



# What is the **Future of Student Lending** for Credit Unions?



Jim Holt, Chief Development Officer

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## Slide Link

Today's slides can be found online at:

<http://bit.ly/StudentChoice11-01>

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# What is the **Future of Student Lending** for Credit Unions?



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THE WHITE HOUSE



## BUILDING BACK BETTER

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[Find out if you qualify for the Affordable Connectivity Program](#)

[Find a vaccine or a booster near you](#)

WE'RE INVESTING IN THE AMERICAN PEOPLE

# What have you been hearing lately?



# The Biden-Harris Administration's Student Loan Debt Relief Plan

## **Part 1: Final extension of the student loan repayment pause**

- Payments and interest set to resume after 12/31/22

## **Part 2: Providing targeted debt relief to low- and middle-income families**

- \$10,000 in federal student loan debt cancellation / \$20,000 for those who received a Pell Grant
- Limited to those with incomes below \$125,000 (individuals) or \$250,000 (married couples or heads of household)

## **Part 3: Make the student loan system more manageable for current and future borrowers**

- Changes to Income Driven Repayment (IDR) plan that lowers amount of discretionary income, raises amount of income considered non-discretionary, and forgives balances sooner





## Will the debt cancellation **stick**?

The administration and Democrats' focus will be on thwarting Republican and legal challenges to the federal student loan debt cancellation via executive action. This process started October 12th in a St. Louis federal court.

Debt cancellation application is available and millions completed/returned

**'There's a lot of people celebrating prematurely': GOP could bring a legal challenge to block Biden's student loan forgiveness plan**

 CNBC

***Biden's Student Loan Plan Could Face a Protracted Legal Fight***

The White House's use of emergency powers to enact widespread debt relief could be ripe for challenges.

**The New York Times**

**Republicans are readying lawsuits to block Biden's student debt plan**

**The Washington Post**



# What does this news mean for **credit unions**?

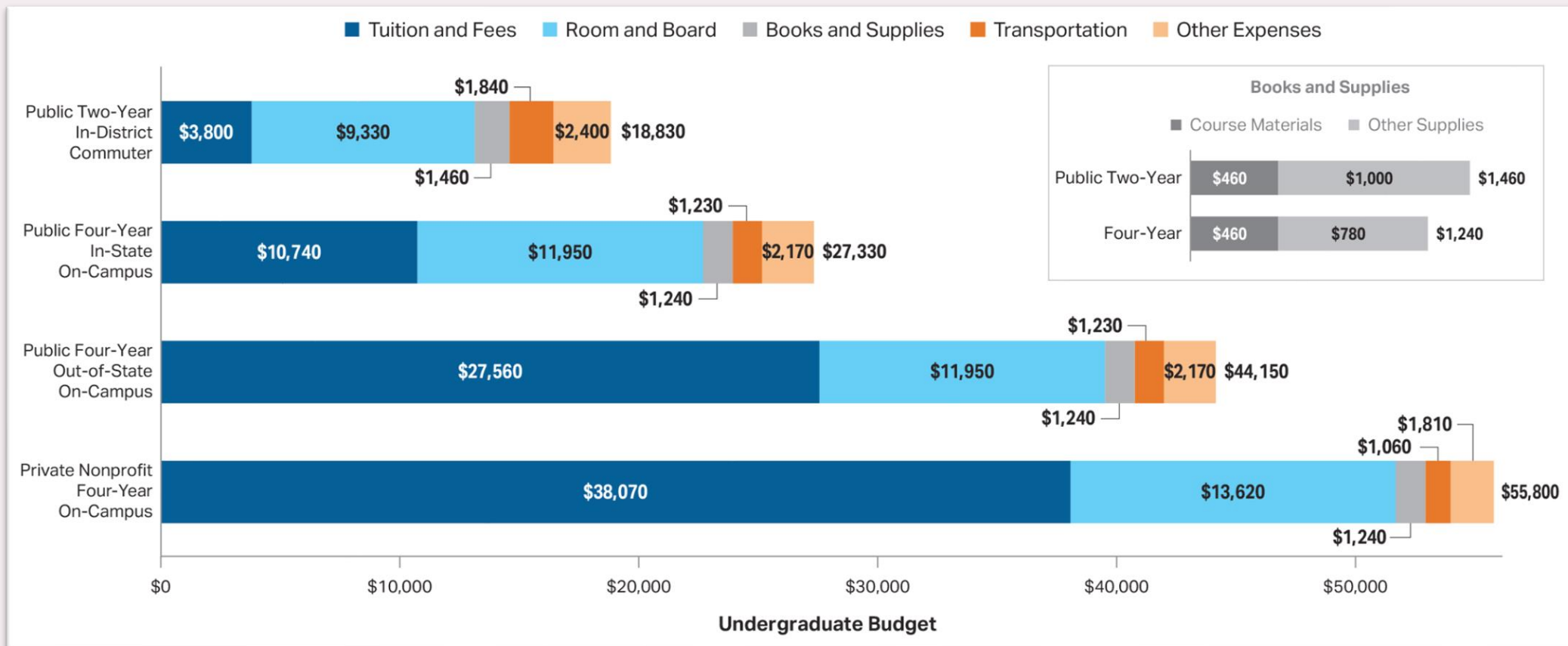
Dramatically improved clarity on **federal** student loan legislation with no impact on **private** student lending.



