DOCUMENT RESUME

ED 357 693 HE 026 440

TITLE	Student Financing in the Health Professions: Dependence on and Interactions between the Higher Education Act and the Public Health Service Act Financial Aid Programs: A Background Paper. Draft.
INSTITUTION	Advisory Committee on Student Financial Assistance, Washington, DC.
PUB DATE	Dec 90
NOTE	59p.; For related documents, see HE 026 428-443.
PUB TYPE	Reports - Research/Technical (143)
EDRS PRICE	MF01/PC03 Plus Postage.
DESCRIPTORS	Access to Education; *Allied Health Occupations; Delivery Systems; Economically Disadvantaged; Eligibility; Federal Programs; Graduate Medical Education; Higher Education; Loan Default; Loan Repayment; *Medical Education; Minority Groups; Policy Formation; Public Policy; *Student Financial Aid; *Student Loan Programs
IDENTIFIERS	Health Education Assistance Loan Program; Higher Education Act 1965; Higher Education Act Title IV; Public Health Service Act

ABSTRACT

This paper identifies issues that underlie student financing of education in the health professions in terms of the interrelationships and interactions between financial aid programs under Title IV of the Higher Education Act and Titles VII and VIII of the Public Health Service Act. Section 1 provides background to the issues by describing financial aid programs identifying general issues, and drawing comparisons between aid programs under Titles IV administered by the Department of Education and Titles VII and VIII administered by the Department of Health and Human Services. Section 2 treats access issues in a discussion of costs of attendance, declines in the applicant pool, and limited representation of minorities and disadvantaged students. Section 3 considers the dependence of students in the health professions on loans noting that loans have outstripped grants as the predominant form of assistance for these students. Section 4 looks at loan defaults and their causes arguing that, though default rates for the health professions are low, the financial problems of other programs make clear the risks and consequences of defaults. Section 5 examines delivery of federal student assistance to students in the health professions particularly considering processes for collecting parents' information and assessing "total resources." A final section discusses policy alternatives. An appendix contains a background paper on the Title VII and Title VIII loans. (Contains 11 tables/figures.) (JB)

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STUDENT FINANCING IN THE HEALTH PROFESSIONS:

DEPENDENCE ON AND INTERACTIONS BETWEEN THE HIGHER EDUCATION ACT AND THE PUBLIC HEALTH SERVICE ACT FINANCIAL AID PROGRAMS

A BACKGROUND PAPER

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DECEMBER 1990

HE026 440

ADVISORY COMMITTEE ON STUDENT FINANCIAL ASSISTANCE

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Foreword

Preparation for reauthorization of the federal student assistance programs under both the Higher Education Act and the Public Health Service Act is in progress. The financial aid funds derived from the Higher Education Act under Title IV provide assistance to students enrolled in all sectors of postsecondary education. The funds authorized under Titles VII and VIII of the Public Health Service Act are targeted specifically to students attending health professions schools. These students also benefit from the Title IV programs. The coincidence of these reauthorizations presents a unique opportunity to address cross-cutting issues in a coordinated fashion.

This paper was developed by the Advisory Committee on Student Financial Assistance staff and consultants at the request of Congressional staff. Its purpose is to stimulate discussion about issues fundamental to both sets of programs, and policy alternatives to address these views. As such, the paper attempts to identify the issues that underlie student financing of a health professions education in terms of the interrelationships and interactions between the Title IV and health professions financial aid programs. Several potential solutions to the problems, reflective of some of the dialogue within the health professions financial aid community, are presented as points of departure for further discussion and exploration. These alternatives, which do not represent the position of the Advisory Committee, are not intended to be exhaustive and would benefit from additional evaluation.

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1.0

Background

The issues associated with student financing of a health professions education hold much in common with all sectors of higher education. Concerns include rising costs of attendance, the complexity of the delivery system, educational loans as a fundamental student financing mechanism, and defaults. Although the problems largely are the same throughout higher education, the health professions experience certain difficulties more intensely. For example, the health professions have among the highest costs of attendance and students depend on more sources of federal aid than undergraduate students or graduate students in other disciplines in order to pay for educational expenses. In addition, educational indebtedness is often higher. Although health professions students' default rates are low overall, the level of defaults in one federal loan program targeted specifically to health professions students is high enough to jeopardize the continuation of that program.

These factors are closely linked and interact. An important and perhaps unique feature in this regard is that federal aid funds for health professions students come from both Title IV of the Higher Education Act and Titles VII and VIII of the Public Health Service Act. In other words, health professions students are able to obtain

governmental funding directed specifically to them as well as funding directed to all postsecondary students.

1.1 Financial Aid Programs Authorized under the Public Health Service Act

The Public Health Service Act, as amended, contains authority in Titles VII and VIII for an array of programs, including student financial assistance, that are intended to attain two fundamental goals. First, Congress designed the programs to sustain and develop an adequate supply of health-care providers to meet the needs of all Americans, in general, and underserved populations, in particular. Second, these funds were established to minimize barriers and enhance access to health professions educations, especially for minorities and disadvantaged students.

These programs range in scope and consist of funding to schools, hospitals, local health departments and other related nonprofit entities. The programs provide funds to support health professional training activities in AIDS, geriatrics, family medicine, podiatric medicine primary care, general dentistry, nursing, public health, allied health, and other specific areas. The programs promote access and retention of minority and disadvantaged students in health professions schools through enrichment activities and student financial aid, and encourage general access through financial assistance programs for all students who demonstrate need.

Because this paper focuses on the interrelationships and interactions among the federal student aid programs, it does not include information on the other federal activities authorized under Titles VII and VIII. Figures 1 and 2 on the following pages provide a general description of the health professions financial aid programs.

1.2 Health Professions Student Financing Issues

The issues surrounding how health professions students finance their educations through Title IV and Titles VII and VIII are analogous in many ways to those confronting postsecondary education as a whole. These issues include concerns about:

- Access;
- Dependence on loans;
- Defaults; and
- Delivery of federal student aid.

While all of postsecondary education may be facing similar difficulties, the interaction of various factors poses particular challenges to and dilemmas for the health professions and for the federal government, which furnishes much of the available aid. For example, health professions institutions are striving to improve access for low-income populations and to maintain enrollments overall in a highly competitive aid

Figure 1

General Description of the Titles VII and VIII Loan Programs

Loan Program	Eligibility	Borrowing Limits	Int. Rate	Repayment Period
Health Professions Student Loan (HPSL)	Students studying medicine, osteopathy, dentistry, veterinary medicine, optometry, podiatry and pharmacy. Medical and osteopathic students must demonstrate exceptional financial need.	Annual Limit: Tuition plus $2,500. Aggregate Limit: None.	5%	10 years, exclusive of options for deferment, consolidation, or cancellation. The Secretary of HHS has the authority to repay portions of the loan in exchange for service in a designated shortage area, but funds are not currently available.
Nursing Student Loan (NSL)	Nursing students in diploma, associate, baccalaureate, or graduate programs. Preference to students with exceptional financial need.	Annual Limits: $2,500 per year; $4,000 in the last two years of study. Aggregate Limit: $13,000 - combined undergraduate and graduate.	5%	10 years, exclusive of options for deferment or cancellation. The Secretary of HHS has the authority to repay portions of the loan in exchange for service in a designated shortage area, but funds are not currently available.
Health Education Assistance Loan (HEAL)	Students in medicine, osteopathy, dentistry, veterinary medicine, optometry, podiatry, pharmacy, clinical psychology, chiropractic medicine, health administration, and public health. Students must demonstrate financial need.	Annual Limits: $12,500 to $20,000, depending on discipline. Aggregate Limits: $50,000 to $80,000, depending on discipline.	Variable with no legal cap, but lenders may impose a cap.	25 years, exclusive of options for deferment, administrative consolidation, or cancellation, but no more than 33 years from origination. The Secretary of HHS has the authority to repay portions of the loan in exchange for service in a designated shortage area, but funds have not been made available.

