CFR 685.213.

§681.40 Procedures for filing claims.

(a) A lender or holder must file an insurance claim on a form approved by the Secretary. The lender or holder must attach to the claim all documentation necessary to litigate a default, including any documents required to be submitted by the Federal Claims Collection Standards, and which the Secretary may require. Failure to submit the required documentation and to comply with the HEAL statute and regulations or the lender's or holder's insurance contract will result in a claim not being honored. The Secretary may deny a claim that is not filed within the period specified
in this section. The Secretary requires for all claims at least the following documentation:

(1) The original promissory note;

(2) An assignment to the United States of America of all right, title, and interest of the lender or holder in the note;

(3) The loan application;

(4) The history of the loan activities from the date of loan disbursement through the date of claim, including any payments made; and

(5) A Borrower Status Form (HEAL-508), documenting each deferment granted under §681.12 or a written statement from an appropriate official stating that the borrower was engaged in an activity for which he or she was entitled to receive a deferment at the time the deferment was granted.

(b) The Secretary's payment of a claim is contingent upon receipt of all required documentation and an assignment to the United States of America of all right, title, and interest of the lender or holder in the note underlying the claim. The lender or holder must warrant that the loan is eligible for HEAL insurance.
(c) In addition, the lender or holder must comply with the following requirements for the filing of default, death, disability, and bankruptcy claims:

(1) Default claims. Default means the persistent failure of the borrower to make a payment when due or to comply with other terms of the note or other written agreement evidencing a loan under circumstances where the Secretary finds it reasonable to conclude that the borrower no longer intends to honor the obligation to repay the loan. In the case of a loan repayable (or on which interest is payable) in monthly installments, this failure must have persisted for 120 days. In the case of a loan repayable (or on which interest is payable) in less frequent installments, this failure must have persisted for 180 days. If, for a particular loan, an automatic stay is imposed on collection activities by a Bankruptcy Court, and the lender or holder receives written notification of the automatic stay prior to initiating legal proceedings against the borrower, the 120- or 180-day period does not include any period prior to the end of the automatic stay.

(i) If a lender or holder determines that it is not appropriate to commence and prosecute an action against a default borrower pursuant to §681.35(c)(3), it must file a
default claim with the Secretary within 30 days after a loan has been determined to be in default.

(ii) If a lender files suit against a defaulted borrower and does not pursue collection of the judgment obtained as a result of the suit, it must file a default claim with the Secretary within 60 days of the date of issuance of the judgment. If a lender or holder files suit against a defaulted borrower, and pursues collection of the judgment obtained as a result of the suit, these collection activities must begin within 60 days of the date of issuance of the judgment. If the lender or holder is unable to collect the full amount of principal and interest owed, a claim must be filed within 30 days of completion of the post-judgment collection activities. In either case, the lender or holder must assign the judgment to the Secretary as part of the default claim.

(iii) In addition to the documentation required for all claims, the lender or holder must submit with its default claim at least the following:

(A) Repayment schedule(s);

(B) A collection history, if any;

(C) A final demand letter;
(D) The original or a copy of all correspondence relevant to the HEAL loan to or from the borrower (whether received by the original lender, a subsequent holder, or an independent servicing agent);

(E) A claims collection litigation report; and

(F) If the defaulted borrower filed for bankruptcy under chapter 7 of the Bankruptcy Act and did not file a complaint to determine the dischargeability of the loan, all documents sent to or received from the bankruptcy court, including evidence which shows the period of the bankruptcy proceedings.

(iv) If a lender or holder files a default claim on a loan and subsequently receives written notice from the court or the borrower's attorney that the borrower has filed for bankruptcy under chapter 11 or 13 of the Bankruptcy Act, or under chapter 7 with a complaint to determine the dischargeability of the loan, the lender or holder must file that notice with the Secretary within 10 days of the lender or holder's initial date of receipt, as documented by a date stamp. If the borrower is declaring bankruptcy under chapter 7 of the Bankruptcy Act, and has not filed a complaint to determine the dischargeability of the loan, the lender or holder must file the written notice.
with the Secretary within 30 days of the lender's or
holder's initial date of receipt, as documented by a date
stamp. If the Secretary has not paid the claim at the time
the lender or holder receives that notice, upon receipt of
the notice, the lender or holder must file with the
bankruptcy court a proof of claim, if applicable, and an
objection to the discharge or compromise of the HEAL loan.
If the Secretary has paid the claim, the lender or holder
must file a statement with the court notifying it that the
loan is owned by the Secretary.

