



Debunking Student Loan Headlines

A LOOK INTO THE STUDENT LOAN INDUSTRY

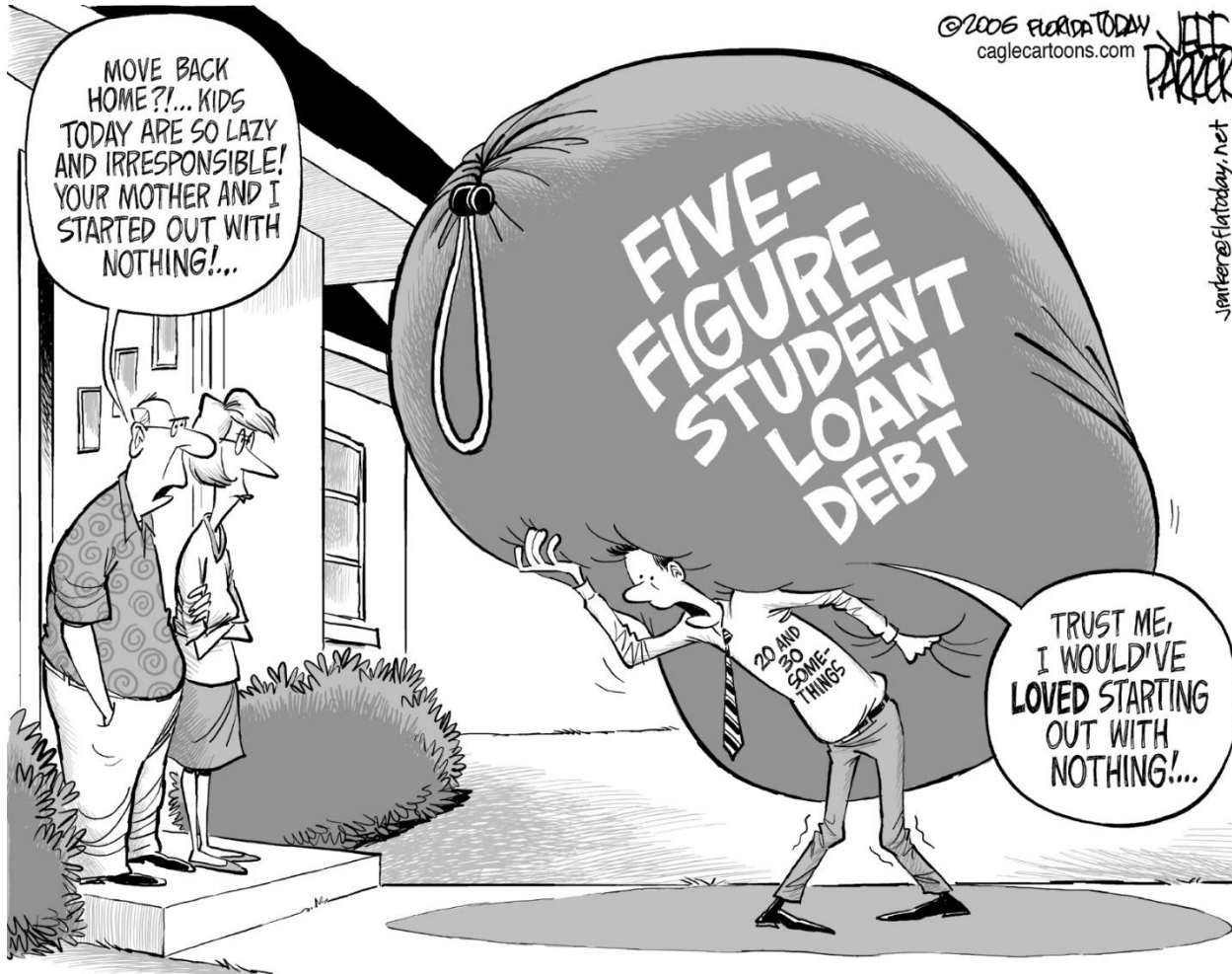
Presented by: Jillian Gajtka
Manager | Strategic Partnerships

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Credit Union
StudentChoice

Student Loan Debt



Recent Headlines



Headlines

THE HUFFINGTON POST

bubble

crisis

The New York Times



**\$TUDENT
LOAN DEBT**
How Big Will the Bubble Grow?



THE WALL STREET JOURNAL.