**Will members continue to need  
help **paying for college?****



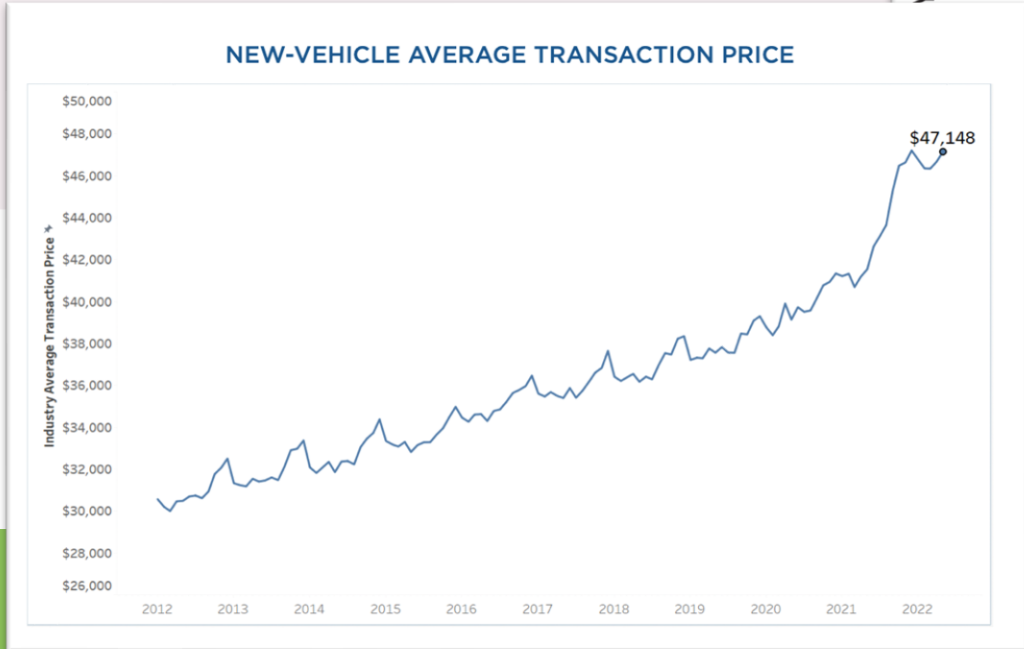
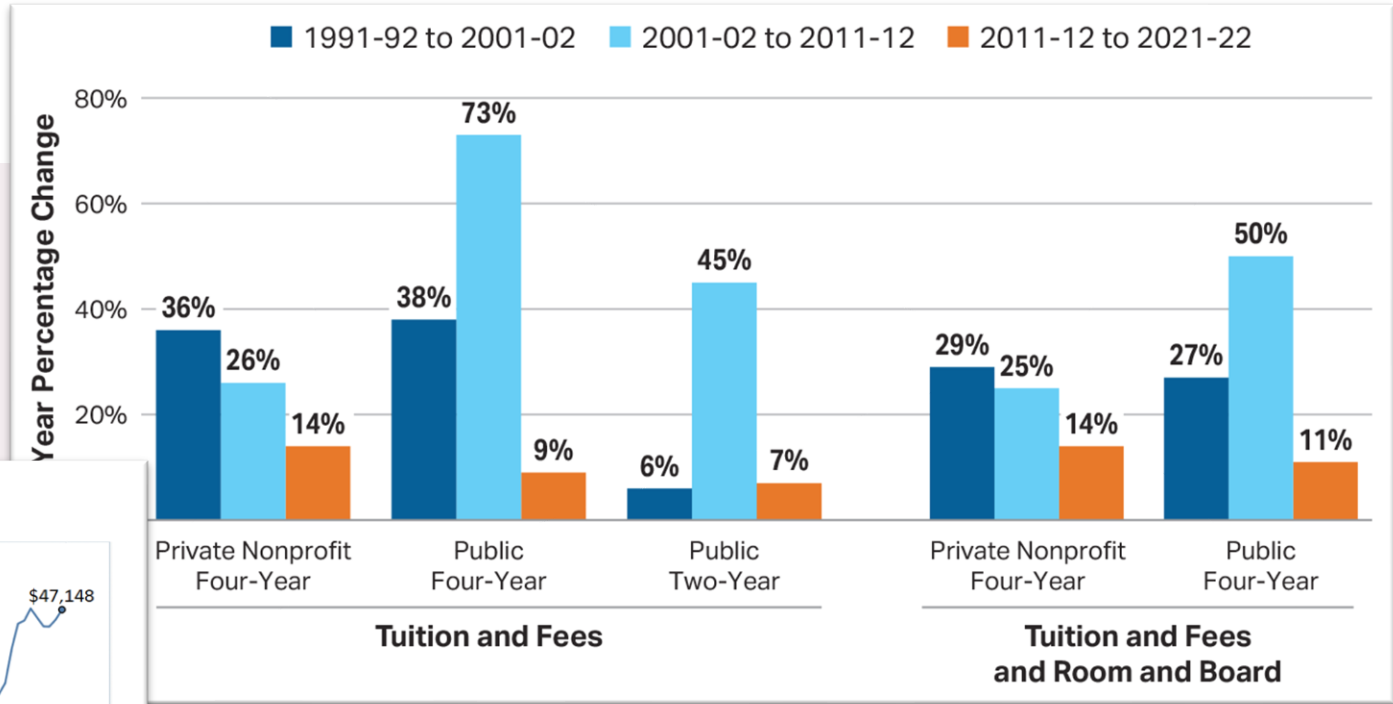
**ON AVERAGE:** It will cost **\$55,800**/year to attend a private not-for-profit university and **\$27,300** for an in-state public university