(2) Death claims. A lender or holder must file a death
claim with the Secretary within 30 days after the lender or
holder obtains documentation that a borrower is dead. In
addition to the documentation required for all claims, the
lender or holder must submit with its death claim those
documents which verify the death, including an official
copy of the Death Certificate.

(3) Disability claims. A lender or holder must file a
disability claim with the Secretary within 30 days after it
has been notified that the Secretary has determined a
borrower to be totally and permanently disabled. In
addition to the documentation required for all claims, the
lender or holder must submit with its claim evidence of the
Secretary's determination that the borrower is totally and permanently disabled.

(4) Bankruptcy claims. For a bankruptcy under chapter 11 or 13 of the Bankruptcy Act, or a bankruptcy under chapter 7 of the Bankruptcy Act when the borrower files a complaint to determine the dischargeability of the HEAL loan, the current holder must file a claim with the Secretary within 10 days of the initial date of receipt of court notice or written notice from the borrower's attorney that the borrower has filed for bankruptcy under chapter 11 or chapter 13, or has filed a complaint to determine the dischargeability of the HEAL loan under chapter 7. The initial date of receipt of the written notice must be documented by a date stamp. The lender or holder must file with the bankruptcy court a proof of claim, if applicable, and an objection to the discharge or compromise of the HEAL loan. In addition to the documentation required for all claims, with its claim the lender or holder must submit to the Secretary at least the following:

(i) Repayment schedule(s);

(ii) A collection history, if any;

(iii) A proof of claim, where applicable;
(iv) An assignment to the United States of America of its proof of claim, where applicable;

(v) All pertinent documents sent to or received from the bankruptcy court;

(vi) A statement of any facts of which the lender is aware that may form the basis for an objection to the bankrupt's discharge or an exception to the discharge;

(vii) The notice of the first meeting of creditors, or an explanation as to why this is not included;

(viii) In cases where there is defective service, a declaration or affidavit attesting to the fact that the lender or holder was not directly served with the notice of meeting of creditors. This declaration or affidavit must also indicate when and how the lender or holder learned of the bankruptcy; and

(ix) In cases where there is defective service due to the borrower's failure to list the proper creditor, a copy of the letter sent to the borrower at the time of purchase of the HEAL loan by the current holder, or a sample letter with documentation indicating when the letter was sent to the borrower.

(Approved by the Office of Management and Budget under control numbers 1845-0125 and 1845-0127)
§681.41  Determination of amount of loss on claims.

(a) General rule. HEAL insurance covers the unpaid balance of principal and interest on an eligible HEAL loan, less the amount of any judgment collected pursuant to default proceedings commenced by the eligible lender or holder involved. In determining whether to approve an insurance claim for payment, the Secretary considers legal defects affecting the initial validity or insurability of the loan. The Secretary also deducts from a claim any amount that is not a legally enforceable obligation of the borrower except to the extent that the defense of infancy applies. The Secretary further considers whether all holders of the loan have complied with the requirements of the HEAL regulations, including those concerned with the making, servicing, and collecting of the loan, the timely filing of claims, and the submission of documents with a claim.

(b) Special rules for loans acquired by assignment. If a claim is filed by a lender or holder that obtained a loan by assignment, that lender or holder is not entitled to any payment under this section greater than that to which a previous holder would have been entitled. In particular,
the Secretary deducts from the claim any amounts that are attributable to payments made by the borrower to a prior holder of the loan before the borrower received proper notice of the assignment of the loan.

(c) Special rules for loans made by school lenders. (1) If the loan for which a claim is filed was originally made by a school and the claim is filed by that school, the Secretary deducts from the claim an amount equal to any unpaid refund that the school owes the borrower.

