

## *Executive Summary*

Lending habits among American consumers have been shifting since the Great Recession began in 2008. Consumers are not as willing to take on more debt, which is a positive trend for those borrowers over their heads in credit card and other expensive debt. But for credit unions, the slap in the face of the lending portfolio has roughed up the bottom line.

Private student loans are an opportunity worth considering as lenders seek more options and income. Some readers will recall the bad old days of student loans when financial institutions would lend funds for college expenses with few questions asked. The money went directly to the students often without the school involved. These loans financed quite a few motorcycles as well as trips to Amsterdam. And if finances went south, bankruptcy was used to get out of paying back the debt.

Times have changed; schools now certify the student's financial needs. Loans are paid directly to the college and it's rare to have the loan discharged through bankruptcy. More regulations have been added.

The cost of a college education has increased more than the rate of inflation or salaries. Low-income college graduates or those burdened by student loan debt are questioning the value of their degrees. With unemployment hovering around 9% and an economy that continues to limp along, the prospect of entering years of indebtedness is also causing some high school graduates to pause and reflect on the value of a college degree.

But a large number of these graduates and their parents still regard a college education as a good investment and a ready vehicle to a middle-class lifestyle. Government guaranteed loans, grants and personal savings no longer cover the cost of college for a number of families; students and their parents are turning to private student loans to finance the gap. Credit unions are relatively new to this type of lending but they can offer value by educating students and parents and serving as trusted advisers through the complex maze of student lending. And trusted, honest advice about financial matters is worth its weight in gold.

College students are a difficult market to reach, if they are looking for credit, they will typically go to a bank or college financial aid officers and ask for recommendations. Like consumers—and even members—who seek a mortgage, many are unaware that credit unions offer student loans.

For a number of credit unions that are on the sidelines, offering private student loans offer too many challenges: a complicated loan process for lenders as well as students and parents as well as increased regulation. But for others, these same challenges and the lack of an active secondary market are reasons for partnering with a CUSO. Pooling resources and risk in this market truly makes sense. Today, virtually every private student loan provider encourages borrowers to exhaust free and cheap funding options before turning to a private student loan. Many of the bad actors of pre-2008 are no long in the business. The risk is there, of course, but so is the potential for income.