Figure 2

General Description of the Titles VII and VIII Grant Programs

Name of Program	Eligibility	Awards
Exceptional Financial Need Scholarship (EFN)	Full-time doctoral students in medicine, osteopathy, dentistry, veterinary medicine, optometry, pharmacy, and podiatry. Students must demonstrate exceptional financial need.	Awards may equal the cost of attendance and are renewable.
Financial Assistance for Disadvantaged Health Professions Students (FADHPS)	Full-time doctoral students in medicine, osteopathy, and dentistry. Students must demonstrate exceptional financial need and come from disadvantaged backgrounds.	Awards may not exceed $10,000 and are renewable.
Scholarships for the Undergraduate Education of Professional Nurses (SUEPN)	Full-time undergraduate students in diploma, associate degree, or baccalaureate degree programs. Students must demonstrate financial need, come from disadvantaged backgrounds, and provide a minimum of two years of service in a facility designated by the Secretary of Health and Human Services as having a critical shortage of nurses. Funds are allocated with preference to nursing programs that exceed the national average enrollment of underrepresented minorities in undergraduate nursing programs.	Awards cover tuition and fees. Previous SUEPN scholarship recipients receive preference for subsequent SUEPN awards.

environment characterized by increasing costs of attendance and limited applicant pools. As a result, federal financial assistance--particularly loans, which constitutes most of the aid that students receive--has become critical. The aid programs provide students with the ability to attend these schools. In turn, these funds contribute to the financial stability of the schools themselves, particularly those which are primarily tuition-driven.

1.3 Comparisons between the Title IV and Titles VII and VIII Financial Aid Programs

Health professions student assistance funds under Titles VII and VIII, which are administered by the Department of Health and Human Services (HHS), are very limited in comparison to the money available through Title IV of the Higher Education Act, which is administered by the Department of Education (ED). Approximately $360 million were spent in 1989-90 from the three grant programs and three loan programs under Titles VII and VIII. In contrast, Title IV funds for the 1989-90 academic year accounted for almost $19 billion in grants and loans to students, including health professions students. Without Title IV funds, particularly the Stafford Loan and to some extent the Supplemental Loan to Assist Students (SLS), many health professions students would be unable to pay for their education.

One similarity between the health professions assistance programs and the general higher education assistance programs is that most of the funds available are in

the form of loans. The so-called grant-loan imbalance and the potential for students borrowing more than their future incomes can support are concerns raised by all of higher education. However, several factors exacerbate these issues for the health professions. Serious concerns exist about the level of borrowing and the borrowers' capacity to repay their loan obligations.[1] Although future earnings may be greater for students in many of the health professions disciplines than in other areas of higher education, anecdotal information from the health professions financial aid community suggests that loan portfolios tend to be more diverse, composed of loans with different terms, conditions and lenders under both the health professions financial aid programs and Title IV. This feature of indebtedness for health professions students has intensified apprehension about defaults, because the diversity of the loan portfolios often confuses borrowers and requires strong administrative skills as well as sufficient income to manage repayment.

Defaults affect not just individuals, but the stability of the loan programs. Although the campus-based Health Professions Student Loan (HPSL) and Nursing Student Loan (NSL) programs currently have default rates of less than 3% and have viable, but small, revolving funds, Department of Health and Human Services projections for the Health Education Assistance Loan (HEAL)--a guaranteed student

[1] L. J. Colker & Associates, and Applied Management Sciences, Inc. for the Department of Health and Human Services, *A Review of HEAL Defaulters: Their Causes and Corrective Measures--Part II*, 1988. p. 5.7.

loan program which provides substantial sums to students--predict the insolvency of its Student Loan Insurance Fund (SLIF) by 1992.

The health professions have another complicating feature not shared by other sectors within higher education. The regulations for delivery of health professions funds are not consistent with the Title IV regulations. These conflicts are grounded in the approach to determining student need and are necessarily resolved on an institution-by-institution basis. This may weaken implementation of Congressional intent with regard to need analysis for the Title IV programs and may raise questions about equity in the distribution of funds from Titles VII and VIII.

The remainder of this paper discusses each of these issues in terms of the interaction between Title IV and Titles VII and VII and the problems that exist within the current structure. Alternatives are offered as potential solutions, but require additional examination and are not exhaustive. To augment this information, an appendix provides more detail about the health professions loan programs, their history and current status.

2.0

Access

Maintaining access--a primary concern within the health professions education community--is complicated by a number of factors. These include increased costs of attendance, declines in the applicant pool in many of the disciplines, and limited representation of minorities and disadvantaged students.

Increasing costs of attendance--some as high as $36,000--have created financial pressures on students across the socioeconomic spectrum. As a result, low-income students have become even more dependent on financial aid funds to attain access. Students from middle- and upper-income families now also require help to pay for educational expenses; private, non-need-based loan programs have emerged in response to this need. However, at high-cost institutions, even wealthier students probably will demonstrate a degree of financial need, thus becoming eligible for some of the federal and institutional need-based assistance. This has the potential effect of straining limited need-based aid and weakening the ability of these programs to help disadvantaged students.

The diminished number of applicants to health professions schools in concert with costs of attendance that are among the highest in postsecondary education--particularly in the private sector--have intensified competition for students among

institutions. This has fostered concerns about the instability of the educational programs, as illustrated by the closing of several dental schools in recent years.

Financial aid is viewed as fundamental to this competition, since it reduces the net cost of education. Most of the aid available is from federal sources, but many schools augment federal funds to varying extents with their own need-based student assistance. Some schools also have developed merit-based grants to attract students who may not have need, but have superior academic skills or other attributes considered important to the school. These efforts are a source of some controversy within the health professions financial aid community, because merit-based assistance may adversely affect access for underrepresented and disadvantaged students by potentially diminishing the availability of institutional need-based funds.

A limited applicant pool, increased financial need among all students, and difficulties that disadvantaged students may have in achieving access pose several fundamental policy questions. First, is the configuration of financial aid adequate to maintain access in the face of high educational costs? Second, do the current financial aid programs provide students with incentives to enter health professions careers that best serve the nation's needs? Third, should federal funds be used to assure choice of institution as well as access to health professions education? These questions are directly related to the important role that federal loan programs play in supporting health professions students.

3.0

Dependence on Federal Loan Programs

Loans have outstripped grants as the predominant form of assistance for health professions students. Table 1 provides two examples by itemizing the percentage of funds by source used by medical and dental students in 1988-89. These data suggest three conclusions. First, loans account for most of the funds that medical and dental students receive--76% and 89%, respectively, in 1988-89. Students in other health professions disciplines probably rely on loans to a similar degree. Second, the dependence that health professions students have on loans as a means to achieve access is greater than the dependence on loans of students in other sectors of higher education. According to 1988-89 figures, 48% of financial aid funds to students in all sectors of higher education were in the form of grants, while 49% was in the form of loans.[2] However, loans constituted 77% of the financial aid funds to medical students in 1988-89, and 91% of the financial aid funds to dental students.