(2) If the loan for which a claim is filed was originally made by a school but the claim is filed by another lender of holder that obtained the note by assignment, the Secretary deducts from the claim an amount equal to any unpaid refund that the school owed the borrower prior to the assignment.

(d) Circumstances under which defects in claims may be cured or excused. The Secretary may permit a lender or holder to cure certain defects in a specified manner as a condition for payment of a default claim. The Secretary may excuse certain defects if the holder submitting the default claim satisfies the Secretary that the defect did not contribute to the default or prejudice the Secretary's attempt to collect the loan from the borrower. The
Secretary may also excuse certain defects if the defect arose while the loan was held by another lender or holder and the holder submitting the default claim satisfies the Secretary that the assignment of the loan was an arm's length transaction, that the present holder did not know of the defect at the time of the sale and that the present holder could not have become aware of the defect through an examination of the loan documents.

(e) Payment of insured interest. The payment on an approved claim covers the unpaid principal balance and interest that accrues through the date the claim is paid, except:

(1) If the lender or holder failed to submit a claim within the required period after the borrower's default; death; total and permanent disability; or filing of a petition in bankruptcy under chapter 11 or 13 of the Bankruptcy Act, or under chapter 7 where the borrower files a complaint to determine the dischargeability of the HEAL loan; the Secretary does not pay interest that accrued between the end of that period and the date the Secretary received the claim.

(2) If the Secretary returned the claim to the lender or holder for additional documentation necessary for the
approval of the claim, the Secretary pays interest only for
the first 30 days following the return of the claim to the
lender or holder.

§681.42 Records, reports, inspection, and audit
requirements for HEAL lenders and holders.

(a) Records. (1) A lender or holder must keep complete
and accurate records of each HEAL loan which it holds. The
records must be organized in a way that permits them to be
easily retrievable and allows the ready identification of
the current status of each loan. The required records
include:

(i) The loan application;

(ii) The original promissory note;

(iii) The repayment schedule agreement;

(iv) Evidence of each disbursement of loan proceeds;

(v) Notices of changes in a borrower's address and
status as a full-time student;

(vi) Evidence of the borrower's eligibility for a
deferment;

(vii) The borrower's signed statement describing his or
her rights and responsibilities in connection with a HEAL
loan;
(viii) The documents required for the exercise of forbearance;

(ix) Documentation of the assignment of the loan; and

(x) Evidence of a borrower's creditworthiness, including the borrower's credit report.

(2) The lender or holder must maintain for each borrower a payment history showing the date and amount of each payment received on the borrower's behalf, and the amounts of each payment attributable to principal and interest. A lender or holder must also maintain for each loan a collection history showing the date and subject of each communication with a borrower or endorser for collection of a delinquent loan. Furthermore, a lender or holder must keep any additional records which are necessary to make any reports required by the Secretary.

(3) A lender or holder must retain the records required for each loan for not less than 5 years following the date the loan is repaid in full by the borrower. However, in particular cases the Secretary may require the retention of records beyond this minimum period. A lender or holder must keep the original copy of an unpaid promissory note, but may store all other records in microform or computer format.
(4) The lender or holder must maintain accurate and complete records on each HEAL borrower and related school activities required by the HEAL program. All HEAL records shall be maintained under security and protected from fire, flood, water leakage, other environmental threats, electronic data system failures or power fluctuations, unauthorized intrusion for use, and theft.

(b) Reports. A lender or holder must submit reports to the Secretary at the time and in the manner required by the Secretary.

(c) Inspections. Upon request, a lender or holder must afford the Secretary, the Comptroller General of the United States, and any of their authorized representatives access to its records in order to assure the correctness of its reports.

(d) The lender or holder must comply with the Department's biennial audit requirements of section 705 of the Act.

(e) Any lender or holder who has information which indicates potential or actual commission of fraud or other offenses against the United States, involving these loan funds, must promptly provide this information to the
appropriate Regional Office of Inspector General for Investigations.