Student Loan Jeopardy

What percentage of the \$1.19 Trillion in student loan debt do private loans account for?

- A. 5.2%
- B. 7.6%
- C. 11.8%
- D. 21.3%

Student Loan Jeopardy

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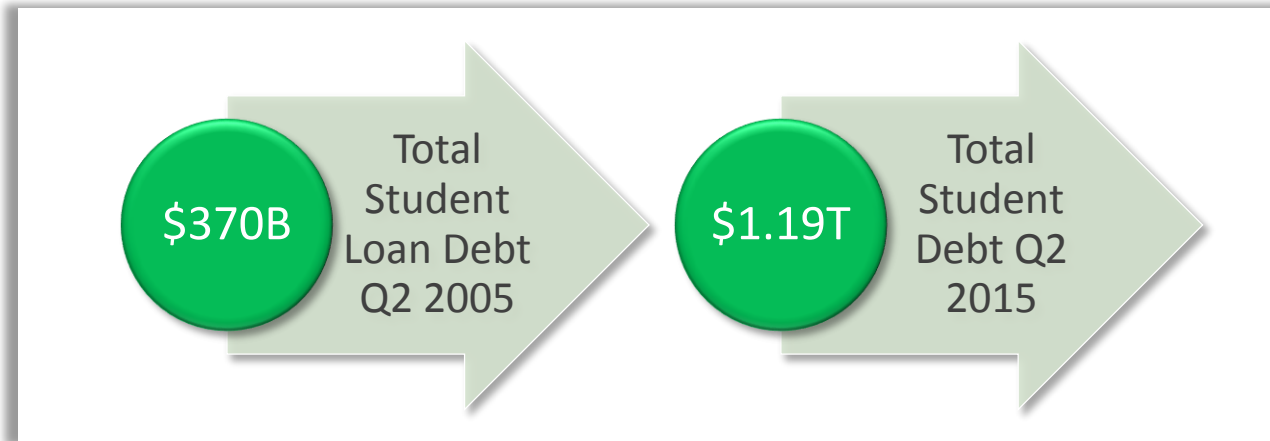
A. 5.2%

B. 7.6%

C. 11.8%

D. 21.3%

Headline #1: Growth in Student Loan Debt



\$1.19 Trillion in Outstanding Student Loans

\$91B (7.6%) is Private Student Loans

\$7.5B in private student loans originated in 2014

Federal Reserve Bank of New York

Student Loan Jeopardy

What is the average Cost of Attendance per year at a public out of state, 4-year College/University for 2015-16?

- A. \$24,000
- B. \$28,500
- C. \$30,000
- D. \$38,500

Student Loan Jeopardy

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- C. \$30,000
- D. \$38,500**

This includes the cost for tuition, fees and room & board. The average cost of attendance for the 2015-16 academic year at an in-state 4-year college/university is \$24,000, a difference of \$14,500.