# Increases to college costs have slowed . . .

From 2012 to 2022, college costs increased by 14% (private) and 11% (public)



New vehicle costs increased 52%



# ... But that is about to change.

Annual Percentage Change in  
Inflation-Adjusted Published Tuition and Fees  
Relative to 1990-91 (1990-91 = 1.0)



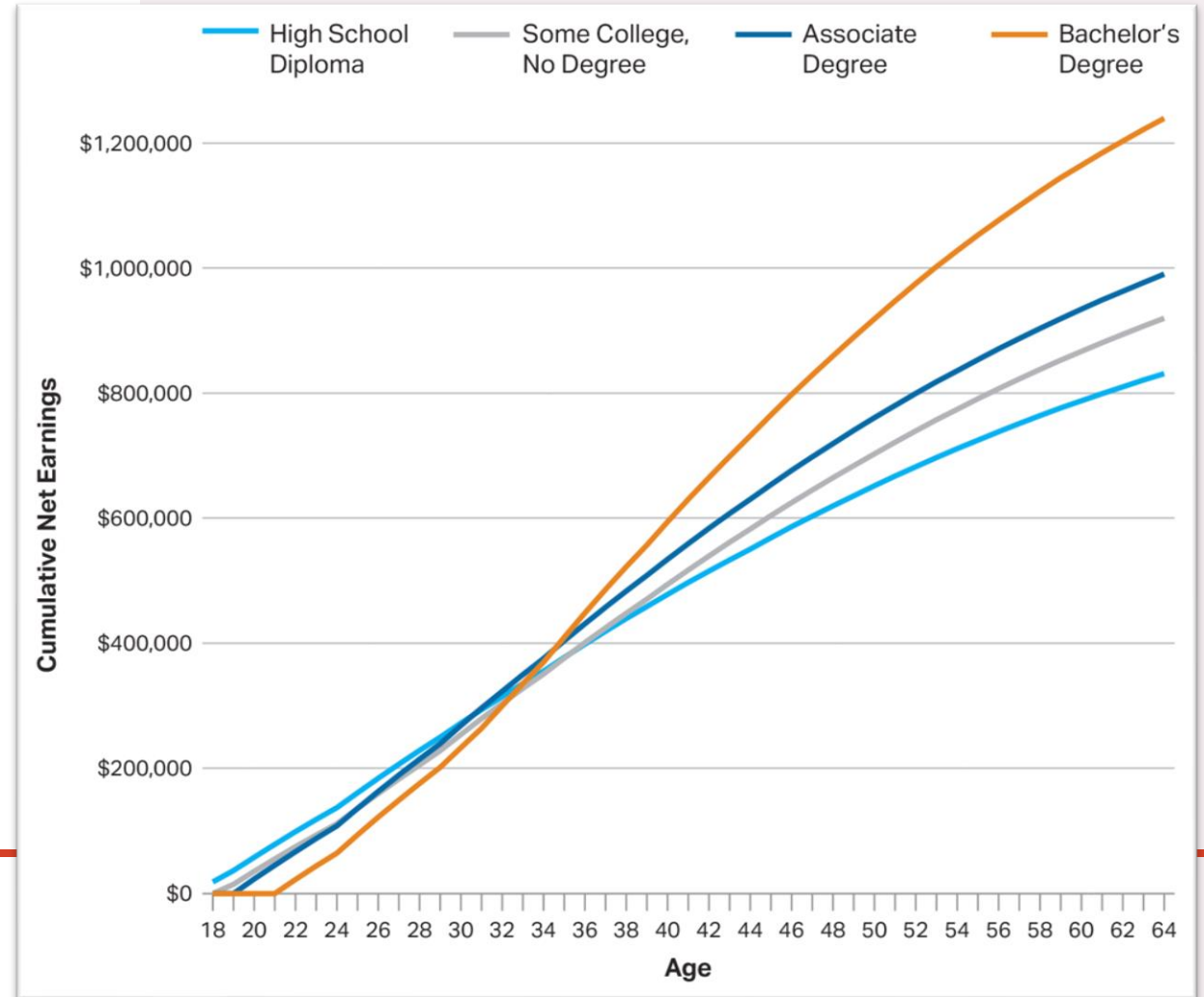


**Is college worth it?**



# Yes, college is worth the investment.

By age 34, a bachelor degree recipient has accrued more earnings than those without a degree – even when paying off their college loans.