(Approved by the Office of Management and Budget under control numbers 1845-0125 and 1845-0126)

§ 681.43 Limitation, suspension, or termination of the eligibility of a HEAL lender or holder.

(a) The Secretary may limit, suspend, or terminate the eligibility under the HEAL program of an otherwise eligible lender or holder that violates or fails to comply with any provision of the Act, these regulations, or agreements with the Secretary concerning the HEAL program. Prior to terminating a lender or holder's participation in the program, the Secretary will provide the entity an opportunity for a hearing in accordance with the procedures under paragraph (b) of this section.

(b)(1) The Secretary will provide any lender or holder subject to termination with a written notice, sent by certified mail, specifying his or her intention to terminate the lender or holder's participation in the program and stating that the entity may request, within 30 days of the receipt of this notice, a formal hearing. If the entity requests a hearing, it must, within 90 days of
the receipt of the notice, submit material, factual issues in dispute to demonstrate that there is cause for a hearing. These issues must be both substantive and relevant. The hearing will be held in the Washington, DC metropolitan area. The Secretary will deny a hearing if:

(i) The request for a hearing is untimely (i.e., fails to meet the 30-day requirement);

(ii) The lender or holder does not provide a statement of material, factual issues in dispute within the 90-day required period; or

(iii) The statement of factual issues in dispute is frivolous or inconsequential.

(2) In the event that the Secretary denies a hearing, the Secretary will send a written denial, by certified mail, to the lender or holder setting forth the reasons for denial. If a hearing is denied, or if as a result of the hearing, termination is still determined to be necessary, the lender or holder will be terminated from participation in the program. An entity will be permitted to reapply for participation in the program when it demonstrates, and the Secretary agrees, that it is in compliance with all HEAL requirements.
(c) This section does not apply to a determination that a HEAL lender fails to meet the statutory definition of an “eligible lender.”

(d) This section also does not apply to administrative action by the Department of Education based on any alleged violation of:

1. Title VI of the Civil Rights Act of 1964, which is governed by 34 CFR part 100;

2. Title IX of the Education Amendments of 1972, which is governed by 34 CFR part 106;

3. The Family Educational Rights and Privacy Act of 1974 (section 444 of the General Education Provisions Act, as amended), which is governed by 34 CFR part 99; or


(Approved by the Office of Management and Budget under control number 0915-0144)

Subpart E—The School

§681.50 Which schools are eligible to be HEAL schools?

(a) In order to participate in the HEAL program, a school must enter into a written agreement with the
Secretary. In the agreement, the school promises to comply with provisions of the HEAL law and the HEAL regulations. For initial entry into this agreement and for the agreement to remain in effect, a school must satisfy the following requirements:

(1)(i) The school must be legally authorized within a State to conduct a course of study leading to one of the following degrees:

(A) Doctor of Medicine.
(B) Doctor of Osteopathic Medicine.
(C) Doctor of Dentistry or equivalent degree.
(D) Bachelor or Master of Science in Pharmacy or equivalent degree.
(E) Doctor of Optometry or equivalent degree.
(F) Doctor of Veterinary Medicine or equivalent degree.
(G) Doctor of Podiatric Medicine or equivalent degree.
(H) Graduate or equivalent degree in Public Health.
(I) Doctor of Chiropractic or equivalent degree.
(J) Doctoral degree of Clinical Psychology.
(K) Masters or doctoral degree in Health Administration.
(ii) For the purposes of this section, the term “State” includes, in addition to the several States, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands, Guam, American Samoa, the Trust Territory of the Pacific Islands (the Republic of Palau), the Republic of the Marshall Islands, and the Federated States of Micronesia.

(2)(i) The school must be accredited by a recognized agency approved for that course of study by the Secretary of Education, as described in paragraph (a)(2)(ii) of this section, except where a school is not eligible for accreditation solely because it is too new. A new school is eligible if the Secretary of Education determines that it can reasonably expect to be accredited before the beginning of the academic year following the normal graduation date of its first entering class. The Secretary of Education makes this determination after consulting with the appropriate accrediting agency and receiving reasonable assurance to that effect.

