

## Niche Grows for Credit Unions to Help Finance College

BY MYRIAM DIGIOVANNI

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Coming to the rescue of younger members looking for help meeting higher education costs presents an opportunity for credit unions to shine.

It can also serve as a springboard to establishing relationships with the ever elusive next generation and their parents. Credit Union Times spoke with a couple experts to get their take on what 2012 holds for student lending.

### **Jim Holt**

Vice President of Sales Operations  
Credit Union Student Choice  
Washington

**Credit Union Times:** What's ahead for student lending in 2012?

**Holt:** There will continue to be a very large demand from members in locating affordable private student loan solutions. In a speech at the University of Texas at Austin, President Obama highlighted that tuition and housing costs rose 439% from 1982 to 2008, compared with a 147% increase in median family income (not adjusted for inflation). As families struggle with trying to save more for college, the significant year over year tuition hikes often outpaces such efforts and is placing more debt upon the student. Student loans are, and will continue to be a reality for the vast majority of college students.

**CUT:** Advice for credit unions still on the fence about offering student loans in 2012?

**Holt:** In not offering a private student loan solution, your members in need are finding more costly alternatives that unnecessarily puts more debt upon their shoulders. Credit unions, therefore, need to take an active role in the education of its membership on using low and no-cost financial resources including scholarships, grants, and federal education loans before taking out private student loans. And, for those that do have need, to provide an affordable solution that provides a quality asset on the balance

sheet with the added benefit of a potential long-term member relationship. The cons, conversely, can be greatly mitigated. Most quickly point to the frequent mention of rising default rates on federal education loans.

However, it is important to note that these loans carry no traditional underwriting criteria or co-borrowers. One must also factor in the school being attended. According to a recent New York Times article, while less than 12% of the nation's college enrollment attend for-profit colleges, this population account for nearly 50% of all student loan defaults. Credit unions can reduce risk exponentially by adhering to two key principles: lending only to students attending traditional, four-year not-for-profit colleges and universities and layering in conservative underwriting that encourages a co-borrower, who in many situations will be a parent that has been a long-time credit union member.

**CUT:** Should the latest Occupy Movement pledge to protest the high cost of education by defaulting on student loans deter credit unions from getting into student lending?

**Holt:** Absolutely not. The Occupy effort is seeking one million signatures to garner public support and eventual legislative relief in cancelling student loan debt. This is helpful in heightening the awareness of rising debt but falls drastically short as a viable solution. The rhetoric reinforces the fact that your members need a solution today. The rapid escalation of higher education costs is placing financial hardships and unnecessary anxiety on families across this country. Credit unions may help through proper education on exhausting grants, scholarships and federal education loan dollars first, making clear the proper role of credit and encouraging its responsible use among parents and students; and offering a low cost private student loan solution for those in need.

**CUT:** When it comes to student lending what are the challenges credit unions will face or continue to face in 2012?

**Holt:** The challenges relate to operational constraints and adhering to regulatory oversight. In regards to operational constraints, it's important to understand that 85% of the application traffic for this asset class occurs in a 90-day window over the summer months. This compression point can create member service level disasters if not properly managed. A CUSO can alleviate this concern given a scalable operating model.

However, partnering with a CUSO also raises questions about regulatory oversight, specifically in regard to automated decisions. It is critical that credit unions maintain ultimate credit decision authority while having the ability to conduct regular audits of the decision process. A custom solution should also allow the credit union to set the member rates to protect its members.

**Mike Long**

Executive Vice President/Chief Credit Officer

UW Credit Union

Madison, Wis.

**Credit Union Times:** What's ahead for student lending in 2012?

**Long:** We should continue to see the steady growth of private student loans in 2012 that we've seen over

the last several years. As the cost of education increases, the gap between what a student needs to finance their education and what they can get in federal loans, grants, and scholarships continues to grow. We're starting to see some product enhancements, like fixed-rate private loans and private student loan consolidation become more common.

**CUT:** Advice for credit unions still on the fence about offering student loans in 2012?

**Long:** To borrow a phrase, "Just Do It." But, do so responsibly. In the end, credit unions will find that the positives far outweigh the negatives. Pros include serving younger members, growing consumer loan offering, credit unions must be diligent in identifying the risk with the reward. Offering reasonable but prudent limits, developing strong underwriting guidelines, and limiting portfolio exposure will go a long way towards mitigating that risk.

**CUT:** Should the latest Occupy Movement pledge to protest the high cost of education by defaulting on student loans deter CUs from getting into student lending?

**Long:** Just as the recent turbulence in the housing market hasn't deterred credit unions from offering mortgage loans, so shouldn't this deter credit unions from entering the private student loan market. As long as credit unions offer responsible products to well-qualified borrowers, they should see success with this product.

**CUT:** When it comes to student lending what are the challenges credit unions will face or continue to face in 2012?

**Long:** Actually, the biggest challenge will be continuing to manage risk. As credit unions are successful with the product, they might be tempted to reach a little deeper to get even more volume. It's very important to keep your underwriting engine tuned up and ensure that your limits are set appropriately. The regulatory environment will continue to present challenges. The Consumer Financial Protection Bureau has already indicated that oversight of student lending is a priority. Be prepared for additional documentation requirements.

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