Department of Health and Human Services

OFFICE OF INSPECTOR GENERAL

HEALTH EDUCATION ASSISTANCE LOAN DEFAULTERS WITH INCOME IN FISCAL YEAR 2008

Daniel R. Levinson
Inspector General

February 2010
OEI-03-09-00100

EXECUTIVE SUMMARY

OBJECTIVE

To determine whether individuals who have defaulted on their Health Education Assistance Loans (HEAL) received income in fiscal year (FY) 2008 that might enable them to make payments on these loans.

BACKGROUND

The HEAL program began in 1978 to help eligible graduate students in health professions finance their education. Although no new HEAL loans have been issued since September 30, 1998, the Health Resources and Services Administration (HRSA) in the Department of Health & Human Services (HHS) continues to oversee prior loans made by participating lenders, such as banks and credit unions. HHS's Program Support Center (PSC) provides HRSA with debt management services, which include many of the activities involved in trying to obtain payments when individuals default on HEAL loans. Through the HEAL program, 157,388 borrowers received $4 billion in HEAL loans.

HHS reimburses lenders for any HEAL loans that are not repaid because of borrowers' default, bankruptcy, death, or total and permanent disability. After a lender has tried to obtain repayment from a HEAL borrower and failed, it requests payment from HRSA. HRSA approves the claim for payment and then PSC initiates an extensive loan collection process. If, at the end of this process, the borrower does not enter into a repayment agreement, the Department of Justice (DOJ) requests that PSC refer the case to the HHS Office of Inspector General (OIG). OIG then notifies the borrower that he or she is being excluded from participation in Federal health care programs.

When OIG excludes a HEAL borrower, PSC includes the individual on the defaulted borrowers list. PSC provides this list to HRSA to publish on its Web site (http://www.defaulteddocs.dhhs.gov) at the next quarterly update. HEAL defaulters are removed from this list when their debt is repaid or they enter into settlement agreements with DOJ and OIG to repay their debt. HEAL defaulters may make loan payments, but unless they enter into settlement agreements, they are still considered to be in default and remain on the defaulted borrowers list.

Almost all HEAL borrowers have repaid or are in the process of repaying their loans through their original or refinancing agreements. However, 1,065 HEAL borrowers on the defaulted borrowers list owed

$147 million in principal and interest as of November 1, 2008. Because of the accrual and compounding of interest, the amounts some defaulters owed far exceeded their original loan amounts.

The State Identification Inquiry (SIDI) is an application States use to obtain information on individuals' wages and unemployment benefits nationwide. Using data obtained from SIDI, we determined whether any of the 1,065 defaulters on the defaulted borrowers list earned income in FY 2008. We also obtained from PSC a file containing information on any of the 1,065 HEAL defaulters who had made payments toward their loans but did not have settlement agreements. We used this file to determine whether any of the HEAL defaulters with income in FY 2008 had made loan payments during that time.

FINDINGS

Of the 486 HEAL defaulters who earned income in FY 2008, 312 made no payments on their loans during that time. Based on wages identified through SIDI, 486 of the 1,065 HEAL defaulters earned income in FY 2008. The remaining 579 defaulters did not have income information identified in SIDI. Of the 486 defaulters, 312 made no loan payments during that time. These 312 HEAL defaulters owed $47.5 million on their loans and earned $13.4 million in FY 2008. The median income for these defaulters was $34,387. Ninety-eight defaulters (31 percent) earned $50,000 or more. Four of these defaulters earned $200,000 or more. The 98 defaulters were responsible for nearly $15 million (31 percent) of the $47.5 million owed.

Of the 174 HEAL defaulters who earned income and made loan payments in FY 2008, nearly half paid less than $2,000 each during that time. A total of 174 HEAL defaulters earned income and made one or more loan payments in FY 2008. The median income for these defaulters was $47,331. However, 78 (45 percent) paid less than $2,000 each and, of these, 24 paid less than $500 each toward their loans in FY 2008. These 174 HEAL defaulters owed $22.5 million on their loans and earned $9.6 million in FY 2008. The amounts these defaulters paid totaled $659,135 in FY 2008, or just 3 percent of their total loan balance during that time.

RECOMMENDATIONS

The HEAL program was established to help students in the health professions finance their education. Almost all HEAL borrowers have repaid or are in the process of repaying their loans; however, as of November 2008, a small number of borrowers had defaulted on their loans.