Finally, Titles VII and VIII provide much less funding in total than Title IV. Table 1 shows that Title IV programs furnished over 50% of the financial aid that medical and dental students obtained in 1988-89. Other data demonstrate the role of the Stafford Loan, particularly, as the primary source of financial aid for health

[2]The College Board, *Trends in Student Aid: 1980-1990*. Washington, D.C., August 1990, p.9. Note that for 1989-90, the proportion of grants and loans shifted slightly, with 49% of the total aid dollars in the form of grants, and 48% in the form of loans.

professions students. For example, 76% of all dental students[3] and 61% of all medical students[4] in 1988-89 borrowed Stafford Loans. Table 2 indicates that medical students received $366.9 million in financial assistance in 1988-89, of which the Stafford Loan Program provided $290.9 million. In contrast, medical students received a total of $135.4 million from the Title VII loan and grant programs combined, demonstrating the degree to which health professions students depend on the Stafford Loan Program

Table 1
Percentage of Financial Aid Funds by Source for Medical and Dental Students 1988-89

Source of Funds	Medical Students	Dental Students
Grants*	23%	9%
Title IV Loans:		
Stafford	42	44
SLS	7	8
Perkins	4	5
Title VII Loans:		
HEAL	14	23
HPSL	4	9
Other Loans	6	3

*Includes the Title VII Exceptional Financial Need (EFN) and Financial Assistance to Disadvantaged Health Professions Students (FADHPS) scholarship programs.

Source: Association of American Medical Colleges and the American Association of Dental Schools.

[3]American Association of Dental Schools *Survey on Student Financial Assistance Summary Report 1988-89* page 4.

[4]Source: Association of American Medical Colleges Section on Student and Educational Programs.

Table 2

Amount of Financial Aid Medical Students Received from Title IV and Title VII in 1988-89 (in millions)

Source of Funds	Amount Received
Title IV Loans:	
Stafford	$290.9
SLS	48.0
Perkins	28.0
	$366.9
Title VII Loans:	
HEAL	$ 98.0
HPSL	30.8
Title VII Grants:	
EFN	$ 3.0
FADHPS	3.6
	$135.4

Source: Association of American Medical Colleges.

Table 3

Expenditures of Titles VII and VIII Financial Aid Grant and Loan Programs from 1980-81 through 1989-90 (in millions)

	GRANTS			LOANS			
Year	EFN	FADHPS	SUEPN*	HPSL	NSL	HEAL	Total
1980-81	10.0	-	-	16.3	13.4	32.5	72.2
1981-82	9.9	-	-	16.3	16.4	75.9	118.5
1982-83	4.6	-	-	51.0	18.0	141.0	214.6
1983-84	5.5	-	-	48.6	16.5	213.6	284.2
1984-85	5.5	-	-	43.8	13.3	269.6	332.2
1985-86	7.0	-	-	48.1	13.3	311.1	379.5
1986-87	6.6	4.9	-	54.0	10.2	251.8	327.5
1987-88	6.9	5.4	-	60.0	19.0	219.2	310.5
1988-89	6.6	5.4	-	64.0	24.0	244.0	344.0
1989-90	6.5	5.3	1.6	70.0	23.0	256.6	363.0

*The Nursing Student Scholarship (NSS), not listed in this chart, provided some grant assistance to nursing students through the early 1980s.

Source: The College Board and the Department of Health and Human Services.

compared with the health professions programs. Table 3 illustrates that health professions programs are limited overall and can supply students only with several hundred million dollars per year.

3.1 Impact of the Titles VII and VIII Loan Programs

Title IV--especially the Stafford Loan Program--is essential to access for health professions students by providing more funding in total than other sources, including Titles VII and VIII. In a sense, the health professions programs are supplementary to Title IV. However, annual and aggregate limits on the amount of aid an individual student may receive in Title IV aid are not sufficient for many attending health professions schools, especially high-cost institutions. Despite the relatively low overall level of funding in the Titles VII and VIII financial assistance programs, these offer important marginal benefits to students. The low-interest rate Health Professions Student Loan (HPSL) and the Nursing Student Loan (NSL) programs--which operate similarly to the Perkins Loan, but have not received new federal appropriations since 1983--are able to provide partial support to very needy students. The Health Education Assistance Loan (HEAL) program generates a particularly powerful effect, because it permits individual students to borrow as much as $20,000 per year up to an aggregate of $80,000, depending on the health professions discipline and the student's demonstrated financial need.

The HEAL program is a guaranteed student loan program with a statutory cap on annual loan volume. It was established to operate at no cost to the federal government and to serve as a loan of last resort for students. Increasing educational costs have changed the HEAL program into a vital part of many students' financial aid packages, even though its terms and conditions are not as favorable as the other federal loan programs. Prior to 1987, HEAL was cost-based as opposed to need-based, and was considered too easy to obtain. Coincidental with regulations that transformed HEAL into a need-based program, Congress legislated increases in annual borrowing limits in the Stafford and SLS programs for students at all levels of postsecondary education. The Stafford Loan Program and--arguably--the SLS Program have more favorable terms than the HEAL program. The combination of turning HEAL into a need-based loan and raising the borrowing maximums in Stafford and SLS probably explains the sharp dip in HEAL volume in 1986-87 and 1987-88. It also underscores that health professions students obtain loans from a changing and increasing array of sources.

3.2 Private Loan Funds

Private loans have emerged as alternative sources in assisting students to pay for their educational expenses. In general, middle- and upper-income families who have

limited eligibility or who are not eligible for need-based assistance use these funds. In medicine, HEMAR and the Association of American Medical Colleges have established the Medloans Alternative Loan Program (ALP), a cost-based, higher-interest rate loan that differs from a number of the other private-label loans, because credit-worthy students--regardless of family income or wealth--are eligible. The Medloans program is used extensively by a number of medical schools.

3.3 Rising Costs of Attendance

Increasing costs of attendance have resulted in increasing the general demand for financial assistance and, in particular, for loans. Because grant funds have not kept pace with rising expenses, loans constitute the primary means of funding a health professions education for many students. Individually, the loan programs are inadequate to help students pay for their educational costs. Instead, students must depend on a variety of loan programs, with the Stafford Loan providing what one health professions publication calls the "backbone" of financial aid.[5] Students may obtain other Title IV assistance as well, such as loans from SLS and Perkins programs. HPSL and NSL loans may augment what is available through Stafford and other sources, with HEAL and private funds making up the remaining costs.

[5]American Association of Dental Schools, *Survey on Student Financial Assistance: Summary Report, 1988/89*, Washington, D.C. 1989, p.4.

3.4 Multiple Sources of Loans

The necessity to obtain funds from many sources results in financial aid packages that may resemble a patchwork of loan programs, each with their own terms and conditions for repayment. Students who have borrowed as undergraduates and attend health professions institutions as graduates may find themselves not just in debt, but in debt with extremely diverse loan portfolios that are very difficult to manage, especially when loans are sold to different lenders and secondary markets, as often happens. There is some concern that the diversity of the loan portfolios as well as the level of indebtedness may foster defaults, an issue which is addressed in the next section of this paper.

3.5 Indebtedness and Career Choice

The relationship between indebtedness and career choice is also widely discussed, especially in medicine. The concern from a policy perspective is that individuals may avoid careers that are less remunerative, such as working in lower-paying specialties (e.g. primary care) or in underserved areas, resulting in a continued undersupply of health-care providers for certain needy populations. Through the years, the federal government has sponsored grants and loan repayment assistance of varying magnitude to attract individuals to serve in shortage areas; the National Health Service Corps scholarship and loan repayment programs are examples. While the data show that

borrowing has some effect on medical students' career decisions, at least one study indicates that the correlation is not as strong as other factors such as receipt of federal scholarships, medical school attended (i.e., private or public), marital status, gender, and receipt of non-federal scholarships.[6]

[6]Dial, T. H. and Elliott, P. R. Relationship of Scholarship and Indebtedness to Medical Students' Career Plans. *Journal of Medical Education*, 62:316-324, 1987.