Source: Collegeboard – Trends in College Pricing 2015, Figure 1

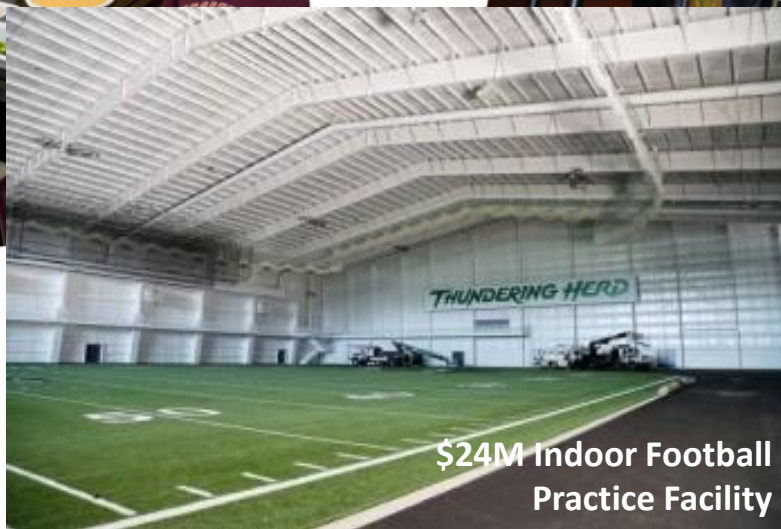
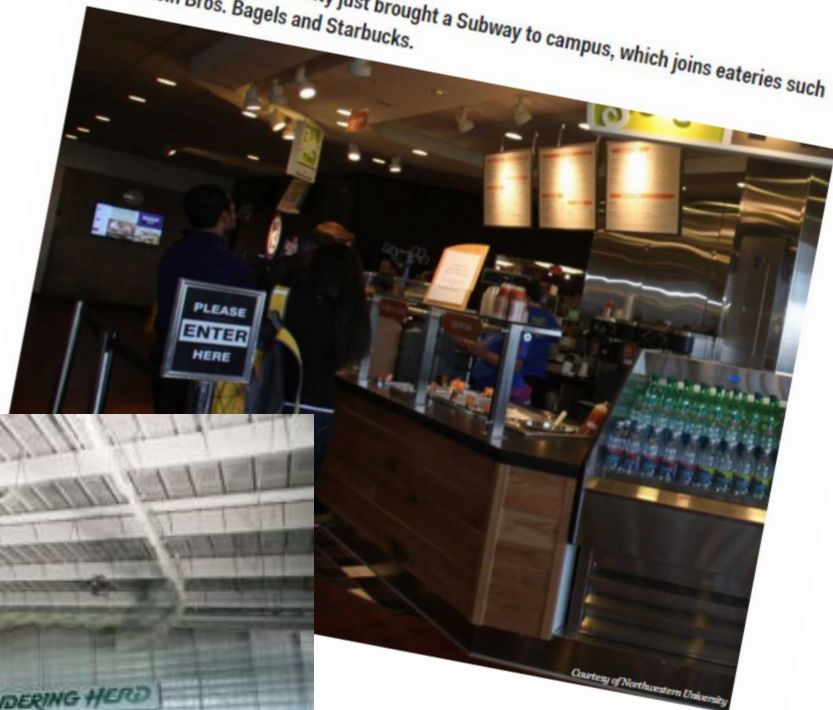
<http://trends.collegeboard.org/sites/default/files/2015-trends-college-pricing-final-508.pdf>

Cost of Education

#3 Virginia Tech recently opened a \$35M dining hall where options range from hibachi to gelato.