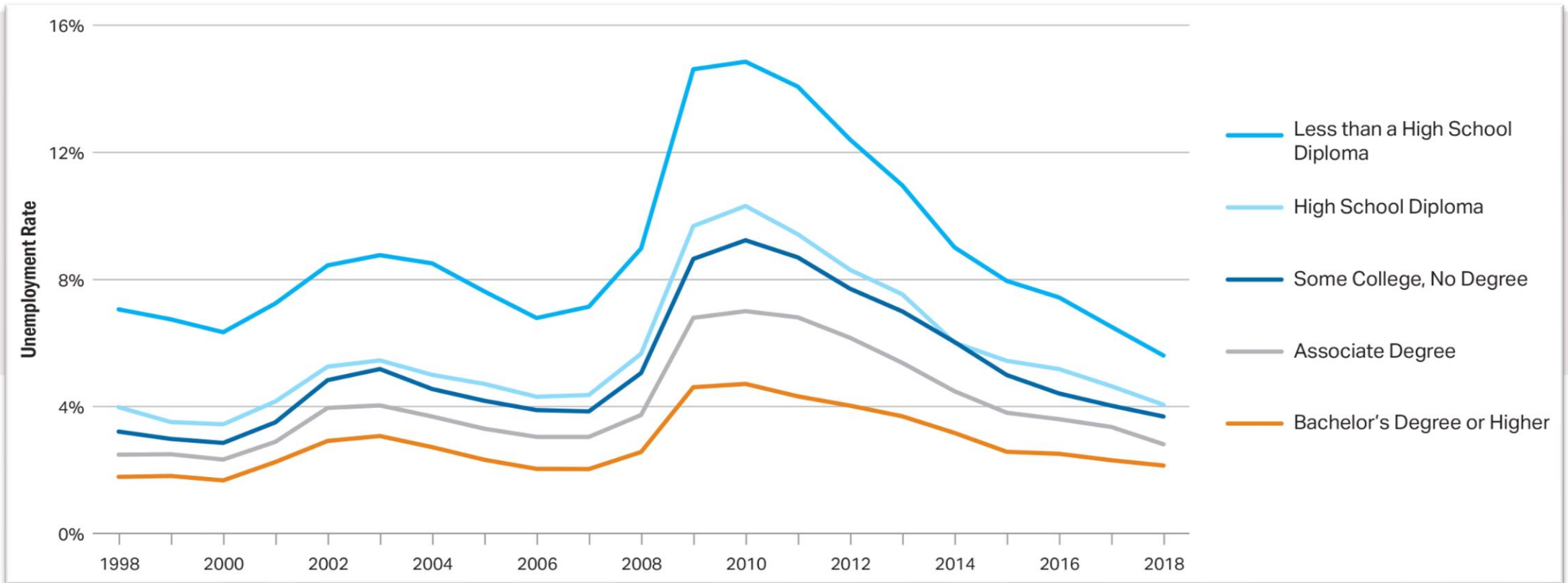
SOURCE: The College Board, Education Pays 2019, Figure 2.2A





A college degree recipient is 50% less likely to be unemployed than those without a degree

Largest gap between the bachelor's degree recipients and high school graduates is immediately following the Great Recession. (Dec. 2007 – June 2009)