4.0

Defaults

Default rates for most of the health professions disciplines are fairly low across all three loan programs authorized under Titles VII and VIII of the Public Health Service Act, as Tables 4 and 5 illustrate with the cumulative default rates[7] for the HPSL, HEAL and NSL programs. Nonetheless, the health professions education community is concerned about the manifold and interrelated repercussions of defaults. Defaults jeopardize the survival of the loans programs, as demonstrated by the projected insolvency of the HEAL program. A reduction in the availability of the loan funds would then threaten the ability of future students to obtain sufficient aid to attend health professions schools. In turn, schools that are dependent on revenues from tuition to continue operation could close.

A review of the probable causes for defaults among health professions students and an examination of the fiscal problems facing the HEAL program provide additional insights into the ramifications of defaults for the health professions sector of higher education.

[7]Cumulative defaults rates provide an historical perspective on the loan programs by dividing all the loans in default status by all the loans in repayment status.

Table 4

Dollar Default Rates on the Health Professions Student Loan (HPSL) by Discipline as of December 31, 1989 and Dollar Claims* Rates on the Health Education Assistance Loan by Discipline as of September 30, 1989

Discipline	DEFAULT RATE HPSL	HEAL
Medicine	2.37%	4.9%
Osteopathy	2.67	4.1
Dentistry	2.64	10.7
Optometry	1.48	3.2
Pharmacy	2.54	14.4
Podiatry	4.40	13.4
Veterinary Medicine	2.16	8.0
Public Health	n/a	22.3
Chiropractic Medicine	n/a	13.1
Clinical Psychology	n/a	8.9
Health Administration	n/a	12.4
Overall	2.45%	8.2%

*The HEAL claims rate includes reimbursements to lenders on loans for borrowers who have died or have become totally and permanently disabled in addition to borrowers who have defaulted. Defaults constitute most of the claims rate.

Source: Department of Health and Human Services

Table 5

Dollar Default Rates on the Nursing Student Loan (NSL) by Degree Program as of December 31, 1989

Degree Program	Default Rate
Associate	3.20%
Diploma	2.63
Bachelor	2.59
Graduate	1.52
Overall	2.49%

Source: Department of Health and Human Services

4.1 Causes of Defaults

The causes of defaults among health professions students both point out the dilemmas that require resolution in order to reduce default rates and highlight the specific significance of the implications of default for the health professions. Several probable causes of defaults do not differ from those identified for undergraduate students. For example, students who do not persist in their academic programs are at greater risk of defaulting on their loans than students who graduate. In addition, borrowers who are unemployed or do not have incomes large enough to support the level of their repayment obligations are more likely to default, as a study prepared for the Department of Health and Human Services in 1988 suggests.[8] This is of particular concern because job patterns and income streams among health-care providers appear to be changing.

Systemic breakdowns in the administration of the loan programs also may generate defaults. In part, this is due to the diversity of health professions students' loan portfolios, which can contain loans from seven or eight programs with as many lenders or more. The intricacies of these portfolios and the extensive effort required to manage them are well beyond those of the debts assumed by most other students, who depend primarily on Title IV aid. The situation is aggravated by the complexity of the

[8] L. J. Colker & Associates, *A Review of HEAL Defaulters: Their Causes and Corrective Measures--Part II*, 1988.

student loan industry in which a student may borrow a number of loans from a bank over several years, which then may sell them to different secondary markets that use third-party servicers. There is some anecdotal evidence indicating that this process can split up a borrower's loan portfolio, thus further increasing the number of lenders with whom the borrower must interact. The communication among the participants that is necessary to ensure repayment, deferment and other options becomes prone to inefficiency, error and so-called "technical" defaults.

Loan consolidation permitted under the Higher Education Act, as amended, provides one solution, but has at least four drawbacks. First, HEAL loans only can be consolidated administratively, which means that while the borrower does not have to pay off a HEAL loan with a separate check, there is no reduction in monthly payments. Second, NSL loans, institutional loans and other private loans cannot be consolidated under the Higher Education Act program. Third, consolidation loans have a floor on the interest rate of 9%, making it unattractive to include lower-interest rate loans such Perkins Loans, HPSL and even Stafford Loans under certain circumstances. Finally, borrowers who consolidate lose all their deferment options except for: full-time study; half-time study, if the student borrows from the Stafford Loan Program or the SLS program during that period of enrollment; temporary or total disability; or unemployment. Furthermore, the borrower must pay interest on a consolidation loan

when engaged in permissible periods of deferment. Consolidated loans cannot be deferred during internship and residency.

4.2 Insolvency of the HEAL Program

Despite a cumulative default rate for the HEAL program that is lower than the Stafford Loan Program rate--approximately 8% for all HEAL borrowers--the program is in jeopardy. The HEAL program was intended to be cost-free to the government by using insurance premiums to cover claims; however, HHS has predicted the insolvency of the Student Loan Insurance Fund (SLIF) by 1992 if no structural changes are made to the program. Insolvency could mean the loss of HEAL as a funding source, which may heighten financial problems for institutions that rely on tuition dollars to support operating costs and increase out-of-pocket costs to many students. To prevent bankruptcy over the short term, Congress appropriated funds for the SLIF for the first time in FY 1990.

In response to the HEAL program's precarious status, HHS has made a number of recommendations to remedy the situation that include phasing out HEAL. A recently published Notice of Proposed Rulemaking that describes HEAL as "flawed from its inception" contains proposals aimed at reducing defaults, thus preserving the SLIF and the viability of the program. If finalized, these provisions would:

- Impose a 5% fiscal-year default performance standard on schools, lenders and holders as a criterion for participation;[9]
- Require institutions to withhold services, such as academic and financial aid transcripts, and other alumni services from HEAL defaulters;
- Require schools and lenders at the time of application to compare each HEAL applicant's projected indebtedness with projected earnings at the time of repayment;
- Permit schools and lenders to deny or reduce HEAL loans on the basis of the comparison between projected debt and projected income; and
- Oblige lenders to report HEAL indebtedness to one or more credit bureaus whenever a loan is made.

Implementation of the regulations could have a profound impact on students who rely on the HEAL program. For example, at least 16 of the 55 dental schools still in operation exceed the proposed 5% HEAL fiscal-year performance standard.[10] If the figures are similar for other health professions disciplines, then a number of students

[9]A 5% default performance standard for institutions has been in place for the HPSL and NSL programs since the mid-1980s. The proposed 5% HEAL default performance standard, however is not comparable to the one for HPSL and NSL. While the HPSL and NSL standard is based on a cumulative default rate, the proposed standard for HEAL is based on a fiscal-year default rate. An institution's 1987 fiscal-year default rate for HEAL would be calculated as follows:

$$\frac{\text{Loans Beginning Repayment in 1987 that Go into Default in 1987, 1988 \& 1989}}{\text{Loans Beginning Repayment in 1987}}$$

[10]Department of Health and Human Services, Bureau of Health Professions, Division of Student Assistance, *Annual Default Rates for Schools by Discipline: Dentistry*, computer report, August 4, 1989.

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may find that they cannot begin--or continue--their educations because they are unable to obtain a HEAL loan to pay for the cost of attendance. Schools that are tuition-driven, package HEAL extensively, and have HEAL fiscal-year default rates above 5% will encounter financial difficulty and may close unless alternatives can be found. Currently, there is no sense that private capital is a realistic alternative; the root causes of the HEAL default problem likely will create strong disincentives for private capital to fill the void left by HEAL.

5.0

Delivery of Federal Student Assistance to Health Professions Students

Health professions students depend on HHS's Titles VII and VIII programs and on ED's Title IV programs to meet educational expenses. This leads to diversity in student loan portfolios, which may have negative implications as already discussed in this paper. The dependence on both HHS and ED funding create other problems in terms of the delivery of student aid, because the structures of the two groups of programs are based on different systems for determining student financial need.