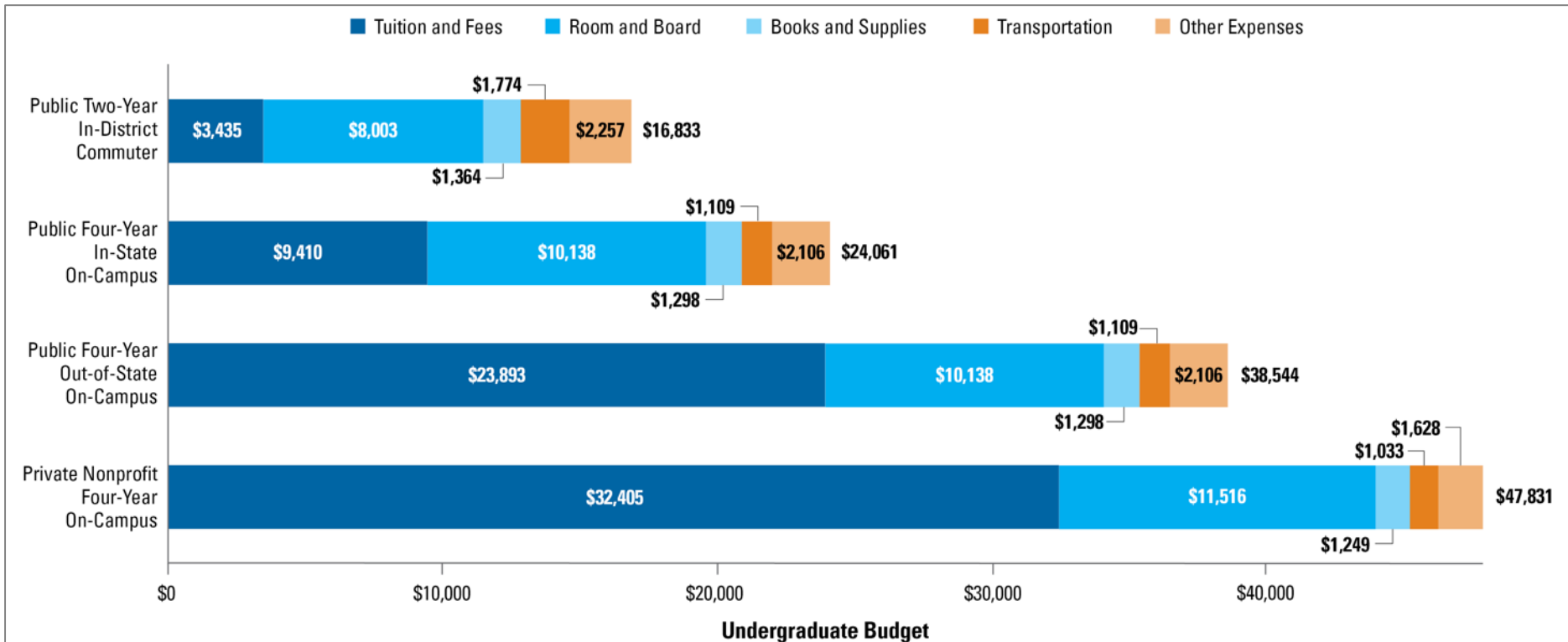
#12 Northwestern University just brought a Subway to campus, which joins eateries such as Einstein Bros. Bagels and Starbucks.