Our review found that 486 of the 1,065 HEAL defaulters on the defaulted borrowers list had earned income in FY 2008. A portion of these defaulters earned income that seemingly would enable them to make payments on their outstanding loans; however, these defaulters made minimal or no such payments.

We recommend that HRSA work with PSC to:

Use the information we provide on these HEAL defaulters to assist with HEAL collection efforts.

Consider obtaining wage data from Federal or State sources to enable HRSA and PSC to target future collection efforts on defaulters with income.

AGENCY COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

HRSA concurred with our recommendations and stated that upon receipt of the data from OIG, PSC will review and share the information with DOJ. Additionally, HRSA stated that consideration will be given to obtaining wage data on health professionals who have defaulted on their financial obligation. We have provided PSC with detailed information on the 486 HEAL defaulters who earned income in FY 2008.

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BACKGROUND

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Under the HEAL program, students of allopathic and osteopathic medicine, dentistry, veterinary medicine, optometry, and podiatry were allowed to borrow up to $80,000. Students of pharmacy, chiropractic medicine, health administration, public health, allied health, and clinical psychology were allowed to borrow up to $50,000. Through this program, 157,388 borrowers received $4 billion in HEAL loans.

In recent years, several HEAL defaulters have been identified as receiving income that would enable them to repay their loans. In October 2008, a local Boston television station identified two HEAL defaulters, with a total of approximately $600,000 in HEAL debt, as practicing dentists. Another HEAL defaulter was indicted for making false statements to conceal his income and ability to repay his HEAL loan. In October 2007, he was sentenced to 1 year probation and ordered to pay $158,469 in restitution to the Government.

Interest accrues on HEAL loans from the dates of disbursement until the dates the loans are paid in full.[1] Interest can be compounded (i.e., added to the principal) as often as every 6 or 12 months depending on the date of the original loan. HEAL borrowers have as long as 25 years to repay their original loans. If HEAL borrowers refinanced their loans, they have 25 years from the refinance dates to repay the new loans.[2]

[1] HRSA, *Student Financial Aid Guidelines*, October 2000. Available online at http://www.bhpr.hrsa.gov/dsa/sfag/PDFs/6healcor.pdf. Accessed on November 4, 2008.

[2] The HEAL refinancing program ended on September 30, 2004.

Almost all HEAL borrowers have repaid or are in the process of repaying their loans through their original or refinancing agreements. As of September 2008, there were 31,785 borrowers in the process of repaying lenders $980 million in principal and interest.

However, 1,065 HEAL borrowers were on the defaulted borrowers list as of November 1, 2008. These 1,065 defaulters owed $147 million in principal and interest. The amounts owed by individual defaulters ranged from $453 to $759,984. The 1,065 HEAL defaulters owed a median of $106,146. Because of the accrual and compounding of interest, the amounts some defaulters owed far exceeded their original loan amounts.

Default Process

HHS reimburses lenders for loans that are not repaid because of borrowers' default, bankruptcy, death, or total and permanent disability. HHS's Program Support Center (PSC) provides HRSA with debt management services, which include many of the activities involved in trying to obtain payments when individuals default on HEAL loans. After a lender has tried to obtain repayment from a HEAL borrower and failed, it requests payment from HRSA. The claims for payment are approved by HRSA, and PSC sends the funds to the lender. PSC then initiates an extensive loan collection process. PSC notifies the borrower that the Government holds the promissory note and that payment is due. If repayment does not begin, the account is sent to a collection agency. If the collection agency is unable to collect within 6 months, the account is returned to PSC and a final demand letter is sent to the borrower to begin repayment. PSC sends the borrower's information to the Treasury Offset Program, which offsets payments made by Federal agencies, such as the Internal Revenue Service. PSC then applies these offsets to the borrower's debt. [3]

If the borrower does not begin repayment, PSC sends the account to the Department of Justice (DOJ) to obtain and/or enforce a judgment against the borrower. If the borrower does not comply with DOJ demands, DOJ requests PSC to send a 60-day warning letter to the borrower. This notifies the borrower that he or she must enter into a repayment agreement with DOJ or risk exclusion from all Federal

[3] For example, payments from Federal income tax refunds can be offset, which means that the tax refund would be withheld and applied to the defaulter's debt instead.

health care programs.[4] If the borrower does not enter into a repayment agreement, DOJ requests that PSC refer the case to the Office of Inspector General (OIG). OIG then notifies the defaulter that he or she is being excluded from participation in Federal health care programs.[5]

Defaulted Borrowers List

HRSA is required by law to publish a quarterly list of HEAL borrowers who have been excluded by OIG.[6] Information concerning each defaulter, including name, State, amount due, school, and field of study, is published on this list. When OIG excludes a HEAL defaulter, it sends a copy of the exclusion letter to PSC. PSC then includes the individual on the defaulted borrowers list. PSC provides this list to HRSA to publish on its Web site (http://www.defaulteddocs.dhhs.gov) at the next quarterly update. HEAL defaulters are removed from the defaulted borrowers list when their debt is repaid or they enter into settlement agreements with DOJ and OIG to repay their debt. The defaulted borrowers' list changes as defaulters are removed and as new defaulters are added.