(ii) The approved accrediting agencies are:

(A) Liaison Committee on Medical Education.
(B) American Osteopathic Association, Bureau of Professional Education.

(C) American Dental Association, Commission on Dental Accreditation.

(D) American Veterinary Medical Association, Council on Education.

(E) American Optometric Association, Council on Optometric Education.

(F) American Podiatric Medical Association, Council on Podiatric Medical Education.

(G) Accreditation Council for Pharmacy Education.


(I) Council on Chiropractic Education, Commission on Accreditation.

(J) Accrediting Commission on Accreditation of Healthcare Management Education.

(K) American Psychological Association, Committee on Accreditation.

(b) If a HEAL school undergoes a change of controlling ownership or form of control, its agreement automatically expires at the time of that change. The school must enter into a new agreement with the Secretary in order to continue its participation in the HEAL program.
§681.51 The student loan application.

When the student completes his or her portion of the student loan application and submits it to the school, the school must do the following:

(a) Accurately and completely fill out its portion of the HEAL application;

(b) Verify, to the best of its ability, the information provided by the student on the HEAL application, including, but not limited to, citizenship status and Social Security number. To comply with this requirement, the school may request that the student provide a certified copy of his or her birth certificate, his or her naturalization papers, and an original Social Security card or copy issued by the Federal Government, or other documentation that the school may require. The school must assure that the applicant's I-151 or I-551 is attached to the application, if the applicant is required to possess such identification by the United States;

(c) Certify that the student is eligible to receive a HEAL loan, according to the requirements of §681.5;
(d) Review the financial aid transcript from each institution previously attended by the applicant on at least a half-time basis to determine whether the applicant is in default on any loans or owes a refund on any grants. The school may not approve the HEAL application or disburse HEAL funds if the borrower is in default on any loans or owes a refund on any educational grants, unless satisfactory arrangements have been made between the borrower and the affected lender or school to resolve the default or the refund on the grant. If the financial aid transcript has been requested, but has not been received at the time the applicant submits his or her first HEAL application, the school may approve the application and disburse the first HEAL installment prior to receipt of the transcript. Each financial aid transcript must include at least the following data:

(1) Student's name;

(2) Amounts and sources of loans and grants previously received by the student for study at an institution of higher education;

(3) Whether the student is in default on any of these loans, or owes a refund on any grants;
(4) Certification from each institution attended by the student that the student has received no financial aid, if applicable; and

(5) From each institution attended, the signature of an official authorized by the institution to sign such transcripts on behalf of the institution;

(e) State that it has no reason to believe that the borrower may not be willing to repay the HEAL loan;

(f) Make reasonable determinations of the maximum loan amount approvable, based on the student's circumstances. The student applicant determines the amount he or she wishes to borrow, up to this maximum amount. Only then may the school certify an eligible application. In determining the maximum loan amount approvable, the school will calculate the difference between:

(1) The total financial resources available to the applicant for his or her costs of education for the period covered by the proposed HEAL loan, and other student aid that the applicant has received or will receive during the period covered by the proposed HEAL loan. To determine the total financial resources available to the applicant for his or her costs of education for the period covered by the proposed HEAL loan (including familial, spousal, or
personal income or other financial assistance that the applicant has received or will receive), the school must consider information provided through one of the national need analysis systems or any other procedure approved by the Secretary of Education, in addition to any other information which the school has regarding the student's financial situation. The school may make adjustments to the need analysis information only when necessary to accurately reflect the applicant's actual resources, and must maintain in the borrower's record documentation to support the basis for any adjustments to the need analysis information; and

(2) The costs reasonably necessary for each student to pursue the same or similar curriculum or program within the same class year at the school for the period covered by the proposed HEAL loan, using a standard student budget. The school must maintain in its general office records the criteria used to develop each standard student budget. Adjustments to the standard student budget may be made only to the extent that they are necessary for the student to complete his or her education, and documentation must be maintained in the borrower's record to support the basis for any adjustments to the standard student budget.

(g) Comply with the requirements of §681.61.
§681.52  The student's loan check.