5.1 Collecting Parents' Information for All Students

HHS regulations require students to apply for Title VII and Title VIII funds using a need analysis system approved by the Secretary of Education. This system is the Congressional Methodology (CM), which is specified in statute and includes provisions for determining whether or not a student is independent. Independent students are not required to provide parents' information according to the law. However, student independence is not recognized for the purpose of determining financial need for at least three of the HHS programs (i.e., EFN, FADHPS, and HPSL). Institutions must, therefore, collect and assess parents' information as though all students are dependent.

The requirement to obtain and evaluate parents' financial data conflicts with the design of CM and creates variations to the methods of administering Title IV programs. At schools that administer the EFN, FADHPS and HPSL programs, students must provide parental information to assure consideration for all possible sources of financial aid. In addition, health professions institutions often use parental information as a rationing device to package Perkins Loans as well as HPSL loans. Some institutions also may included parents' information in determining eligibility for HEAL and the Stafford Loan based on the professional judgment of the financial aid administrator. It should be noted that the availability of Perkins funds may differ substantially among health professions schools.

The use of parents' information is a logical solution to guarantee that these very limited financial aid funds reach only the neediest students, and not students who--although independent--come from families with the capability to provide support. Despite its intentions, this approach can engender complexity and other problems within the financial aid delivery system, even for students who come from low-income and disadvantaged populations.

5.2 Assessing "Total Resources"

The HEAL program requirements also produce a conflict with CM. Regulations direct institutions to assess "total resources" by evaluating any other information the school may possess about support from family, spouse and other sources available to the student in addition to using CM.[11] Prior to 1987, the HEAL program was non-need-based. Apparent abuses and HHS's intention to reduce defaults by reducing volume led, in part, to HHS changing the HEAL program into a need-based loan. As a result, schools may change the CM family contribution figure based on information obtained from data not used in the need analysis formula. For example, a school might ask parents how much support they plan to provide to the student for the academic year. Based on a comparison between the parents' offer and the CM calculated parents' contribution, the school may choose to use the parents' offer to determine eligibility for HEAL. Some schools may use the alternative contribution figure to package Perkins Loans and to certify eligibility for Stafford Loans.

Although the results may reconcile disparities between HHS and ED requirements, the process can lead to administrative inconsistencies across institutions. It may lead to inaccuracy, because parents' offer--or contribution from grandparents or other personal sources--are often difficult to verify, may not actually be met, or may

[11] Similar, but less emphatic provisions exist in regulations governing the HPSL and NSL programs.

understate the actual assistance. Further, not all students will provide such information, resulting in a system that may be subject to inaccuracy and inequities. For example, some students will recognize that they may be better off if their parents or family members understate or do not reveal the actual level of support. Those who do provide such information may be penalized with reduced aid packages.

The approach used in the HEAL regulations as a preventative against excessive borrowing has merit. Nonetheless, CM is the stated method according to the regulations and provides a standard means of assessing a student's ability to pay for the cost of attendance. Professional judgment notwithstanding, combining CM with potentially unverifiable and inconsistent applicant-reported figures creates unique need analysis systems for each institution, thus conceivably inhibiting Congressional objectives of consistency and reliability in need analysis and aid delivery.

6.0

Discussion of Policy Alternatives

Student aid from Title IV and Titles VII and VIII combine to furnish important benefits by assisting health professions students to gain access to specific educational curricula. The Stafford Loan provides a foundation for most students with financial need, while the limited funding available through the health professions grant and low-interest rate loan programs reduce indebtedness and the long-term cost of indebtedness for students from the lowest-income populations. The HEAL loan, on the other hand, offers large amounts of assistance to individuals across a broader spectrum of need.

Despite the benefits derived from the current configuration of the federal aid programs, certain problems pervade. These include adequacy of individual aid programs; diversity of student loan portfolios; instability of the HEAL program; and inconsistencies in the structure and delivery of aid to health professions students. The nature of the problems as presented in this paper suggests that adjustments are necessary to maintain the availability and stability of funding sources in order to preserve access to health professions education and to maintain a supply of health care providers for the citizenry of this nation. As reauthorization of the Higher Education Act and relevant titles of the Public Health Service Act draws closer, examination of

the issues provides an opportunity to identify a variety of alternatives that hold promise as potential solutions.

6.1. Alternatives to the HEAL Program

The Department of Health and Human Services has put forth the elimination of HEAL as a means to avoid the predicted insolvency of the program. Removing HEAL as a source of assistance will relieve the program of its fiscal problems. However, such an action will deny access to health professions education for at least some students. Discontinuing the HEAL program will also create severe financial difficulties for schools that package HEAL extensively and rely on tuition revenues to cover operating expenses.

One alternative may be to streamline the federal loan programs available to health professions students by replacing HEAL with expanded annual and aggregate loan limits under either the Stafford Loan or the SLS loan. This is an approach that has support within the health professions financial aid community. Optimally, implementation would simplify student loan portfolios by: reducing the number of programs from which students borrow; decreasing the number of parties with whom borrowers must communicate in order to stay out of default; easing repayment burdens

in the years directly following graduation; and addressing HEAL's current fiscal problems.

Enlarging the scope of either of the Title IV guaranteed student loan programs to compensate for the loss of HEAL is promising, but requires further exploration. To determine the viability of this strategy and to select the program best-suited for expansion in place of HEAL requires identifying the borrowers who would be affected and ascertaining potential costs to the taxpayer.

The effectiveness of replacing the HEAL program with either the Stafford Loan or SLS depends on whether or not a substantial number of students who borrow from HEAL also borrow from one or both of the other programs. Because Stafford is the "backbone" of financial aid for most health professions students, it appears that the chances of overlap are greater between HEAL and Stafford, rather than between HEAL and SLS. If this is true, then the Stafford Loan Program would seem to be logical choice for expansion. However, more data are needed to confirm or contradict this assumption, and to establish the degree of overlap between HEAL and SLS borrowers. Furthermore, the approach will have limited impact should the data demonstrate no or minimal overlap between HEAL and the other programs.

The cost of increasing annual and aggregate loan limits under the Stafford Loan or under SLS depends on the in-school subsidies, the special allowances, and the default claims underwritten by the federal government. Overlap in borrowing patterns notwithstanding, augmenting the subsidized Stafford Loan for health professions students will be more expensive than expanding SLS. Lenders receive both in-school subsidies and special allowances as incentives to extend the lower-interest rate Stafford Loan to students.[12] On the other hand, the federal government does not provide subsidies for the higher-interest rate SLS loan; and special allowances are paid only under certain conditions.[13] Because it will be less costly, the SLS program perhaps holds more promise than the subsidized Stafford Loan as a viable substitute for HEAL. Like the current HEAL program, lenders are willing to extend SLS loans because the interest rate is high enough to attract lenders without direct governmental financial incentives.

Another potential avenue is the unsubsidized Stafford Loan. Very few lenders offer these loans to students, because the interest rate is low, and subsidies and special

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[12]Currently, the Stafford Loan interest rate is 8% from origination until the fifth year of repayment, when it converts to 10%. In the past, interest rates have been variously 7%, 8%, and 9%. During the in-school period and periods of deferment, the federal government subsidizes the loan for the borrower by paying the accrued interest to the lender on a quarterly basis. The lender also receives a quarterly special allowance from the federal government that is computed by taking the average bond equivalent of the 91-day Treasury Bill, subtracting the interest rate of the loan, adding 3.25%, and then dividing by four. There are minimum special allowances for 7%, 8% and 9% loans.

