Insight

Not-For-Profit Student Loan Providers: A Primer

JORDAN HARING, THOMAS KINGSLEY | NOVEMBER 18, 2025

Executive Summary

- The long-standing debate about how to address the cost of higher education in the United States intensified when the Biden Administration made the already troubled federal student loan system more generous and, more recently, when the One Big Beautiful Bill tightened it, spurring fears that students won't be able to secure adequate financing and must turn to more costly private lenders.
- While policy discussions have focused on the federal loan system or on private student-loan lenders, little attention has been paid to an alternative, third lending option: state-based not-for-profit lenders (NFPs), which are mission-driven organizations that prioritize affordability and borrower success over profit maximization.
- This primer provides an overview of NFPs, highlights the regulatory and economic challenges these organizations face, and explains why they remain a compelling option for certain student borrowers.

Introduction

There are long-standing concerns over the cost of higher education in the United States. Since the turn of the century, the inflation-adjusted average annual cost of higher education has increased by 38 percent. At the same time, the growth of median household income has stagnated and failed to keep pace. The gap between higher education costs and median household income has promoted a reliance on loans by students and their families to finance higher education. The primary source of loans is the federal student loan system.

The Biden Administration made the federal student loan system more generous by expanding income-driven repayment (IDR) and canceling the student debt of over 5 million borrowers. The recently passed One Big Beautiful Bill (OBBB) tightened the federal system by phasing out most IDR programs, tightening the rules around deferment, forbearance, and forgiveness, and imposing stricter borrowing caps and loan limits. The OBBB's reforms created concerns that the federal system will no longer be able to fully meet the financial needs of students, and they will need to turn to alternative means of financing to cover the cost.

A little-known or discussed third alternative to the federal and private systems is state-based, not-for-profit lenders (NFPs). NFPs are mission-driven organizations that prioritize affordability and borrower success over profit maximization. They're able to reinvest their earnings into borrower-friendly benefits, such as lower interest rates and flexible repayment options.

This primer provides an overview of NFPs.

Historical Context of NFPs

The not-for-profit lending sector rose to prominence under the now-discontinued Family Education Loan Program (FFELP), a public-private partnership in which private and not-for-profit entities issued federally guaranteed student loans. Throughout the 1990s and early 2000s, many of these organizations served as secondary markets, guaranty agencies, and lenders under the FFELP. In theory, their nonprofit status allowed for more borrower-friendly policies – lower rates, forgiveness options, or tailored repayment support – while leveraging tax-advantaged funding mechanisms, including tax-exempt bond issuance.

The first primary challenge to the model came with the Health Care and Education Reconciliation Act of 2010, which eliminated FFELP in favor of the Direct Loan Program. This policy transition effectively removed the primary origination channel for NFPs and forced a strategic pivot toward state-based education loans, loan servicing, and refinancing, while continuing to provide free borrower support services. While some exited the space entirely, others leveraged their reputational capital and operational expertise to remain active participants in the student loan infrastructure, particularly as issuers of low-cost education loans, third-party servicers, or state-affiliated refinancing entities.

The One Big Beautiful Bill significantly reworked the federal student loan system. The legislation eliminated Grad PLUS loans for new borrowers starting in July 2026, placed an annual $20,000 cap and $65,000 lifetime aggregate cap on previously uncapped Parent PLUS loans, and adjusted how unpaid interest is handled, among other reforms. These reforms are likely to increase the "unmet need" of students – that is, the gap between the cost of attending a college or university in the United States and the financial resources available to students and their families – starting in the next academic year. As a result, students and their families may turn to alternative means of financing, such as NFPs, to finance higher education.

The Business Model of NFPs

NFPs occupy a unique space in the broader student lending ecosystem. Unlike their for-profit counterparts whose motivation is profit maximization, these organizations are often chartered to serve a specific public interest – typically centered on improving access to higher education within a state or regional boundary. For example, the Oklahoma Student Loan Authority (OSLA) "…was created in 1972 as a public trust by the Oklahoma legislature for the benefit of the State of Oklahoma." OSLA's mission is "…to make higher education more affordable for Oklahoma students and their families."