\$24M Indoor Football Practice Facility

The Cost of Education

Average Estimated Full-Time Undergraduate Costs 2015-16 Academic Year

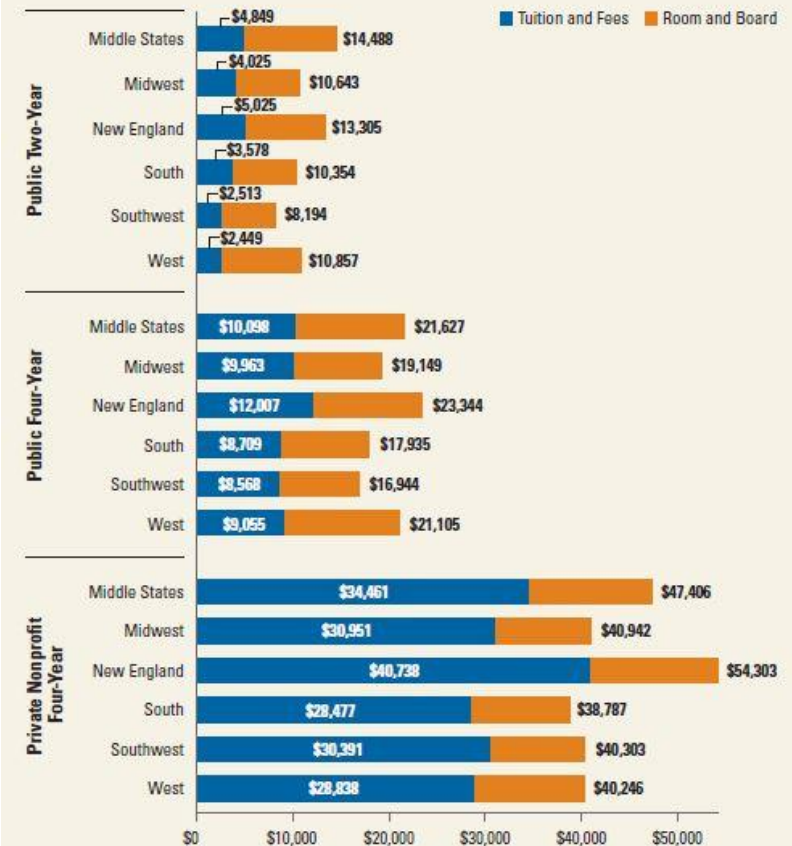


Source: The College Board, Trends in College Pricing 2015, Figure 1

The Cost of Education by Region

Average Estimated Full-Time Undergraduate Costs 2015-16 Academic Year by Region

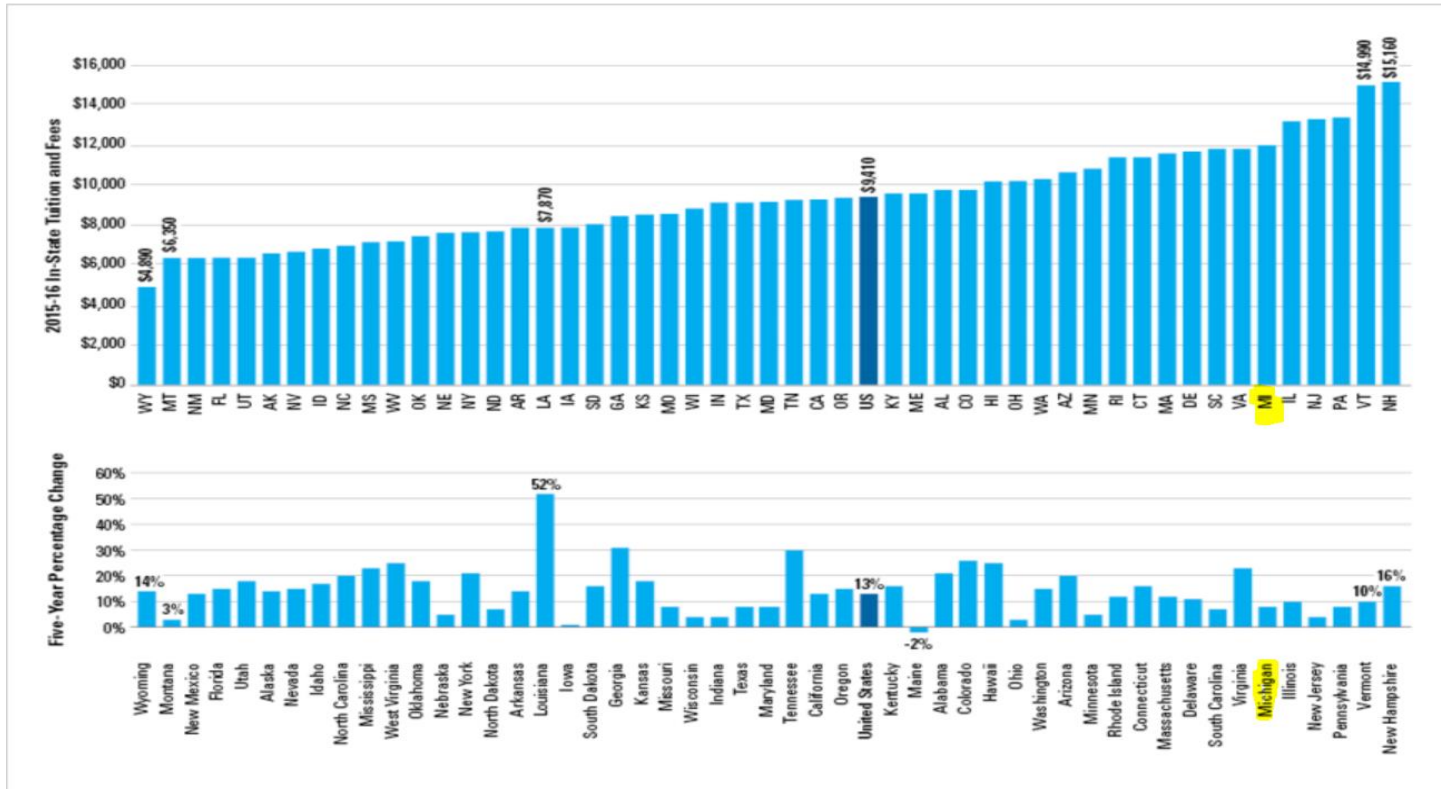
FIGURE 2 Average Tuition and Fees and Room and Board (Enrollment-Weighted) by Sector and College Board Region, 2015-16