[13]The interest rate on the SLS loan is computed annually by adding 3.25% to the average bond equivalent of the 52-day Treasury Bill. There is no federal subsidy to the lender. Because the interest rate charged to the student may not exceed 12%, when the calculation shows that the interest rate would be more than 12%, the federal government pays the difference to the lender in the form of a special allowance. The student is responsible for interest payments, but the interest may be deferred and capitalized as much as quarterly while the student is in school.

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allowances are not available.[14] It is unlikely, therefore, that lenders would be willing to provide sizable loans under this program without some kind of incentive such as subsidies or increased interest rates, thus transforming the unsubsidized Stafford Loan into a subsidized Stafford Loan or into a SLS.

The federal government underwrites defaults for subsidized and unsubsidized Stafford Loans and for SLS. Except for a capital infusion of $25 million in FY 1990 to secure the Student Loan Insurance Fund (SLIF) for the short term, the Congress has not appropriated funds to support the operation of the HEAL program. Rather, HEAL is designed to be self-supporting with default claims funded by the SLIF, which is financed by the insurance premiums students pay on each HEAL loan. The history of the program and future projections show that the SLIF is inadequate to cover the cost of defaults. Subsuming HEAL into either the Stafford Loan or SLS will increase the costs to the federal government by some amount in order to cover defaults, unless structural changes are made. In turn, a redesigned Stafford Loan or SLS could encounter the same financial problems that currently exist in the HEAL program. On the other hand, the effect of streamlining student loan portfolios may have the effect of reducing defaults, thereby reducing costs.

[14]Unsubsidized Stafford Loans are targeted to students who do not demonstrate financial need according to the Congressional Methodology. Lenders receive neither special allowances nor reinsurance, and students are responsible for interest payments throughout the life of the loan, including the in-school period and residency. Interest may be deferred until repayments begin, at which time the lender capitalizes the interest with the principle.

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6.2 Alternatives for Resolving Conflicts in the Delivery of Federal Aid to Health Professions Students

Solutions to resolving the inconsistencies in the delivery of assistance to health professions students are less evident. It does appear, however, that methods of distributing funds without compromising the Congressional Methodology offer a practical point of departure for further exploration. Two potential approaches are discussed below.

First, conflict in the administration of the Title IV and health professions programs could be resolved by not requiring students designated as independent according to CM to supply parents' information. Because virtually all graduate students are independent under CM, the absence of parents' information would make it impossible for financial aid administrators to identify socioeconomically disadvantaged students. These students constitute the target group for the HPSL, EFN and FADHPS programs under Title VII.

The health professions financial aid community generally agrees that the current system adequately performs the functions of identifying low-income students and rank-ordering them according to need, even though the process yields administrative inconsistencies and can be burdensome for both applicant and institution. To be acceptable to the financial aid community, any alternative to the status quo must

alleviate the problems without blunting the financial aid administrator's ability to differentiate need among applicants.

An alternative to collecting parents' information that has been discussed is the use of proxies to assure that funds still are targeted to the neediest students. Examples of such proxies range from priority for students who receive public assistance programs, or received Pell Grants as undergraduates, to those who are the first generation in their families to be college-educated. Implementation would require that the proxies be carefully chosen and can be trusted as accurate barometers of a student's financial need. In other words, the proxies must be able to distinguish among students' potential to contribute to the cost of education. Matters relating to the application form and verification of the data also require additional investigation to test the feasibility of this approach.

It is possible that proxies may not act as an adequate tool for rank ordering students by need. Another drawback is that not all graduate programs outside of the health professions collect parents' information in order to distribute financial aid funds. In other words, while some non-health professions graduate programs--such as law--may require parents' information for all students to apportion limited funds, other graduate programs may accept the independency status of the student as defined by the Congressional Methodology. As a result, modifying procedures related to the

Congressional Methodology to accommodate the conflicts between the financial aid programs under Title IV and Titles VII and VIII may have unintended effects on other sectors of higher education. Nonetheless, if deliberately structured, this alternative may be able to eliminate certain conflicts in the delivery of federal aid to health professions students without redistributive effects and without creating complexity in other areas of graduate and professional education.

A second avenue for resolving differences in delivery is related to the HEAL regulations that require the assessment of information beyond the calculations for family contribution produced by the Congressional Methodology. Under the current configuration, it is possible for institutions to customize need analysis. In addition to inconsistencies that may result in financial aid packages for students within an institution, this approach results in inconsistencies in awarding funds across institutions. However, the variations may be viewed within the financial aid community as the exercise of professional judgment rather than a disruption in the application of the Congressional Methodology. The replacement of the HEAL program with an enhanced Stafford Loan or SLS program would reconcile these differences, assuming that the Title IV program rules for determining need would remain the same even if borrowing limits were extended under one of the Title IV guaranteed student loan programs.

If HEAL continues as an independent entity without changes to the regulations that address eligibility based on financial need, then other strategies are worth inspecting. For example, the regulations could be modified to eliminate the use of "total resources" beyond what is captured through the Congressional Methodology. However, it is unclear to what extent using the Congressional Methodology alone would increase borrowing volume and corresponding defaults. There may also be objections to implementing this modification, because it may impinge on the financial aid administrator's exercise of professional judgment.

As an alternative, institutions could be expressly permitted to customize need analysis to determine need for HEAL, but expressly prohibited from using figures other than those generated by statutory formulas to determine eligibility under Title IV. Such a restriction would not address the inconsistencies in awarding federal student aid within and across institutions that are created by using "other information" in conjunction with CM; nor would this approach alleviate some of the current complexity in administering both Title IV and the health professions programs. There also is the possibility of encroaching on the professional judgment accorded to financial aid administrators by Congress in the 1986 amendments to the Higher Education Act.

The pending reauthorizations of Title IV of the Higher Education Act and Titles VII and VIII of the Public Health Service Act provide Congress with an opportunity to alleviate in a coordinated fashion the tensions that exist among the financial aid programs used to assist health professions students. The issues and options presented in this paper are intended to generate discussion for this purpose. The potential solutions contained herein have not been fully explored, nor are they exhaustive. Additional exploration is necessary to determine budgetary and redistributive effects and to assess the implications of implementation. In addition, other alternatives that have the potential to resolve some of the problems that currently exist in the federal financial aid programs used by health professions students should be identified and assessed.

APPENDIX

APPENDIX

Introduction

The Department of Health and Human Services (HHS) administers a set of financial aid programs directed at students enrolled in health professions curricula. The programs, embodied in Titles VII and VIII of the Public Health Service Act, as amended, have evolved since the early 1960s into several grant and loan opportunities for individuals pursuing degrees in medicine, osteopathy, dentistry, veterinary medicine, optometry, podiatry, pharmacy, allied health fields, clinical psychology, chiropractic medicine, public health, health administration and nursing. The funds are intended to sustain an adequate supply of health-care providers and to enhance access to health professions education, especially for low-income and disadvantaged populations.

Total expenditures for these programs are small in comparison to the monies administered by the Department of Education (ED) under Title IV of the Higher Education Act, as amended. Nonetheless, the HHS and ED programs share certain common elements. For example, loans provide more dollars than do grants. In addition, default reduction is an important theme in the administration of the loan programs. It appears, furthermore, that students who receive health professions funds generally also benefit from the Title IV loan programs, specifically the Stafford Loan, the SLS loan, and the Perkins Loan.

This appendix provides summaries of the Title VII and Title VIII loans, which consist of the following programs:

- Health Professions Student Loan Program (HPSL);
- Nursing Student Loan Program (NSL); and
- Health Education Assistance Loan Program (HEAL).