HEAL Payment Information

HEAL defaulters may make payments on their loans; however, they still remain on the defaulted borrowers list until they enter into settlement agreements to repay their loans. According to PSC, HEAL defaulters may not have an incentive to enter into settlement agreements if the consequences of exclusion from Federal health programs do not affect them.

METHODOLOGY

Data Collection

HEAL defaulter information. We obtained from PSC an electronic file containing information about the 1,065 individuals on the HEAL defaulted borrowers list as of the November 2008 quarterly update.

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[4] The Social Security Act, § 1892, also provides the borrower with the opportunity to cure the default using an offset agreement, 42 U.S.C. § 1395ccc.

[5] OIG has the authority to exclude these defaulters under Social Security Act, § 1128 (b)(14), 42 U.S.C. § 1320a-7(b)(14). To the extent the borrower is offered an offset agreement and refuses to enter into it, breaches the agreement, or does not provide sufficient services to maintain the offset collection, OIG must also exclude the borrower from participation in Medicare under the Social Security Act, § 1892(a)(2)(C) or (a)(3)(B), 42 U.S.C. § 1395ccc(a)(2)(C) or (a)(3)(B).

[6] Public Health Service Act, § 709(c)(1), 42 U.S.C. § 292h(c)(1).

This file included each individual's name, address, Social Security number, date of default, and default amount. We use the term "HEAL defaulter" throughout this report to refer to individuals who are on the defaulted borrowers list.

HEAL payment data. We obtained from PSC a file containing information on any of the 1,065 HEAL defaulters who had made payments toward their loans but did not have settlement agreements. This file included each individual's name, Social Security number, date of payment, and payment amount. We received the payment file in January 2009.

State Identification Inquiry. The State Identification Inquiry (SIDI) is an application the Department of Labor has made available to State unemployment insurance agencies so that they can obtain information on individuals' wages and unemployment benefits nationwide.[7] With the exception of Hawaii, all States and the District of Columbia contribute data to and have agreements enabling them to access the information in SIDI.

Data Analysis

We used data obtained from SIDI to identify HEAL defaulters' employers and income for FY 2008. The Social Security numbers of the 1,065 defaulters were entered into SIDI to obtain employer names and amounts earned per quarter. Based on the SIDI search results, we quantified the number of HEAL defaulters who earned income in FY 2008 and the amount they earned. The SIDI search was performed in February 2009.

We also determined whether any of the HEAL defaulters with income in FY 2008 had made loan payments during that time. To do this, we matched the payments data received from PSC with those defaulters identified in SIDI as having income for FY 2008. We quantified the number of HEAL defaulters who had made payments in FY 2008 and the amount of those payments.

For defaulters who earned $200,000 or more in FY 2008, we reviewed the employer names identified through SIDI to determine whether these defaulters earned income in the health care field.

Limitations. Our analysis was limited to those defaulters who had FY 2008 income information identified in SIDI. There were 579 of 1,065 defaulters

[7] Wages on which employers do not pay unemployment insurance tax (e.g., payment to independent contractors) are not contained in SIDI.

on the defaulted borrowers list who did not have FY 2008 income information identified in SIDI. We did not independently verify information obtained through SIDI. Since the defaulted borrowers list is updated quarterly, some individuals identified on the November 2008 list may have since been removed.

Standards

This study was conducted in accordance with the "Quality Standards for Inspections" approved by the Council of the Inspectors General on Integrity and Efficiency.

FINDINGS

Of the 486 HEAL defaulters who earned income in FY 2008, 312 made no payments on their loans during that time

Based on wages identified through SIDI, 486 of the 1,065 HEAL defaulters (46 percent) who were in default as of November 2008 earned income in FY 2008. The remaining 579 defaulters did not have income information identified in SIDI. The 486 HEAL defaulters owed $70 million on their loans and earned $23 million in FY 2008.

