

505.7 Terms of the loan.

All loan beneficiaries must agree to the following loan terms:

- (a) Loan obligation. An authorized official of a qualifying hospital must execute a promissory note, loan agreement, or a form approved by CMS and accompanied by any other documents CMS may designate. The loan beneficiary must provide required documentation in a timely manner.
- (b) Schedule of loan. A loan beneficiary receives a lump sum distribution for which payment of principal and interest is deferred for 60 months beginning with the day of award notification from CMS. The loan repayment period is 20 years.
- (c) Bankruptcy protection. In the event a loan beneficiary files for bankruptcy protection in a court of competent jurisdiction or otherwise proves to be insolvent, CMS may terminate the deferment period described in paragraph (b) of this section and require immediate payment of the loan. If a loan beneficiary should file for bankruptcy protection in a court of competent jurisdiction or should otherwise evidence insolvency after the deferment period we will require immediate repayment of the outstanding principal and interest due. Those payments may be deducted from any Medicare payments otherwise due that hospital.
- (d) Loan forgiveness. CMS does not require a loan beneficiary to begin making payments of principal or interest at the end of the 60-month deferment period if it determines that the loan beneficiary meets the criteria for loan forgiveness under section 1897 of the Act, as determined by the Secretary.
- (e) Default. If a loan beneficiary fails to make any payment in repayment of a loan under this subpart within 10 days of its due date, the loan beneficiary may be considered to have defaulted on the loan. Upon default, all principal and accrued interest become due immediately, and CMS may require immediate payment of any outstanding principal and interest due. Those payments may be deducted from any Medicare payments otherwise due that hospital.
- (f) Loan repayment. The loan beneficiary must meet the following conditions:
 - (1) Make payments every month for 20 years until the loan, including interest payments, are paid in full.
 - (2) Pay interest on the unpaid principal until the full amount of principal has been paid.
 - (3) Pay interest at a yearly rate based upon the rate as fixed by the Secretary of the Treasury and set forth at 45 CFR 30.13(a).

(4) If a loan beneficiary fails to make any payment in repayment of a loan under this subpart within 10 days of its due date, that payment may be deducted from any Medicare payments otherwise due to the beneficiary.

(g) Interest rate and monthly payment charges. CMS calculates interest charges and payments consistent with § 405.378 of this chapter.

(h) Loan recipient's right to prepay. A loan beneficiary has the right to make payments of principal at any time before they are due. A loan beneficiary may make full prepayment or partial prepayment without paying any prepayment charge. If a prepayment is made, the loan beneficiary must provide written notice to CMS at CMS, Division of Accounting Operations, P.O. Box 75120, Baltimore, MD 21207-0520.