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Student Lenders Are Pressed to Ease Terms

Regulators Want Private Firms in Market to Lower Payments for Unemployed and Other Borrowers

By JOSH MITCHELL

WASHINGTON—Companies that make student loans are coming under new pressure from regulators to lower payments for borrowers who are unemployed or face other tough circumstances amid widespread concern that student debt is burdening many Americans.

On Thursday, the Federal Deposit Insurance Corp., the Federal Reserve and the Office of the Comptroller of the Currency urged private student lenders to ease the burden on borrowers by working out more flexible repayment terms, such as postponing payments, reducing interest rates and allowing lower payments over a longer period.

Private lenders hold just about 15% of the roughly $1 trillion in outstanding student debt in the U.S., with the federal government holding the rest. But regulators, concerned that some borrowers are struggling to repay loans, are prodding private lenders to assist those they can.

"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," the banking agencies said in a joint statement.

The regulatory guidance could help ease concerns of private lenders, which have been reluctant to do more to modify loans over fears it could increase their capital requirements and subject them to other regulations.

Shelly Repp, president of the National Council of Higher Education Loan Resources, which represents private lenders, said companies have worried that modifying a loan might force them to categorize it as a troubled asset. That could force them to hold more capital to protect the company against a possible default. Lenders have sought more guidance from regulators about how those loans would be treated if they are modified.

An FDIC spokesman said the statement put out by the banking regulators Thursday sought to clear up that confusion, saying that loan modifications would be viewed favorably on a bank's books if they are done in a "prudent" way.

Private lenders such as SLM Corp.'s Sallie Mae and Wells Fargo & Co. have said they already offer loan-modification programs, and that few of their borrowers are behind on payments. The delinquency rate on private student loans has fallen since the recession, as lenders tightened standards, industry officials say.

"There's been a lot of self-correction and the results are showing because delinquency rates and write-offs are substantially reduced," since the recession, Ms. Repp said.

But with student debt rising rapidly since the recession to become the second-highest form of consumer debt after mortgages, President Barack Obama, congressional lawmakers and regulators have sought ways to ease the burden on student borrowers and their parents. Late Wednesday, the Senate passed a bill to lower the interest rates on federal student loans made for the coming school year.

The Consumer Financial Protection Bureau has also pressured private lenders to follow the government's own generous repayment options.

The roughly $150 billion market for private student loans is dominated by three main lenders: Sallie Mae, Wells Fargo and Discover Financial Services.

Sallie Mae was once a quasipublic agency that made loans guaranteed by the government, but the company is fully private now.

Unlike federal loans, which are available to all undergraduates, regardless of their credit history, private student loans are generally taken out by borrowers and co-signers with high credit scores. The FDIC says that, among institutions it oversees, just under 3% of private-student loan balances are past due, meaning 30 days or more behind.

Among federal student loans, past-due balances are much higher. The Education Department reported last September that among borrowers whose payments came due in 2009, 13.4% were in default.

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