FDIC

Federal Deposit Insurance Corporation
550 17th Street, NW, Washington, D.C. 20429-9990

Financial Institution Letter
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Banking Agencies Encourage Financial Institutions to Work with Student Loan Borrowers Experiencing Financial Difficulties

Summary: The FDIC, along with the Board of Governors of the Federal Reserve System and the Office of the Comptroller of the Currency, encourages financial institutions to work constructively with private student loan borrowers experiencing financial difficulties. The *Uniform Retail Credit Classification and Account Management Policy* (Retail Credit Policy), which covers student loans, permits prudent loan workout and modification programs that assist student loan borrowers who are temporarily experiencing financial difficulties. Financial institutions should provide clear and practical information to student loan borrowers on loan modifications and other options available and how to contact the lender or servicer to discuss the programs that might best fit their specific needs.

Statement of Applicability to Institutions With Total Assets Under $1 Billion: This Financial Institution Letter applies to all FDIC-supervised banks and savings associations, including community institutions.

Distribution:
FDIC-Supervised Banks (Commercial and Savings)

Suggested Routing:
Board of Directors
Senior Executive Officers
Chief Credit Officer

Attachment:
Advisory Statement on Encouraging Financial Institutions to Work with Student Loan Borrowers Experiencing Financial Difficulties

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Note:
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Highlights:

- Prudent student loan workout arrangements are consistent with safe-and-sound lending practices and are generally in the best interests of both the financial institution and the borrower.
- The Retail Credit Policy, which covers student loans, permits prudent workout and modification programs and notes that institutions can use extensions, deferrals, renewals, and rewrites of closed-end loans to help borrowers overcome temporary financial difficulties.
- The Retail Credit Policy states that financial institutions should adopt their own standards for workouts and modifications, and monitor the effectiveness of those standards.
- The FDIC will not criticize financial institutions for prudently modifying student loans with borrowers experiencing financial difficulties, even if the restructured loans result in adverse credit classifications or troubled debt restructurings under generally accepted accounting principles.
- Financial institutions should provide clear and practical information to student loan borrowers that explains the options available, general eligibility criteria, the process for requesting a modification, and information on how to contact the lender or servicer.

Banking Agencies Encourage Financial Institutions to Work with Student Loan Borrowers Experiencing Financial Difficulties

The federal bank regulatory agencies[1] encourage financial institutions to work constructively with private student loan borrowers experiencing financial difficulties. Prudent workout arrangements are consistent with safe-and-sound lending practices and are generally in the long-term best interest of both the financial institution and the borrower. The *Uniform Retail Credit Classification and Account Management Policy* (Retail Credit Policy), which covers student loans, permits prudent workout and modification programs, noting that "... extensions, deferrals, renewals, and rewrites of closed-end loans can be used to help borrowers overcome temporary financial difficulties."[2] The Retail Credit Policy indicates that banks should adopt their own standards for workouts and modifications and monitor the effectiveness of those standards.

Student loan borrowers who are unemployed or underemployed may not have sufficient financial capacity to service their private student loan debts shortly after separation from school or during periods of economic difficulty. As with other consumer lending activities, the agencies encourage financial institutions to consider prudent workout arrangements that increase the potential for financially stressed borrowers to repay private student loans whenever workout arrangements are economically feasible and appropriate. The agencies will not criticize financial institutions for engaging in prudent workout arrangements with borrowers who have encountered financial problems, even if the restructured loans result in adverse credit classifications or troubled debt restructurings in accordance with accounting requirements under generally accepted accounting principles.

Institutions that have student loan modification programs, or other options for those struggling with repayment, should provide borrowers with practical information that explains the basic options available, general eligibility criteria, and the process for requesting a modification. Such information should be clear and easily accessible to borrowers and should include information on how to contact the lender or servicer to discuss the programs that might best fit their specific needs.

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[1] The Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, and the Board of Governors of the Federal Reserve System (collectively the agencies).

[2] See http://www.fdic.gov/regulations/laws/rules/5000-1000.html#fdic5000uniformpf, http://www.federalreserve.gov/boarddocs/SRLETTERS/2000/sr0008.htm, http://www.occ.gov/news-issuances/federal-register/65fr36903.pdf.