Source: The College Board, Trends in College Pricing 2015

MI Tuition & Fees for In-State Students

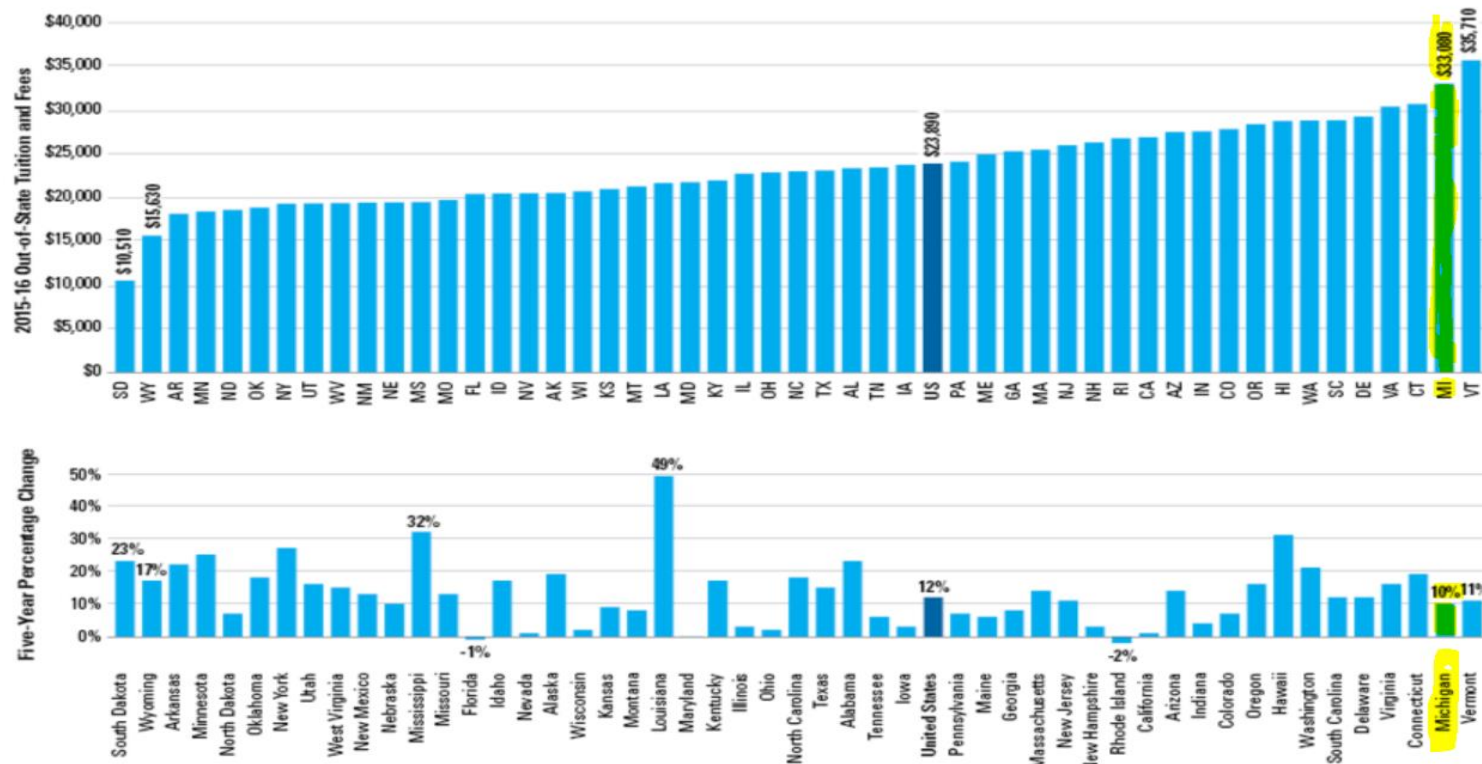
Michigan 4-year public institutions are still in the top 15% of the country for tuition/fees