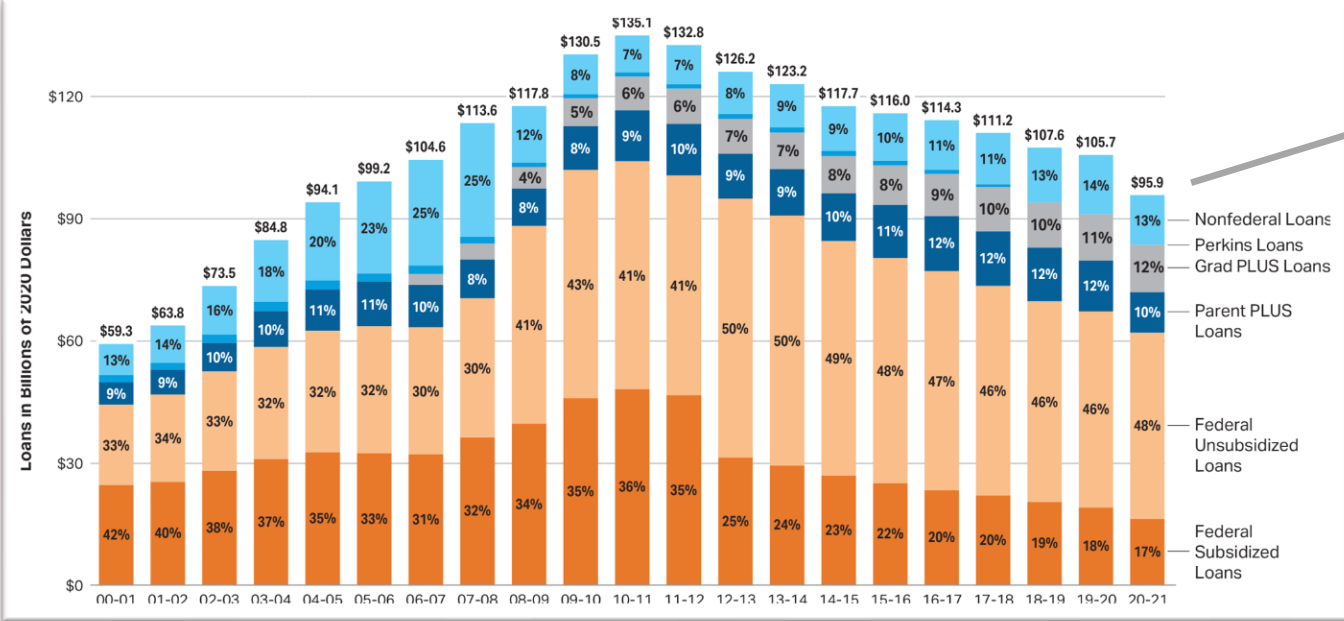
(Unemployment Rates of Individuals Age 25 and Older, by Education Level, 1998 to 2018)



# **Credit union market share in private student lending**

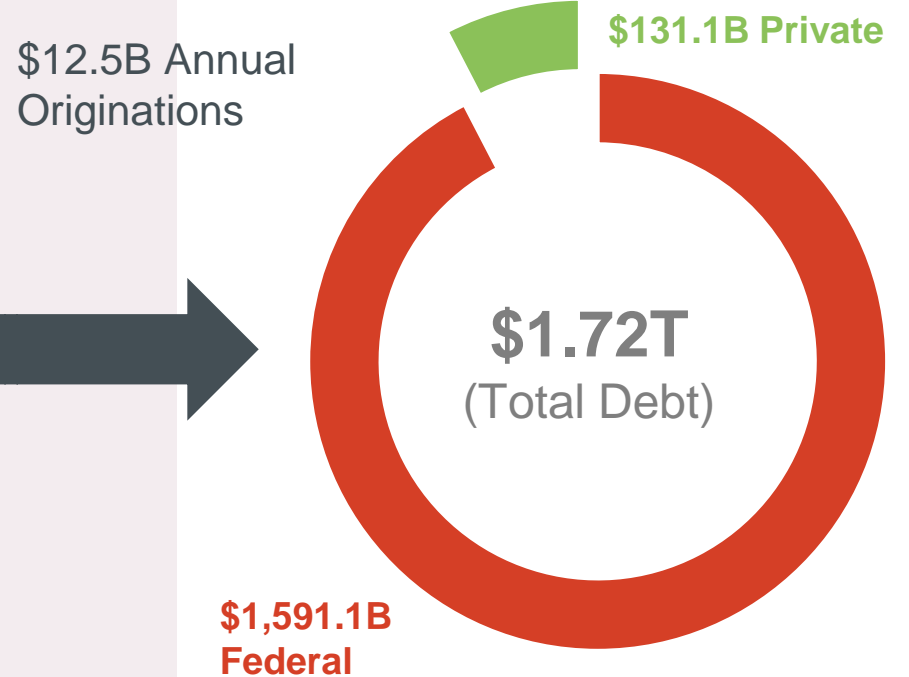


# What is the total education finance market size?



<https://research.collegeboard.org/media/pdf/trends-student-aid-presentation-2021.pdf>