(a) When a school receives from a HEAL lender a loan disbursement check or draft payable jointly to the school and to one of its students, it must:

(1) If the school receives the instrument after the student is enrolled, obtain the student's endorsement, retain that portion of funds due the school, and disburse the remaining funds to the student.

(2) If the school receives the instrument before the student is enrolled, it must, prior to endorsing the instrument, send the instrument to the student to endorse and return to the school. The school may then retain that portion of funds then due the school but must hold the remaining funds for disbursement to the student at the time of enrollment. However, if the student is unable to meet other educational expenses due before the time of enrollment, the school may obtain the student's endorsement and disburse to the student that portion of funds required to meet these other educational expenses.
(b) If a school determines that a student does not plan to enroll, the school must return a loan disbursement check or draft to the lender within 30 days of this determination.

§681.53 Notification to lender or holder of change in enrollment status.

Each school must notify the holder of a HEAL loan of any change in the student's enrollment status within 30 days following the change in status. Each notice must contain the student's full name under which the loan was received, the student's current name (if different), the student's Social Security number, the date of the change in the enrollment status, or failure to enroll as scheduled for any academic period as a full-time student, the student's latest known permanent and temporary addresses, and other information which the school may decide is necessary to identify or locate the student. If the school does not know the identity of the current holder of the HEAL loan, it must notify the HEAL Program Office of a change in the student's enrollment status. This notification is not required for vacation periods and leaves of absence or
other temporary interruptions which do not exceed one academic term.

(Approved by the Office of Management and Budget under control number 1845-0125)

§681.54 Payment of refunds by schools.

A participating school must pay that portion of a refund that is allocable to a HEAL loan directly to the original lender (or to a subsequent holder of the loan note, if the school has knowledge of the holder's identity). At the same time, the school must provide to the borrower written notice that it is doing so.

(Approved by the Office of Management and Budget under control number 1845-0125)

§681.55 Administrative and fiscal procedures.

Each school must establish and maintain administrative and fiscal procedures necessary to achieve the following objectives:

(a) Proper and efficient administration of the funds received from students who have HEAL loans;

(b) Protection of the rights of students under the HEAL program;
(c) Protection of the United States from unreasonable risk of loss due to defaults; and

(d) Compliance with applicable requirements for HEAL schools.

§681.56  Records.

(a) In addition to complying with the requirements of section 739(b) of the Act, each school must maintain an accurate, complete, and easily retrievable record with respect to each student who has a HEAL loan. The record must contain all of the following information:

(1) Student's name, address, academic standing and period of attendance;

(2) Name of the HEAL lender, amount of the loan, and the period for which the HEAL loan was intended;

(3) If a noncitizen, documentation of the student's alien registration status;

(4) Amount and source of other financial assistance received by the student during the period for which the HEAL loan was made;

(5) Date the school receives the HEAL check or draft and the date it either gives it to the student or returns it to the lender (if the school is not the lender);
(6) Date the school disburses the loan to a student (if the school is the lender);

(7) Date the school signs the loan check or draft (if the school is a copayee);

(8) Amount of tuition, fees and other charges paid by the student to the school for the academic period covered by the loan and the dates of payment;

(9) Photocopy of each HEAL check or draft received by the student;

(10) Documentation of each entrance interview, including the date of the entrance interview and the signature of the borrower indicating that the entrance interview was conducted;

(11) Documentation of the exit interview, including the date of the exit interview and the signature of the borrower indicating that the exit interview was conducted, or documentation of the date that the school mailed exit interview materials to the borrower if the borrower failed to report for the exit interview;

(12) A photocopy made by the school of the borrower's I-151 or I-551, if the borrower is required to possess such identification by the United States, or other documentation, if obtained by the school, to verify
citizenship status and Social Security number (e.g., a certified copy of the borrower's birth certificate or a photocopy made by the school of the borrower's original Social Security card or copy issued by the Federal Government);

(13) Documentation of the calculations made which compare the financial resources of the applicant with the cost of his or her education at the school;

(14) Copy(s) of the borrower's financial aid transcript(s);

(15) The standard budget used for the student, and documentation to support the basis for any deviations made to the standard budget;

(16) Copies of all correspondence between the school and the borrower or between the school and the lender or its assignee regarding the loan;

(17) Copy of each form used by the school in connection with the loan; and

(18) Expected postgraduate destination of borrower.