Source: The College Board, Annual Survey of Colleges <http://trends.collegeboard.org/college-pricing/figures-tables/2015-16-state-tuition-and-fees-public-four-year-institutions-state-and-five-year-percentage>

MI Tuition & Fees for Out-of-State Students

In the state of Michigan, public 4-year institutions are the 2nd highest in the entire country



Source: The College Board, Annual Survey of Colleges <http://trends.collegeboard.org/college-pricing/figures-tables/2015-16-out-of-state-tuition-and-fees-public-four-year-institutions-state-and-five-year>

The Cost of Education

Cost of Attendance (COA)

The cost for the student to attend school as if it were his/her job:

Tuition
School Fees
Housing/Rent
Books
Food
Transportation
Miscellaneous Expenses

Sample Award Letter

UNIVERSITY OF SUCCESS

Federal Loan – Subsidized	\$3,500
Federal Loan – Unsubsidized	\$2,000
School Grant	\$1,500
State Scholarship	\$1,000
Federal Work-Study	\$2,000
Total Award	\$10,000
Cost of Attendance	\$20,000
Remaining Need	\$10,000

Fixed Costs vs. Flexible Costs

Tuition	\$8,000
+	
<u>School Fees</u>	<u>\$1,000</u>
Total Fixed	\$9,000
Total Flexible	\$11,000

Flexible Costs

Total Flexible Costs
\$11,000

Rent – (\$500 X 10)
\$5,000

Food – (\$300 X 10 months)
\$3,000

Books - (\$200 X 10 books)
\$2,000

Personal Expenses - (\$75 X 10 months)
\$750

Transportation - (ex: Bus pass @ \$25/mo
x 10mos.) \$250.00

Total Flexible Costs
\$8,750

Rent – (\$400 X 10)
\$4,000

Food – (\$300 X 10 months)
\$3,000

Books - (\$100 X 10 books)
\$1,000

Personal Expenses - (\$50 X 10 months)
\$500

Transportation - (ex: Bus pass @ \$25/mo
x 10mos.) \$250.00

(New) Unmet Need

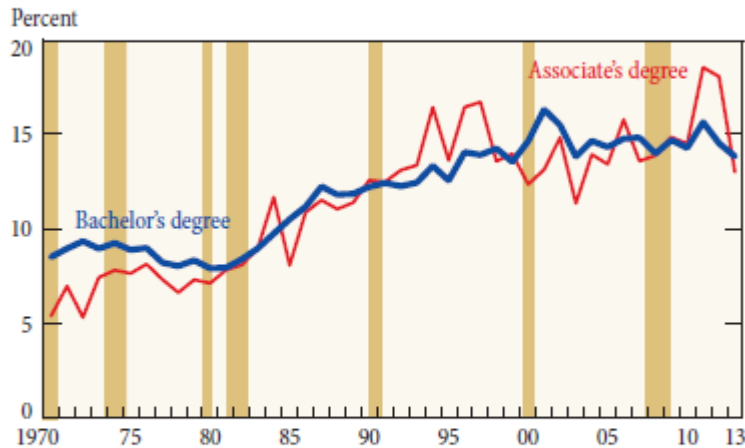
Fixed	\$9,000
Flexible	\$8,750
Total Costs	\$17,750
Total Costs	\$17,750
Total Award	(\$10,000)
Remaining Need	\$7,750

Need reduced by \$2,250 (or \$225 a month)

Headline #2: A Bubble & Skyrocketing Default Rates

Chart 5

Return to Bachelor's and Associate's Degrees 1970-2013



Sources: U.S. Census Bureau and U.S. Bureau of Labor Statistics, Current Population Survey, March Supplement; U.S. Department of Education, Digest of Education Statistics 2012; The College Board, Trends in College Pricing 2013 and Trends in Student Aid 2013.