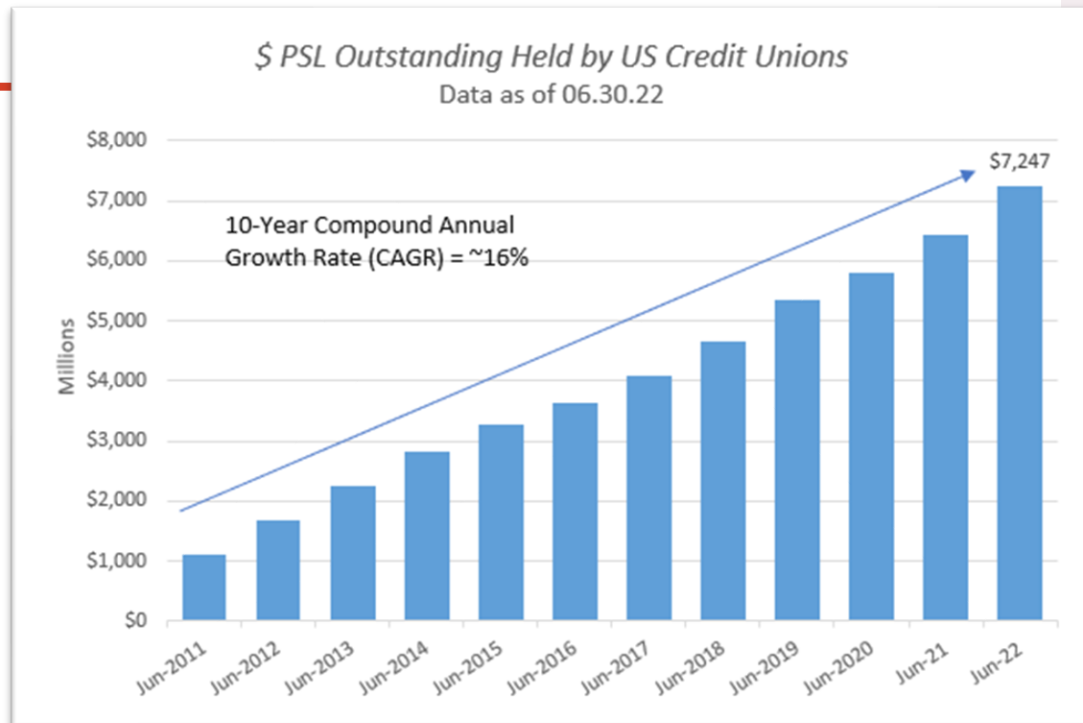
## Total Student Loan Market



MeasureOne date - <https://fs.hubspotusercontent00.net/hubfs/6171800/assets/downloads/MeasureOne%20Private%20Student%20Loan%20Report%20Q3%202021%20FINAL%20VERSION.pdf>



# Credit unions started jumping into this space during the Great Recession



There are now **700+** credit unions putting private student loans on their balance sheets, with a net charge off rate well under 1%.

Source: 5300 Reporting & Callahan Peer to Peer



**What are the benefits of offering  
private student loans?**



# Newly minted college students are **highly coveted** by financial institutions

**Member A**

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Age: 54

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**Member B**

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Age: 25

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Education: College Graduate or higher

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Education: College Graduate or higher

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# Newly minted college students are **highly coveted** by financial institutions

## Member A

Age: 54

Education: College Graduate or higher

Income: \$129,000

## Member B

Age: 25

Education: College Graduate or higher

Income: \$57,000





# Newly minted college students are **highly coveted** by financial institutions

## Member A

Age: 54

Education: College Graduate or higher

Income: \$129,000

Debts: \$320,000 Chase Bank Mortgage  
\$27,000 Wells Fargo auto loan  
\$4,000 Chase Visa  
\$31,000 Chase home improvement loan

## Member B

Age: 25

Education: College Graduate or higher

Income: \$57,000

Debts: \$18,000 student loan  
\$1,200 credit card balance



# Newly minted college students are highly coveted by financial institutions

## Member A

Age: 54

Education: College Graduate or higher

Income: \$129,000

Debts: \$320,000 Chase Bank Mortgage  
\$27,000 Wells Fargo auto loan  
\$4,000 Chase Visa  
\$31,000 Chase home improvement loan

Assets: \$490,000 Primary Residence  
\$640,000 401-K  
\$4,500 ACH Chase Bank Checking

## Member B

Age: 25

Education: College Graduate or higher

Income: \$57,000

Debts: \$18,000 student loan  
\$1,200 credit card balance

Assets: \$900 checking balance  
Paycheck ACH to ABC Credit Union



# Newly minted college students are **highly coveted** by financial institutions

Member A	Member B
Age: 54	Age: 25
Education: College Graduate or higher	Education: College Graduate or higher
Income: \$129,000	Income: \$57,000
Debts: \$320,000 Chase Bank Mortgage \$27,000 Wells Fargo auto loan \$4,000 Chase Visa \$31,000 Chase home improvement loan	Debts: \$18,000 student loan \$1,200 credit card balance
Assets: \$490,000 Primary Residence \$640,000 401-K \$4,500 ACH Chase Bank Checking	Assets: \$900 checking balance Paycheck ACH to ABC Credit Union
PFI: Chase	PFI: Undecided



# Newly minted college students are highly coveted by financial institutions

Member A	Member B
Age: 54	Age: 25
Education: College Graduate or higher	Education: College Graduate or higher
Income: \$129,000	Income: \$57,000
Debts: \$320,000 Chase Bank Mortgage \$27,000 Wells Fargo auto loan \$4,000 Chase Visa \$31,000 Chase home improvement loan	Debts: \$18,000 student loan \$1,200 credit card balance
Assets: \$490,000 Primary Residence \$640,000 401-K \$4,500 ACH Chase Bank Checking	Assets: \$900 checking balance Paycheck ACH to ABC Credit Union
PFI: Chase	PFI: Undecided
Future Needs/Goals: Pay down debt and retire	Future Needs/Goals: Start aggressively saving, purchase new car, buy first home, sell home and upgrade, replace car, start investing, pay down debt and retire