(b) The school must maintain the record for not less than 5 years following the date the student graduates, withdraws or fails to enroll as a full-time student. The
school may store the records in microform or computer format.

(c) The school must comply with the Department's biennial audit requirements of section 705 of the Act.

(d) The school must develop and follow written procedures for the receipt, verification of amount, and disbursement of HEAL checks or drafts. These procedures must be maintained in the school's policies and procedures manuals or other general office records.

(Approved by the Office of Management and Budget under control number 1845-0125)

§681.57 Reports.

A school must submit reports to the Secretary at the times and in the manner the Secretary may reasonably prescribe. The school must retain a copy of each report for not less than 5 years following the report's completion, unless otherwise directed by the Secretary. A school must also make available to a HEAL lender or holder, upon the lender's or holder's request, the name, address, postgraduate destination and other reasonable identifying
information for each of the school's students who has a
HEAL loan.
(Approved by the Office of Management and Budget under
control number 1845-0125)

§681.58 Federal access to school records.
For the purposes of audit and examination, a HEAL school
must provide the Secretary of Education, the Comptroller
General of the United States, and any of their authorized
representatives access to the records that the school is
required to keep and to any documents and records pertinent
to the administration of the HEAL program.

§681.59 Records and Federal access after a school is no
longer a HEAL school.
In the event a school ceases to participate in the HEAL
program, the school (or its successor, in the case of a
school which undergoes a change in ownership) must retain
all required HEAL records and provide the Secretary of
Education, the Comptroller General of the United States,
and any of their authorized representatives access to them.
§681.60  Limitation, suspension, or termination of the eligibility of a HEAL school.

(a) The Secretary may limit, suspend, or terminate the eligibility under the HEAL program of an otherwise eligible school that violates or fails to comply with any provision of the Act, these regulations, or agreements with the Secretary concerning the HEAL program. Prior to terminating a school's participation in the program, the Secretary will provide the school an opportunity for a hearing in accordance with the procedures under paragraph (b) of this section.

(b)(1) The Secretary will provide any school subject to termination with a written notice, sent by certified mail, specifying his or her intention to terminate the school's participation in the program and stating that the school may request, within 30 days of the receipt of this notice, a formal hearing. If the school requests a hearing, it must, within 90 days of the receipt of the notice, submit material, factual issues in dispute to demonstrate that there is cause for a hearing. These issues must be both substantive and relevant. The hearing will be held in the Washington, DC metropolitan area. The Secretary will deny a hearing if:
(i) The request for a hearing is untimely (i.e., fails to meet the 30-day requirement);

(ii) The school does not provide a statement of material, factual issues in dispute within the 90-day required period; or

(iii) The statement of factual issues in dispute is frivolous or inconsequential.

(2) In the event that the Secretary denies a hearing, the Secretary will send a written denial, by certified mail, to the school setting forth the reasons for denial. If a hearing is denied, or if as a result of the hearing, termination is still determined to be necessary, the school will be terminated from participation in the program. A school will be permitted to reapply for participation in the program when it demonstrates, and the Secretary agrees, that it is in compliance with all HEAL requirements.

(c) This section does not apply to a determination that a HEAL school fails to meet the statutory definition of an “eligible school.”

(d) This section does not apply to administrative action by the Department of Education based on any alleged violation of the Family Educational Rights and Privacy Act
§681.61 Responsibilities of a HEAL school.

