



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D.C. 20551

DIVISION OF BANKING
SUPERVISION AND REGULATION

DIVISION OF CONSUMER AND
COMMUNITY AFFAIRS

SR 15-2

CA 15-1

January 29, 2015

**TO THE OFFICERS IN CHARGE OF SUPERVISION AND APPROPRIATE
SUPERVISORY AND EXAMINATION STAFF AT THE FEDERAL RESERVE
BANKS AND FINANCIAL INSTITUTIONS SUPERVISED BY THE FEDERAL
RESERVE**

**SUBJECT: Guidance on Private Student Loans with Graduated Repayment Terms at
Origination**

Applicability to Community Banking Organizations: This guidance applies to all institutions regulated by the Federal Reserve, including those with \$10 billion or less in consolidated assets.

The Federal Reserve, the Consumer Financial Protection Bureau, the Federal Deposit Insurance Corporation, the National Credit Union Administration, and the Office of the Comptroller of the Currency, in conjunction with the State Liaison Committee (SLC) of the Federal Financial Institutions Examination Council, have issued the attached guidance to provide principles that financial institutions should consider in their policies and procedures for originating private student loans with graduated repayment terms.

The agencies and the SLC recognize that the competitive job market, traditionally low entry-level salaries, and higher student debt loads can contribute to some borrowers preferring greater flexibility with their payments as they transition into the labor market. Graduated repayment terms may align borrowers' income levels with loan repayment requirements, provide flexibility to repay the debt sooner if borrowers' incomes increase more quickly than projected, and may help long-term probability of full repayment. Financial institutions should prudently underwrite their private student loans in a manner consistent with safe and sound lending practices. Financial institutions should also comply with all applicable federal and state consumer laws and regulations, including providing disclosures that clearly communicate the timing and the amount of payments to facilitate borrower understanding of loan terms and features.

Reserve Banks are asked to distribute this letter to the supervised organizations in their districts and to appropriate supervisory staff. Questions regarding this letter should be directed to the following individuals:

- Division of Banking Supervision and Regulation: David Emmel, Manager, at (202) 912-4602; or Donald Gabbai, Senior Supervisory Financial Analyst, at (202) 452-3358.
- Division of Consumer and Community Affairs: for general questions, Amal Patel, Senior Supervisory Consumer Financial Services Analyst, at (202) 912-7879; and for operational questions, Tim Robertson, Manager, at (202) 452-2565.

In addition, institutions may send questions via the Board's public website.¹

Michael S. Gibson
Director
Division of Banking Supervision
and Regulation

Eric S. Belsky
Director
Division of Consumer
and Community Affairs

Attachment:

- *Guidance on Private Student Loans With Graduated Repayment Terms at Origination*

¹ See <http://www.federalreserve.gov/apps/contactus/feedback.aspx>