Of the 486 HEAL defaulters who earned income in FY 2008, 312 made no loan payments during that time. These 312 HEAL defaulters owed $47.5 million on their loans and earned $13.4 million in FY 2008. The median income for these defaulters was $34,387. Ninety-eight of the 312 defaulters (31 percent) earned $50,000 or more. These 98 defaulters were responsible for nearly $15 million (31 percent) of the $47.5 million owed.

Table 1 shows the income ranges of the 312 HEAL defaulters who earned income but did not make any loan payments in FY 2008 along with the amounts they owed.

Table 1. Income Earned and Amount Owed by 312 HEAL Defaulters Who Did Not Make Any Loan Payments in FY 2008

FY 2008 Income	Number of Defaulters	Percentage of Defaulters	Amount Owed in Millions	Percentage of Total Balance
Under $30,000	143	46%	$21.9	46%
$30,000–$49,999	71	23%	$10.8	23%
$50,000–$74,999	47	15%	$6.1	13%
$75,000–$99,999	25	8%	$3.8	8%
$100,000–$199,999	22	7%	$4.2	9%
$200,000 or more	4	1%	$0.7	1%
Total	**312**	**100%**	**$47.5**	**100%**

Source: OIG analysis of SIDI data.

As Table 1 shows, four defaulters who each earned over $200,000 in FY 2008 made no payments toward their HEAL loans in that time. One of these defaulters earned $381,339 while employed in a dental practice in FY 2008. Another defaulter earned $258,424 through a dental practice as well.

Of the 174 HEAL defaulters who earned income and made loan payments in FY 2008, nearly half paid less than $2,000 each during that time

There were 174 HEAL defaulters who earned income in FY 2008 and made at least one loan payment during that time. HEAL defaulters may make loan payments at any time, but they are still considered to be in default and remain on the defaulted borrowers list until they enter into settlement agreements.

These 174 HEAL defaulters owed $22.5 million on their loans and earned $9.6 million in FY 2008. The amount these defaulters paid totaled $659,135 in FY 2008, or just 3 percent of their total loan balance during that time.

Table 2 shows the income ranges, the total amounts paid, and the amounts owed for the 174 HEAL defaulters who made loan payments in FY 2008.

Table 2. Income Earned, Total Amounts Paid, and Amounts Owed by 174 HEAL Defaulters Who Made Loan Payments in FY 2008

FY 2008 Income	Number of Defaulters	Total Amount Paid	Amount Owed in Millions[1]	Percentage of Balance Paid Off
Under $30,000	53	$187,248	$7.8	2%
$30,000–$49,999	39	$119,090	$4.1	3%
$50,000–$74,999	44	$158,509	$5.6	3%
$75,000–$99,999	21	$76,571	$2.5	3%
$100,000–$199,999	13	$95,583	$2.2	4%
$200,000 or more	4	$22,134	$0.4	6%
Total	**174**	**$659,135**	**$22.5**	**3%**

[1] The amounts owed in this table add up to $22.6 million instead of $22.5 million because of rounding.
Source: OIG analysis of PSC payments data.

The median income for defaulters who made loan payments was $47,331. However, 78 (45 percent) paid less than $2,000 each and, of these, 24 paid less than $500 each toward their loans in FY 2008.

Table 3 shows the range of payments for the 174 HEAL defaulters who made payments in FY 2008.

Table 3. Range of Payments for 174 HEAL Defaulters Who Made Loan Payments in Fiscal Year 2008

FY 2008 Loan Payments	Number of Defaulters	Percentage of Defaulters
Under $500	24	14%
$500–$999	18	10%
$1,000–$1,999	36	21%
$2,000–$2,999	27	16%
$3,000–$4,999	28	16%
5,000–$9,999	29	17%
$10,000 or more	12	7%
Total	**174**	**100%** [1]

[1] Percentages in this table do not total 100 percent because of rounding.
Source: OIG analysis of PSC payments data.

Four HEAL defaulters who earned over $200,000 in FY 2008 made loan payments during that time. One of the defaulters who earned over $200,000 paid just $227 in FY 2008; the remaining three defaulters paid between $5,238 and $9,700. Two of these defaulters, who earned $274,708 and $207,846 respectively, earned income through dental practices.

RECOMMENDATIONS

The HEAL program was established to help students in the health professions finance their education. Almost all HEAL borrowers have repaid or are in the process of repaying their loans; however, as of November 2008, a small number of borrowers had defaulted on their loans.