(a) A HEAL school is required to carry out the following activities for each HEAL applicant or borrower:

(1) Conduct and document an entrance interview with each student (individually or in groups) no later than prior to the loan recipient's first HEAL disbursement in each academic year that the loan recipient obtains a HEAL loan. The school must inform the loan recipient during the entrance interview of his or her rights and responsibilities under a HEAL loan, including the consequences for noncompliance with those responsibilities, and must gather personal information which would assist in locating the loan recipient should he or she depart from the school without receiving an exit interview. A school may meet this requirement through correspondence where the school determines that a face-to-face meeting is impracticable.
(2) Conduct and document an exit interview with each HEAL loan recipient (individually or in groups) within the final academic term of the loan recipient's enrollment prior to his or her anticipated graduation date or other departure date from the school. The school must inform the loan recipient in the exit interview of his or her rights and responsibilities under each HEAL loan, including the consequences for noncompliance with those responsibilities. The school must also collect personal information from the loan recipient which would assist the school or the lender or holder in skiptracing activities and to direct the loan recipient to contact the lender or holder concerning specific repayment terms and options. A copy of the documentation of the exit interview, including the personal information collected for skiptracing activities, and any other information required by the Secretary regarding the exit interview must be sent to the lender or holder of each HEAL loan within 30 days of the exit interview. If the loan recipient departs from the school prior to the anticipated date or does not receive an exit interview, the exit interview information must be mailed to the loan recipient by the school within 30 days of the school's knowledge of the departure or the anticipated departure date, whichever
is earlier. The school must request that the loan recipient forward any required information (e.g., skiptracing information, request for deferment, etc.) to the lender or holder. The school must notify the lender or holder of the loan recipient's departure at the same time it mails the exit interview material to the loan recipient.

(3) Verify the accuracy and completeness of information provided by each student on the HEAL loan application, particularly in regard to the HEAL eligibility requirements, by comparing the information with previous loan applications or other records or information provided by the student to the school. Notify the potential lender of any discrepancies which were not resolved between the school and the student.

(4) Develop and implement procedures relating to check receipt and release which keep these functions separate from the application preparation and approval process and assure that the amount of the HEAL loan check(s) does(do) not exceed the approved total amount of the loan and the statutory maximums. Checks must not be cashed without the borrower's personal endorsement. Documentation of these procedures and their usage shall be maintained by the school.
(5) Maintain accurate and complete records on each HEAL borrower and related school activities required by the HEAL program. All HEAL records shall be properly safeguarded and protected from environmental threats and unauthorized intrusion for use and theft.

(6) Maintain documentation of the criteria used to develop the school's standard student budgets in the school's general records, readily available for audit purposes, and maintain in each HEAL borrower's record a copy of the standard budget which was actually used in the determination of the maximum loan amount approvable for the student, as described in §681.51.

(7) Notify the lender or its assignee of any changes in the student's name, address, status, or other information pertinent to the HEAL loan not more than 30 days after receiving information indicating such a change.

(b) Any school which has information which indicates potential or actual commission of fraud or other offenses against the United States involving these loan funds must promptly provide this information to the appropriate Regional Office of Inspector General for Investigations.

(c) The school will be considered responsible and the Secretary may seek reimbursement from any school for the
amount of a loan in default on which the Secretary has paid an insurance claim, if the Secretary finds that the school did not comply with the applicable HEAL statute and regulations, or its written agreement with the Secretary. The Secretary may excuse certain defects if the school satisfies the Secretary that the defect did not contribute to the default or prejudice the Secretary's attempt to collect the loan from the borrower.

(d) A school is authorized to withhold services from a HEAL borrower who is in default on a HEAL loan received while enrolled in that school, except in instances where the borrower has filed for bankruptcy. Such services may include, but are not limited to academic transcripts and alumni services. Defaulted HEAL borrowers who have filed for bankruptcy shall provide court documentation that verifies the filing for bankruptcy upon the request of the school. Schools will also supply this information to the Secretary upon request. All academic and financial aid transcripts that are released on a defaulted HEAL borrower must indicate on the transcript that the borrower is in default on a HEAL loan. It is the responsibility of the borrower to provide the school with documentation from the lender, holder, or Department when a default has been
satisfactorily resolved, in order to obtain access to services that are being withheld, or to have the reference to default removed from the academic and financial aid transcripts.

(Approved by the Office of Management and Budget under control number 1845-0125)