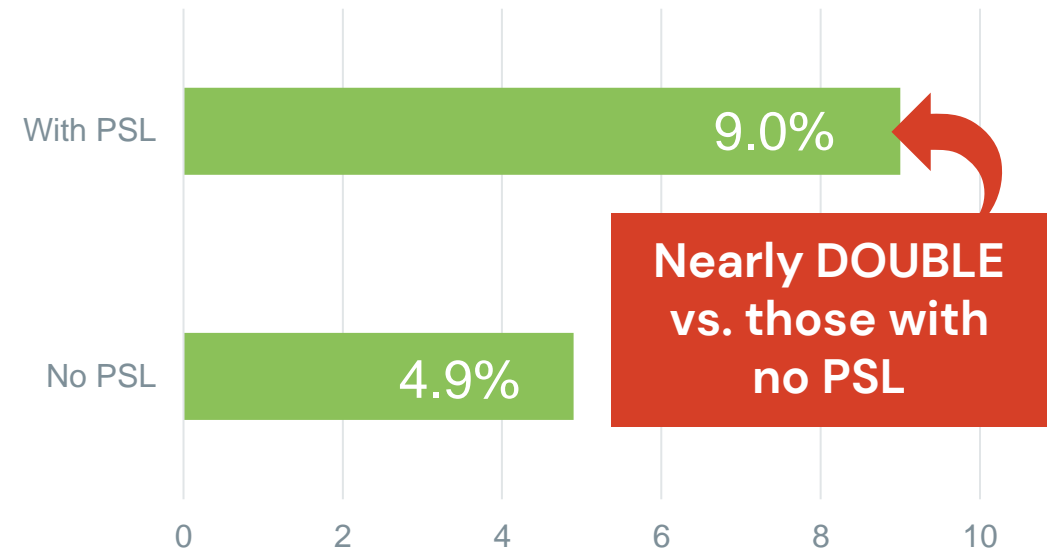


## PSLs lead to **wallet share growth**

Members between ages 31–37 with PSL tend to have a deeper member relationship with their credit union.

27.4% also took out a credit union credit card

### % of Members Aged 31-37 w/CU Mortgage Loans

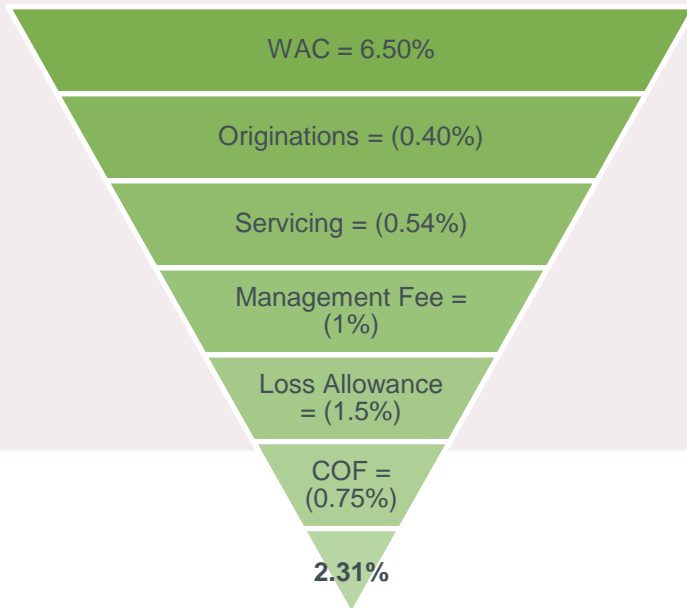


Study completed 2020 – 172,615 member relationships reviewed



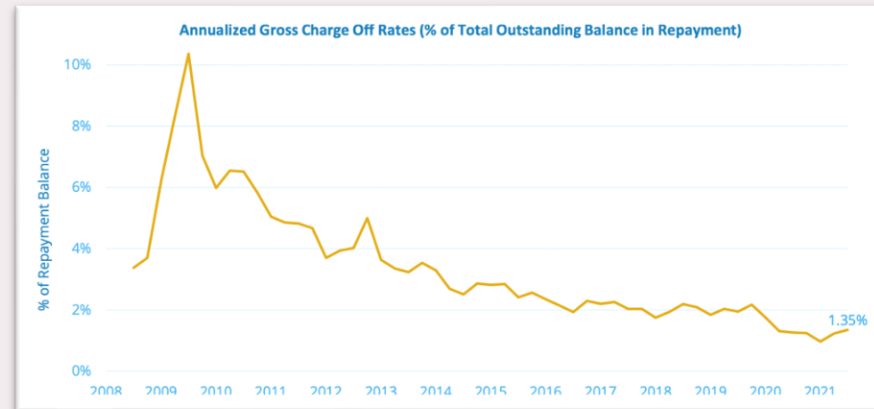
# Balance sheet considerations

Profitability = 2.31% net yield



## RISK

Performance = 1.35% gross c/o (5yrs)