The mission-driven status of NFPs allows them to reinvest earnings into borrower benefits, such as lower interest rates, flexible repayment options, or targeted financial literacy initiatives. Structurally, they often partner with colleges, universities, or state governments, and while they operate under many of the same regulatory frameworks as other lenders, their operational incentives differ in key respects. By prioritizing affordability and borrower success over profit maximization, NFPs aim to reduce default rates while fulfilling a social good.

NFPs operate in two main forms: as a state-based education finance entity or as an independent nonprofit organization – a 501(c)(3) organization. In addition to OSLA, another state-based loan authority is the Rhode Island Student Loan Authority, which offers fixed-rate loans, refinancing, and workforce development programs. It allows up to $50,000 of borrowing per academic year and offers competitive fixed interest rates (for example a fixed APR of 2.99–8.39 percent for 5-year term immediate repayment or a fixed APR of 4.49–8.39 percent for 10-year term immediate repayment). An example of an independent nonprofit is ISL Education Lending, which offers loans to students and their families that have exhausted other sources of aid.

Financially, the NFP business model hinges on a sustainable cycle of lending, repayment, and reinvestment. NFPs typically raise capital through tax-exempt bond issuances, enabling them to fund loans at lower interest rates than for-profit financial institutions. Because NFPs can access tax-exempt financing or reinvest their earnings to reduce borrower costs, they are able to provide loans at lower fixed interest rates, with no origination or application fees, and with limited or no repayment penalties. Over time, the repayments on the loans issued by NFPs replenish their capital base, allowing them to continue lending without relying on external profit-seeking investors. Notably, surplus revenues – rather than being distributed to shareholders – are typically redirected into borrower-centric programs or used to offset administrative costs. This structure aligns their financial model with long-term borrower outcomes, rather than short-term profitability loans.

The not-for-profit status does not render these lenders immune to market forces or policy changes, however. As a result, these organizations have increasingly diversified into new loan products to maintain relevance. The business model remains viable where scale, policy alignment, and borrower interests intersect, but their future depends on regulatory consistency and the continued demand for mission-driven lending alternatives.

Several organizations illustrate the enduring presence and evolution of NFPs. The New Hampshire Higher Education Assistance Foundation Network (now Granite Edvance), Iowa Student Loan Liquidity Corporation (now ISL Education Lending), and the Missouri Higher Education Loan Authority are among the more prominent historic entities that transitioned from FFELP lenders to key players in loan servicing, state-based education loans, or state-run refinancing initiatives.

Regulatory and Economic Challenges of NFPs

The End of FFELP

The end of FFELP removed a key revenue stream and funding rationale for NFPs. Without federally guaranteed originations, many not-for-profit lenders have had to reinvent their business models around student loans and refinancing, an inherently competitive and margin-sensitive market dominated by large fintech platforms and private capital-backed firms. The cost of capital remains a critical constraint; while some not-for-profits still issue tax-exempt bonds, they are subject to state volume caps, the appetite for such instruments is limited, and investor confidence may be weakened by policy volatility and heightened public scrutiny of student loan servicers.

The CFPB

In recent years, the Consumer Financial Protection Bureau (CFPB) has moved to assert direct supervisory authority over large nonbank student loan servicers, expanding the universe of “larger participants” to include those servicing over 1 million accounts. This shifts the regulatory risk calculus for all lenders and servicers who handle large portfolios, raising compliance and reputational stakes.

A Broader Regulatory Crackdown

NFPs operate in a highly regulated financial environment and navigating through multiple layers of red tape presents several challenges. One is compliance with federal state and lending laws, including the Truth in Lending Act, the Fair Credit Reporting Act, and the Equal Credit Opportunity Act. These laws impose strict disclosure, reporting, and fairness requirements that ensure borrowers are treated transparently and ethically. For nonprofit lenders with limited administrative resources, maintaining full compliance can be costly and time-consuming, especially as regulations evolve or expand.