The appendix briefly addresses the financing structure and administration of these funds. A cursory treatment of basic student eligibility requirements and terms of the loans is presented as background. Some comparisons to the Title IV programs are advanced as appropriate throughout the narrative.

Health Professions Student Loan Program

Over 250 million students in designated programs of medicine, osteopathy, dentistry, veterinary medicine, optometry, podiatric medicine and pharmacy have received $963 million from direct appropriations, revolving funds, and redistributed funds under the Health Professions Student Loans since 1965. Students may borrow up to tuition plus $2,500 per year. Institutions generally do not have sufficient HPSL monies, however, to make awards of this magnitude. The loans are extended at a flat

5% interest rate[1] and must be repaid within ten years, exclusive of allowable deferments. Loan consolidation with other federal student programs is an option. These terms and conditions are comparable to the Perkins loan under Title IV.

Like Perkins, HPSL is functionally a campus-based program. It was developed through a combination of federal and institutional funds, with institutional matches equal to no less than one-ninth of the federal capital contribution. Congress has not provided additional appropriations since 1983, but has permitted schools to make HPSL awards indefinitely from revolving funds. Although new federal funds have not been authorized for some time, the Health Professions Training Assistance Act of 1985 provides the Secretary of Health and Human Services with the authority to reallocate excess cash returned from institutions. Schools that established HPSL programs with federal capital contributions between July 1, 1972 and September 30, 1985 are eligible to receive these additional federal allocations. Approximately $3.3 million and $4.3 million were redistributed in fiscal years 1987 and 1988, respectively. Table A1 compares the levels of authorization, appropriation and allocation from 1965 through 1989.

[1] In the past, the interest rates on HPSL have been legislated at 5%, 7%, and 9%.

Table A1

Health Professions Student Loan: Authorization, Appropriation, and Allocation from 1965 through 1989 ***(in millions)***

Year	Authorization	Appropriation	Allocation
1965	$10.20	$10.20	$10.11
1966	15.40	15.40	15.40
1967	25.00	25.30	25.00
1968	25.00	15.00	15.00
1969	25.00	15.00	14.22
1970	35.00	23.80	9.41
1971	35.00	25.00	24.75
1972	50.00	30.00	30.00
1973	55.00	36.00	36.00
1974	60.00	36.00	36.00
1975	60.00	36.00	35.98
1976	60.00	24.00	24.00
Transitional Quarter		20.00	20.00
1977	39.10	24.00	23.76
1978	26.00	20.00	19.80
1979	27.00	10.00	9.90
1980	28.00	16.50	16.34
1981 (Continuing Resolution)		16.50	16.34
1982	12.00	5.60	5.58
1983	13.00	1.00	.99
1984	14.00	0.00	0.00
1985	0.00	0.00	0.00
1986	0.00	0.00	0.00
1987*			3.30
1988*			4.29
1989*			0.00

*Although there is no authorization or appropriation for the years marked, Congress has given the Secretary the authority to redistribute funds returned to the Department.

Source: Department of Health and Human Services

Despite the lack of new authorizations for federal capital contributions, HPSL and Perkins share other common administrative and structural components. For

instance, institutional administrative requirements and procedures are comparable, although minor differences in collections practices exist. Both programs also require the maintenance of low default rates as an institutional eligibility criterion. The Perkins program, however, charges institutions to sustain a default rate of 7.5% or less to receive a maximum federal capital contribution. HPSL, on the other hand, prevents schools with default rate performance standards of more than 5% from participating in the program.

In addition to similar terms and conditions, Perkins and HPSL provide institutions with considerable latitude, within government guidelines, to determine who receives loan awards and how much. For example, institutions must distribute Perkins and HPSL funds on the basis of financial need as determined by a need analysis system approved by the Secretary of Education. In marked contrast to the Title IV programs, student independence is not recognized for the purpose of determining financial need under the HPSL program. Parents' information, therefore, must be collected and assessed as though all students are dependent. For schools of allopathic and osteopathic medicine, eligible students must demonstrate "exceptional financial need," defined in regulation as the lesser of $6,700 in family contribution or one-half the cost of attendance. Perkins loans must also be distributed on the basis of exceptional financial need, but the definition is determined by the institution.

Nursing Student Loan Program

The Nursing Student Loan Program became available in 1965. Since inception, $417 million have assisted 315,000 students in diploma, associate, baccalaureate, and graduate programs. NSL loans are limited to $2,500 per year, although nursing students in the last two years of their program may borrow up to $4,000 per year, not to exceed an aggregate of $13,000. The interest rate is currently 5%.[2] Borrowers have up to ten years to repay their loans, exclusive of deferment options.

The Nursing Student Loan Program is structured similarly to the HPSL program in terms of its development through a combination of federal capital contributions and institutional matching funds. Institutions also had the option of transferring up to 20% of the federal capital contribution for NSL into the Nursing Student Scholarship Program. The Nursing Student Scholarship Program has not received federal appropriations since 1981 and new federal dollars for NSL have not been appropriated since 1983, but legislation authorizes the continued use of NSL revolving funds through September 30, 1994. With the enactment of the Nurse Education Amendments of 1985, HHS has the authority to redistribute NSL funds returned to the Department, although institutions may no longer transfer funds internally. Institutions establishing NSL funds after September 30, 1975 have priority for redistributed dollars. In 1987,

[2]Loans made prior to November 4, 1988 were extended at 6%

HHS reallocated $10.22 million; in 1988, $5.99 million; and in 1989, $8.19 million.

Table A2 contains information on the authorization, appropriations and allocations from 1965 through 1989.

Table A2

Nursing Student Loan: Authorization, Appropriation, and Allocation from 1965 through 1989 ***(in millions)***

Year	Authorization	Appropriation	Allocation
1965	$ 3.10	$ 3.09	$ 3.09
1966	8.90	8.90	8.87
1967	16.80	16.90	12.68
1968	25.30	16.00	9.02
1969	30.90	9.60	9.40
1970	20.00	16.40	8.23
1971	21.00	17.10	17.11
1972	25.00	21.00	21.00
1973	30.00	24.00	20.98
1974	35.00	22.80	25.80
1975	35.00	22.80	22.80
1976	25.00	21.00	21.00
Transitional Quarter		9.00	9.00
1977	30.00	22.50	22.28
1978	35.00	22.50	22.28
1979	22.50	13.50	13.50
1980	13.50	13.50	13.37
1981 (Continuing Resolution)		13.50	13.67
1982	14.00	6.60	6.51
1983	16.00	.90	.10
1984	18.00	0.00	0.00
1985	SSAN	0.00	0.00
1986	SSAN	0.00	0.00
1987**	SSAN	0.00	10.22
1988**			5.88
1989**			8.19

*Includes $3 million previously impounded

**Although there is no authorization or appropriation for the years marked, Congress has given the Secretary the authority to redistribute funds returned to the Department.

Source: Department of Health and Human Services

Like the HPSL program, institutions must maintain a 5% NSL default rate

performance standard to continue offering loans to eligible students. Collection practices and other administrative aspects of maintaining NSL funds parallel the Health Professions Student Loan Program.

Traditionally, students had to demonstrate financial need according to a need analysis system approved by the Secretary of Education. With enactment of the Nurse Education Amendments of 1985, students who enrolled in a school after June 30, 1986 had to demonstrate "exceptional financial need," defined in regulation as family contribution not exceeding one-half the cost of attendance. The passage of the Nursing Shortage Reduction and Education Extension Act of 1988 removed the word "exceptional" from the financial need criterion, but maintained priority for students with exceptional financial need. Unlike the HPSL program, the regulations do not require that parents' information be collected, although the institution must also take into account "other information which the school has regarding the student's financial status."

