

15-CU-02 Private Student Loans with Graduated Repayment Terms at Loan Origination

Summary

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NCUA has issued a Letter to Credit Unions (LTCU) regarding private student loan products with graduated repayments. The LTCU links to [interagency guidance](#) issued by the federal bank agencies and the state regulators' State Liaison Committee (SLC).

Graduated repayment private student loan products are structured to provide for lower initial monthly payments that gradually increase. These products might provide more flexibility for students transitioning into the job market by allowing for lower payments that increase with future salary gains. While graduated repayment terms are available under certain federal student loan programs, those federal programs present different credit risk than private loans which are not originated, or guaranteed by the federal government.

The guidance notes that financial institutions that originate private student loans with graduated repayment terms should prudently underwrite the loans in a manner consistent with safe and sound lending practices. Prudent graduated repayment private student loan programs should:

- **Provide clear disclosures** - clearly communicate the timing and the amount of payments and provide disclosures in compliance with all applicable laws and regulations
- **Ensure orderly repayment** – contain defined repayment periods and promote orderly repayment over the life of the loans and be appropriately calibrated to reasonable industry and market standards based on the amount of debt outstanding. Repayment terms should avoid negative amortization or balloon payments.
- **Avoid payment shock** - establish repayment terms that a borrower can meet in a sustained manner, including graduated increases that begin early in the repayment period and phase in the amortization of the principal balance to limit payment shock
- **Align payment terms with a borrower's income** – base repayment on reasonable assumptions about the ability to repay of the borrower and cosigner (if any). Underwriting should include an assessment of a borrower's (and cosigner's) ability to repay the highest amortizing payment over the term of the loan. Graduated repayment terms should not be structured in a way that could mask delinquencies or defer losses.
- **Comply with all applicable federal/state consumer laws, regulations and reporting standards** - these include, but are not limited to, the Electronic Fund Transfer Act, the Equal Credit Opportunity Act, federal/state UDAP laws, and TILA
- **Contact borrowers before reset dates** - develop processes for contacting borrowers before the start of the repayment period and before each payment reset date.