Our review found that 486 of the 1,065 HEAL defaulters on the defaulted borrowers list had earned income in FY 2008. A portion of these defaulters earned income that seemingly would enable them to make payments on their outstanding loans; however, these defaulters made minimal or no such payments.

We will share the results of our review with HRSA and PSC staff to assist them in their HEAL collection efforts. HRSA can share this information with DOJ to enhance its debt collection efforts for those defaulters.

We recommend that HRSA work with PSC to:

Use the information we provide on these HEAL defaulters to assist with HEAL collection efforts

HRSA and PSC staff may want to focus their efforts on those HEAL defaulters we identified as having the highest income in FY 2008.

Consider obtaining wage data from Federal or State sources to enable HRSA and PSC to target future collection efforts on defaulters with income

AGENCY COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

HRSA concurred with our recommendations and stated that upon receipt of the data from OIG, PSC will review and share the information with DOJ to assist DOJ with its collection and litigation efforts. PSC will initially focus its efforts on individuals who had income greater than $75,000. Additionally, HRSA stated that consideration will be given to obtaining wage data on health professionals who have defaulted on their financial obligation. We have provided PSC with detailed information on the 486 HEAL defaulters who earned income in FY 2008. For the full text of HRSA's comments, see Appendix A.

APPENDIX ~ A

Agency Comments

DEPARTMENT OF HEALTH & HUMAN SERVICES

Health Resources and Services Administration

Rockville, MD 20857

JAN 12 2010

TO: Inspector General

FROM: Administrator

SUBJECT: OIG Draft Report: "Health Education Assistance Loan Defaulters With Income in Fiscal Year 2008" (OEI-03-09-00100)

This is in response to the OIG's request for comments on the draft report, "Health Education Assistance Loan Defaulters With Income in Fiscal Year 2008" (OEI-03-09-00100). Attached are the Health Resources and Services Administration's (HRSA) comments. If you have any questions, please contact Patricia A. Reese in HRSA's Office of Federal Assistance Management at (301) 443-0270.

/S/

Mary K. Wakefield, Ph.D., R.N.

Attachment

Health Resources and Services Administration's Comments on the OIG Draft Report – "Health Education Assistance Loan Defaulters With Income in Fiscal Year 2008"
(OEI-03-09-00100)

The Health Resources and Services Administration has reviewed the OIG's draft report and concurs with the following OIG recommendations to work with the Program Support Center (PSC) to:

--Use the information OIG provides on these HEAL defaulters to assist with HEAL collection efforts.

--Consider obtaining wage data from Federal or State sources to enable HRSA and PSC to target future collection efforts on defaulters with income.

PSC also concurred with these recommendations and has stated that upon receipt of the income data from the OIG, they will review and share the information with the Department of Justice in an attempt to assist them with their collection and litigation efforts. Initially, PSC will focus its efforts on the individuals that had income in excess of $75,000 which equaled 8 percent of the health professionals identified. Then PSC will focus on the remaining 37 percent of the health professionals whose annual income was less than $75,000. Consideration will also be given to obtaining wage data on health professionals who have defaulted on their financial obligation.

ACKNOWLEDGMENTS

This report was prepared under the direction of Robert A. Vito, Regional Inspector General for Evaluation and Inspections in the Philadelphia regional office, and Linda M. Ragone, Deputy Regional Inspector General.

Tara Bernabe served as the team leader for this study. Other principal Office of Evaluation and Inspections staff from the Philadelphia regional office who contributed to the report include Nancy J. Molyneaux; central office staff who contributed include Talisha Searcy.

Office of Inspector General

http://oig.hhs.gov

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The Office of Audit Services (OAS) provides auditing services for HHS, either by conducting audits with its own audit resources or by overseeing audit work done by others. Audits examine the performance of HHS programs and/or its grantees and contractors in carrying out their respective responsibilities and are intended to provide independent assessments of HHS programs and operations. These assessments help reduce waste, abuse, and mismanagement and promote economy and efficiency throughout HHS.

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Office of Counsel to the Inspector General

The Office of Counsel to the Inspector General (OCIG) provides general legal services to OIG, rendering advice and opinions on HHS programs and operations and providing all legal support for OIG's internal operations. OCIG represents OIG in all civil and administrative fraud and abuse cases involving HHS programs, including False Claims Act, program exclusion, and civil monetary penalty cases. In connection with these cases, OCIG also negotiates and monitors corporate integrity agreements. OCIG renders advisory opinions, issues compliance program guidance, publishes fraud alerts, and provides other guidance to the health care industry concerning the anti-kickback statute and other OIG enforcement authorities.