Health Education Assistance Loan Program (HEAL)

More than 200,000 students have borrowed in excess of two billion dollars in HEAL loans since 1978. Students pursuing doctoral degrees in medicine, osteopathy, dentistry, veterinary medicine, optometry, and podiatric medicine may borrow up to

$20,000 per year, not to exceed an aggregate HEAL obligation of $80,000. Students in designated programs of pharmacology, health administration, public health, allied health programs, clinical psychology and chiropractic medicine may not borrow more than $12,500 per year, up to $50,000 in total from the HEAL program. Students have twenty-five years to repay, exclusive of periods of deferment, with a maximum of 33 years from the origination of the loan. Administrative consolidation of HEAL loans is available, permitting students to combine HEAL repayments--without changing the terms of the HEAL repayments--with other federal student loan programs.

The Health Education Assistance Loan Program is federally guaranteed and operates in a fashion similar to the Title IV guaranteed student loan programs. Institutions certify that the student is eligible and has financial need for the loan; lenders provide the capital and extend loans to eligible students; and the federal government guarantees the loans against default. Two significant components of the HEAL program distinguish it, however, from Stafford and SLS loans. First, the program was meant to be self-supporting, without cost to the federal government. Second, HEAL is not an entitlement.

These characteristics have a fundamental influence on the configuration of the program and on the changes that have taken place since its inception in 1976. The following discussion explores these attributes and the importance that defaults have

played in the development of the HEAL program.

A chief difference between HEAL and the Title IV Stafford Loan Program is that HEAL was intended to operate without cost to the federal government. As a result, lenders receive neither subsidies, nor special allowances for offering HEAL loans. Instead, students have borne the cost of the program through payment of the insurance premium and through interest charges.

The interest rate is determined quarterly by adding three percent to the average bond equivalent rate of the 91-day Treasury Bill. Currently, the interest rate on HEAL is approximately 11%, and is comparable to the interest charged on the SLS loan.[3] Because HEAL has no legal cap on the interest rate, the potential exists for the rate to become quite high, as it did in the early 1980s when it rose to 19 1/2%. Lenders also are permitted to capitalize accrued interest on a semi-annual basis, which can substantially increase the cost of borrowing. Several lenders, however, have exercised their option to offer HEAL loans at more favorable interest rates and with minimal capitalization. Recently, a number of lenders have reverted to charging the maximum interest rate and to increasing the frequency of capitalization. Other lenders have opted to leave the program.

[3]The calculation of the HEAL interest is comparable to the calculation of interest on the SLS loan. The interest rate on the SLS loan is determined annually by adding 3.25 percent to the average bond equivalent rate of the 52-week Treasury Bill, not to exceed a cap of 12%.

Perhaps the most notable difference between HEAL and the Stafford loan and SLS is that the HEAL program is not an entitlement. To this end, Congress established annual credit authorities in statute, as illustrated in Table A3. HEAL loan volume above the credit authority is not guaranteed, although unused credit authority in one year can be carried over to the next year. At the outset of the program, loan volume did not reach the limits set by the credit authority. By the early 1980s, demand for HEAL began to mount sharply as costs of attendance grew and as Congress expanded eligibility by permitting access to a broader group of degree programs.

The increase in loan volume gave rise to concern about default rates and the ability of the Student Loan Insurance Fund (SLIF)--which was financed by the borrower from loan insurance premiums--to meet lender claims. To assure the solvency of the SLIF, the government took several actions at the behest of the Department of Health and Human Services. First, Congress raised the ceiling on the insurance premium in 1985 to a maximum of 8%. The Secretary was not given authority to increase the insurance premium until a qualified public accounting firm both evaluated the need to raise the premium to preserve the solvency of the SLIF, and made a recommendation as to the level of the increase. In 1986, following such an evaluation and recommendation, the Secretary imposed a flat eight percent insurance premium on each loan. Previously, students were charged two percent of the loan principal for each year

that the student had remaining in school plus the grace period.

Table A3
Health Education Assistance Loan: Credit Authority, Disbursements and Default Claims *(in millions)*

FY Year	Credit Authority	Disbursements	Claims
1978	$500		
1979	510	$ 85.6	$ .2
1980	520		
1981	520		
1982	200	92.9	.4
1983	225	161.5	1.0
1984	250	236.6	4.0
1985	250	284.7	9.0
1986	275	321.4	16.0
1987	290	221.5	20.0
1988	305	229.3	36.0
1989	325	250.6	10.1
1990	350	250.0*	30.0*
1991	375	181.0**	46.0*

*Estimated projection
**Bush Administration budget proposal

Source: Department of Health and Human Services

Subsequently, the Department of Health and Human Services published regulations in 1987 outlining additional actions intended to reduce defaults by reducing volume and increasing other default prevention activities. For example, demonstrated financial need became an eligibility criterion intended to curtail borrowing. Regulations direct institutions to assess "total financial resources" by using a need analysis system approved by the Secretary of Education and by assessing any other information the

school may possess about support from family, spouse and other sources available to the student. In addition, the regulations specify fairly extensive institutional entrance and exit counseling requirements. Other measures require schools to deny loans to students who have defaulted on any educational loans, to state that they have "no reason to believe that the borrower may not be willing to repay the HEAL loan," and to accept responsibility for reimbursement of claims if the institution does not comply with statute, regulations, and the written agreement with the Secretary. Further, lenders must deny loans to students with poor credit ratings, to make multiple loan disbursements, and to grant forbearance to help borrowers avoid default.

HHS data suggest that these regulatory efforts played a part in depressing loan volume. In 1989, dollar claims declined almost sixty percent since the previous year. Annual and aggregate borrowing limits for graduate students in the Stafford Loan were increased at about the same time the HEAL regulations went into effect. The Department of Health and Human Services surmises that this also had an influence on lowering the demand for HEAL.

Most recently, Congress provided $25 million in FY 1990 to secure the integrity of the SLIF for the short term. Despite these actions to protect the SLIF, projections developed by the Department of Health and Human Services indicate that the insurance fund is still in jeopardy and cannot function without additional cash infusions,

as Table A4 illustrates. As a result, the Department of Health and Human Services has proposed phasing out the HEAL program.

Table 4
Health Education Assistance Loan: HHS Projections for Default Claims and SLIF Balances from 1991 through 1995 ***(in millions)***

Year	Claims	SLIF Balance
1991	$ 46.0	$ 8.0
1992	53.0	(30.0)
1993	61.0	(81.0)
1994	70.0	(145.0)
1995	81.0	(218.0)

Source: Department of Health and Human Services

Aside from supporting a phase-out of the program, HHS recently published proposed rules that would establish default rate standards in an effort to curb defaults and preserve the SLIF. Authority for such regulations is contained in the Health Omnibus Program Extension of 1988, which permits the Secretary of Health and Human Services to establish reasonable default rate limits. The proposed rules would set a fiscal-year default rate performance standard at 5% for schools, lenders, and holders. In addition, schools and lenders would have the authority to reduce or deny loans to applicants based on a comparison of the individual's projected debt and projected earnings at the time repayments begin. Although denial and reduction of

loans would be at the option of schools and lenders, the provisions would make the comparison between estimated future debt and estimated future income a requirement.

The Department of Health and Human Services also is considering other proposals to maintain the adequacy of the SLIF to support lender claims. For example, one set of proposals under consideration for reauthorization is categorized under the rubric of risk-sharing. Risk-sharing would entail eliminating the cap on the insurance premium. Students would pay 75% of the insurance premium, while institutions would be responsible for the remainder. Lenders and schools would also be expected to participate in the reimbursement of claims. Lenders would provide approximately 20% of all default claims, while schools would be responsible for 2% to 10%.