Ser Tech

Student Loans: Credit Unions' Next Frontier

Student loans are an excellent avenue for boosting and diversifying credit unions' loan portfolios, as well has helping members with a growing national crisis: the cost of secondary education.

The cost of a public, 4-year university increased 37% between the 2007-08 and 2017-18 school years to nearly $10,000 (tuition and fees) per year, according to College Board, while private colleges increased pricing 26% to nearly $35,000.

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In the same time frame, federal student grants nearly doubled, but only to about $40 billion annually versus a 20% increase in federal student loans to nearly $95 billion. Non-federal grants are up to $84 billion and non-federal student loans and aid increased 30% to $11.6 billion bringing the total private and public aid to $251 billion. The good news is credit unions hold 27% ($3.1 billion) of that $11.6 billion in student loans, according to Ser Tech's new business partner, CU Student Choice.

Of the roughly 20 million college students in 2017, 75% attended public schools and the rest private schools, according to Statista. To look at it another way, that's $150 billion in tuition and fees for public schools and $175 billion for private schools for one school year. Obviously not every student lives on campus, so $325 billion in expenses may be a bit of an overestimate, but that creates a $74 billion gap in current funding per year. As of yearend 2016, 42.4 million Americans had $1.3 trillion in student debt, Consumer Federation of America reported.

Many looked to the equity in their homes to fund their children's college expenses or refinance student loans. This is a sticky wicket because the rate may be better for consumers and they can gain tax benefits, plus lenders have some security against the loan. However, more than 4 million completed foreclosures occurred between 2007 and 2011 due to parents borrowing against their homes to pay for their children's college, US News & World Report reported. And if home values drop again, secondary lien holders can lose that equity security and borrowers may become upside down in the liens against their homes.

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According to the Consumer Financial Protection Bureau, consumers don't have a lot of options for refinancing their student loans, creating a prime opportunity for credit unions. While federal loans have certain forgiveness and income-based repayment benefits, private lenders can typically win on pricing, whether it's a lower interest rate or lower payment options.

In light of 25 state probes into allegedly abusive collection practices, credit unions can serve as a beacon of education for young consumers and their parents through ethical education on the various programs and, when necessary, collection practices. This type of honest transparency is very appealing to consumers, particularly young millennial borrowers for which credit unions are competing. A 2016 study by Citizens Bank, as reported by The Financial Brand, showed that millennials spend 18% of their income on student loan payments and most expect to be making payments well into their 40s. Credit unions can capture newly employed members at the source and nurture that relationship as a trusted adviser for years to come. To have a Ser Tech sales representative contact you, send an email to: sales@sertech.com.