Another challenge is oversight by multiple regulatory bodies. NFPs often operate across state lines or partner with state agencies, which subjects them to overlapping jurisdictions. They may have to adhere not only to federal guidelines but also to specific state-level lending, licensing, and consumer protection regulations. Inconsistent or differing state requirements—such as caps on interest rates or rules governing loan servicing—can complicate operations and increase compliance costs. Additionally, because many nonprofit lenders issue bonds to fund their loan programs, they must also comply with securities regulations, adding another layer of legal complexity.

A third challenge is the tightening of student loan servicing regulations in recent years. The Department of Education (ED) has proposed (and in some cases adopted) expanded rules around borrower defense to repayment, caps on interest capitalization, and procedural reforms to improve fairness in discharge programs. These changes tend to increase complexity for servicers (and lenders) in tracking eligibility, applying modifications, and estimating liability exposure.

As of July 1, 2023, the Biden Administration eliminated certain instances of mandatory interest capitalization that had been allowed under older regulatory language. That change tightens a dimension of profit (or margin) for lenders and servicers: The "mechanical" addition of unpaid interest can no longer be assumed in all cases.

After pandemic-era forbearance and interest waivers, the ED has signaled resumption of collection activity for defaulted loans. The backlog of borrowers returning to repayment, plus rising delinquency, stresses servicing capacity and risk management systems.

Notably, these actions by the ED only affected federal student loans and had no direct impact on NFP loans. These actions increased confusion that trickled down to all borrowers, however.

Finally, the long-term viability of not-for-profit providers is increasingly contingent on policy stability. Federal actions such as mass cancellation proposals, payment pauses, and changes to income-driven repayment rules alter borrower behavior and revenue projections, often with little advance notice. For smaller mission-driven organizations, such unpredictability undermines planning and resource allocation.

The Broader Economic Environment

In addition to regulatory challenges, NFPs face a series of economic challenges. One is access to capital. Nonprofit organizations do not have shareholders or equity; thus, they rely heavily on bond financing or reinvested earnings to fund their lending activities. When interest rates rise or bond markets tighten, it becomes harder for NFPs to secure funds to issue new loans. This can limit their lending capacity and force them to adjust rates or terms, potentially reducing their competitive edge against private lenders and the federal government, both of which have broader access to capital markets.

Another challenge is profit margins. To be competitive in the market, NFPs intentionally set lower interest rates and fees to make borrowing more affordable, but this leaves them with less financial flexibility. Their revenue must cover operating costs, loan servicing, borrower support programs, and loan loss reserves — without the cushion of high profits. In periods of economic downturn, when defaults or deferments increase, these limited margins can quickly erode financial stability. Unlike federal loan programs, nonprofit lenders lack government guarantees, making them more exposed to credit risks and economic fluctuations.

NFPs must comply with the same complex financial regulations that govern traditional lenders, which can be costly and resource intensive. they encourage students to exhaust their federal student loan options before turning to private education loans, NFPs must compete with the federal Parent PLUS loan as schools often present these high-cost loans in financial aid offer letters under the same category as the lower cost federal student loans that have IDR and forgiveness options. This competition can make it difficult for NFPs to attract new borrowers unless they offer clear advantages – such as free personalized service or generous refinancing opportunities – which many NFPs do. As the student loan reforms in the One Big Beautiful Bill are implemented and make the federal student loan system less generous, NFPs may become more competitive as borrowers and their families seek out alternative means of financing for higher education to better meet their needs.

Conclusion

While not-for-profit student loan providers no longer sit at the center of the higher education finance system, their continued existence serves as a reminder of an alternative lending model that places borrower welfare and community investment above shareholder return. These entities are under an existential threat, however, and the path forward is narrow. In a student loan ecosystem increasingly shaped by federal dominance, regulatory complexity, and political polarization, NFPs must balance mission fidelity with operational resilience. Their future will depend not just on sound financial management, but on policymakers’ willingness to preserve a diverse and mission-driven student loan lending environment.