## Resources

- Program Build
- School certification
- Servicing complexity
- FTE Requirements
- Technology demands
- Marketing expertise
- Audit requirements
- Seasonality pressure



December 15<sup>th</sup>, 2021  
REPORTING AS OF END-SEPTEMBER 30<sup>th</sup>, 2021



# Working with a CUSO





# **SEGs and niche lending** **opportunities**





**Created program to help unique membership base of utility and energy workers, many of whom attend trade schools**

- Borrowing limits between \$1,000-\$25,000
- Repayment terms of 3, 5, or 7 years
- Rates currently as low as 6.99% (fixed rate)
- UECU's Business Development Team manages relationships with partner schools and presents at career/recruitment fairs to highlight the program to potential borrowers
- UECU is considering other partner schools to grow the program further
- Like with standard program, Student Choice handles the application process, including school certifications and disbursement of loans, as well as servicing



- **\$1.4B in Assets**
- **46,000 Members**
- **Located in Reading, PA**
- **Launched Energy Trade School Private Education Loan in June 2022**



**Offering a tailored approach for airline employees providing financial solutions designed to follow them throughout their career journey**

- Average school cost is \$90K - \$100K
- Borrowing limit of \$120,000
- Currently two eligible flight schools, four school locations
- LOC can be used to cover school's cost as well as optional housing and living expenses (must be certified by school.)
- Repayment terms up to 25 years
- Repayment starts after the cadet graduates
- Low, competitive rates with a co-signer optional (variable and fixed options)



- **\$9.5B in assets**
- **330,000 members**
- **Located in Fort Worth, TX**
- **Launched cadet line of credit program in April 2022**



## Now is the **time!**

Credit unions have a growing cost of funds advantage over fintechs that have entered the private student loan marketplace over past 5-10 years.

- Likely attrition in the PSL space will help drive demand to traditional deposit based institutions like credit unions
- College and universities will seek stable and long-standing financial organizations in support of families that need additional financing



**Are digital marketplaces  
a barrier of entry?**



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- More Loan Options

Personal Loans

## Find the right personal loan rate for you

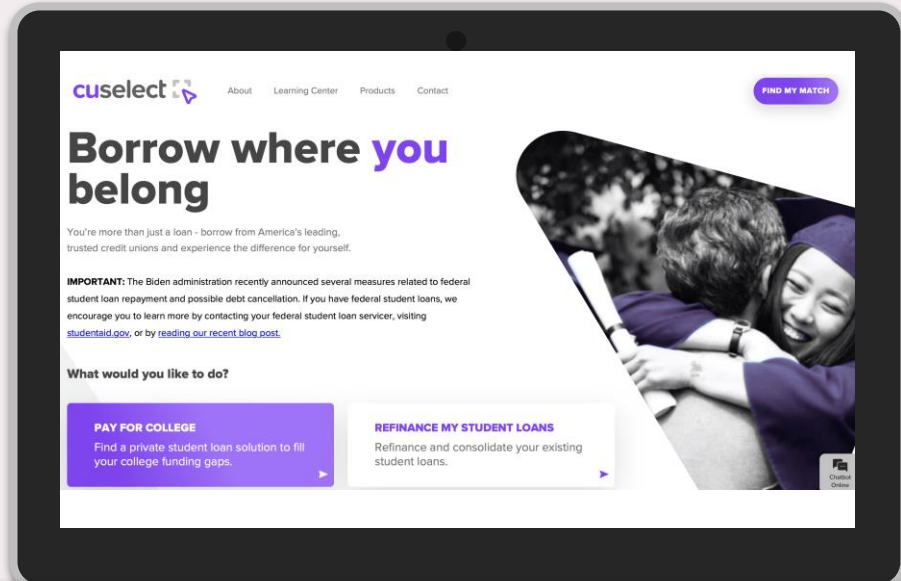
Need to consolidate debt or make a large purchase? We bring the lenders to you so you can shop and compare personal loan offers in minutes.

[Compare Rates](#)

LOAN PURPOSE

- Debt Consolidation
- Home Improvements
- Pay Off Credit Cards
- Home Buying





# Come play in **ours!**

Other asset classes arriving soon.





# Key Takeaways

1

Your members will **continue to need assistance** paying for their education

2

Helping college students now affords your credit union the opportunity to **gain a highly productive member** for 30-40 years

3

Entry into the education finance space is quick & easy with little to no resource demands when **leveraging a CUSO**

4

**Jump in now,** ahead of spring, when families start seeking support – *will your credit union be offering it?*

**Q&A**







# Thank **you!**

 CREDIT UNION  
**Student Choice**  
[creditunions.studentchoice.org](https://creditunions.studentchoice.org)