

seller covering certain future reductions by the Secretary in computing the amount of insurable loss, if any, on a claim filed on the loan. The warranty may only cover reductions which are attributable to an act or failure to act of the seller or other previous holder. The warranty may not cover matters for which the buyer is charged with responsibility under the HEAL regulations.

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

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§ 60.39 Death and disability claims.

(a) *Death*. The Secretary will discharge a borrower's liability on the loan in accordance with section 738 of the Act upon the death of the borrower. The holder of the loan may not attempt to collect on the loan from the borrower's estate or any endorser. The holder must secure a certification of death or whatever official proof is conclusive under State law. The holder must return to the sender any payments, except for refunds under § 60.21, received from the estate of the bor-

rower or paid on behalf of the borrower after the date of death.

(b) *Disability*. (1) The Secretary will discharge a borrower's liability on the loan in accordance with section 738 of the Act if the borrower is found to be permanently and totally disabled on recommendation of the holder of the loan and as supported by whatever medical certification the Secretary may require. A borrower is totally and permanently disabled if he or she is unable to engage in any substantial gainful activity because of a medically determinable impairment, which the Secretary expects to continue for a long and indefinite period of time or to result in death.

(2) After being notified by the borrower or the borrower's representative that the borrower claims to be totally and permanently disabled, the holder of the loan may not attempt to collect on the loan from the borrower or any endorser. The holder must promptly request that the Secretary determine whether a borrower has become totally and permanently disabled. With its request, the holder must submit medical evidence no more than 4 months old that it has obtained from the borrower or the borrower's representative.

(3) If the Secretary determines that the borrower is totally and permanently disabled, the lender or holder must return to the borrower any payments, except for refunds under § 60.21, that it receives after being notified that the borrower claims to be totally and permanently disabled.

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§ 60.40 Procedures for filing claims.

(a) A lender or holder must file an insurance claim on a form approved by the Secretary. The lender or holder must attach to the claim all documentation necessary to litigate a default, including any documents required to be submitted by the Federal Claims Collection Standards, and which the Secretary may require. Failure to submit the required documentation and to comply with the HEAL statute and regulations or the lender's

§ 60.40

42 CFR Ch. I (10–1–02 Edition)

or holder's insurance contract will result in a claim not being honored. The Secretary may deny a claim that is not filed within the period specified in this section. The Secretary requires for all claims at least the following documentation:

- (1) The original promissory note;
- (2) An assignment to the United States of America of all right, title, and interest of the lender or holder in the note;
- (3) The loan application;
- (4) The history of the loan activities from the date of loan disbursement through the date of claim, including any payments made; and
- (5) A Borrower Status Form (HRSA–508), documenting each deferment granted under § 60.12 or a written statement from an appropriate official stating that the borrower was engaged in an activity for which he or she was entitled to receive a deferment at the time the deferment was granted.

(b) The Secretary's payment of a claim is contingent upon receipt of all required documentation and an assignment to the United States of America of all right, title, and interest of the lender or holder in the note underlying the claim. The lender or holder must warrant that the loan is eligible for HEAL insurance.

(c) In addition, the lender or holder must comply with the following requirements for the filing of default, death, disability, and bankruptcy claims:

(1) *Default claims.* *Default* means the persistent failure of the borrower to make a payment when due or to comply with other terms of the note or other written agreement evidencing a loan under circumstances where the Secretary finds it reasonable to conclude that the borrower no longer intends to honor the obligation to repay the loan. In the case of a loan repayable (or on which interest is payable) in monthly installments, this failure must have persisted for 120 days. In the case of a loan repayable (or on which interest is payable) in less frequent installments, this failure must have persisted for 180 days. If, for a particular loan, an automatic stay is imposed on collection activities by a Bankruptcy Court, and the lender or holder receives

written notification of the automatic stay prior to initiating legal proceedings against the borrower, the 120- or 180-day period does not include any period prior to the end of the automatic stay.

(i) If a lender or holder determines that it is not appropriate to commence and prosecute an action against a default borrower pursuant to § 60.35(c)(3), it must file a default claim with the Secretary within 30 days after a loan has been determined to be in default.

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

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

- (A) Repayment schedule(s);
- (B) A collection history, if any;
- (C) A final demand letter;
- (D) The original or a copy of all correspondence relevant to the HEAL loan to or from the borrower (whether received by the original lender, a subsequent holder, or an independent servicing agent);
- (E) A claims collection litigation report; and
- (F) If the defaulted borrower filed for bankruptcy under chapter 7 of the Bankruptcy Act and did not file a complaint to determine the dischargeability of the loan, all documents sent to or received from the bankruptcy court, including evidence which shows the period of the bankruptcy proceedings.

(iv) If a lender or holder files a default claim on a loan and subsequently

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

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

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

(4) *Bankruptcy claims.* For a bankruptcy under chapter 11 or 13 of the Bankruptcy Act, or a bankruptcy under chapter 7 of the Bankruptcy Act

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

- (i) Repayment schedule(s);
- (ii) A collection history, if any;
- (iii) A proof of claim, where applicable;
- (iv) An assignment to the United States of America of its proof of claim, where applicable;
- (v) All pertinent documents sent to or received from the bankruptcy court; and
- (vi) A statement of any facts of which the lender is aware that may form the basis for an objection to the bankrupt's discharge or an exception to the discharge.
- (vii) The notice of the first meeting or creditors, or an explanation as to why this is not included;
- (viii) In cases where there is defective service, a declaration or affidavit attesting to the fact that the lender or holder was not directly served with the notice of meeting of creditors. This declaration or affidavit must also indicate when and how the lender or holder learned of the bankruptcy; and
- (ix) In cases where there is defective service due to the borrower's failure to list the proper creditor, a copy of the letter sent to the borrower at the time of purchase of the HEAL loan by the current holder, or a sample letter with

§ 60.41

42 CFR Ch. I (10–1–02 Edition)

documentation indicating when the letter was sent to the borrower.

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§ 60.41 Determination of amount of loss on claims.

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

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

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

(2) If the loan for which a claim is filed was originally made by a school but the claim is filed by another lender or holder that obtained the note by as-

signment, the Secretary deducts from the claim an amount equal to any unpaid refund that the school owed the borrower prior to the assignment.

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

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

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

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

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