Note: The shaded areas indicate periods designated recessions by the National Bureau of Economic Research.

- Though tuition rates have increased rapidly, the overall rate of return on college education has remained at around 14% - 15% over the past decade
- In comparison, for the past 60 years stocks earned a return, on average, of 7% and bonds only 3%

Source: Federal Reserve Bank of New York, "Do the Benefits of College Still Outweigh the Costs?", Current Issues in Economics and Finance, vol 20, number 3, 2014, www.newyorkfed.org/research/current_issues.

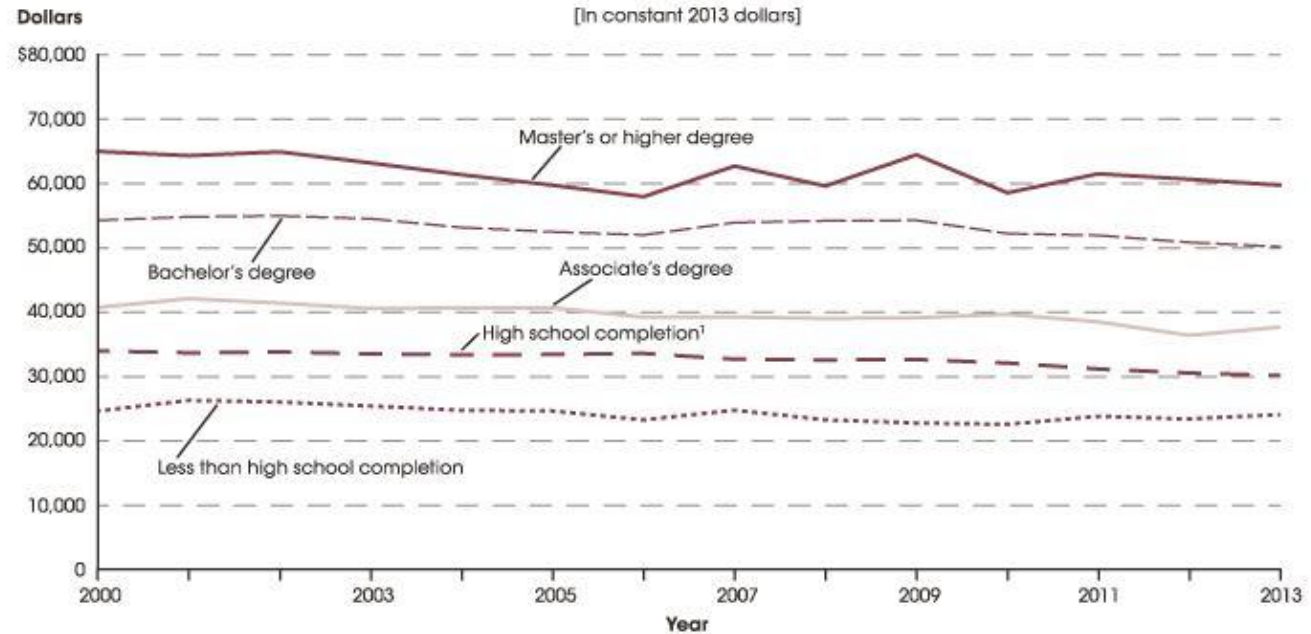
No Bubble: BA/BS degrees increase earnings

The median earnings for young adults (ages 25-34) with a bachelor degree is more than 65% those with just a high school diploma (\$50,000 vs \$30,000).

CFPB indicates that a college degree earner will, on average, earn approximately \$1 million more over their career than someone with a high school diploma.

Starting salaries are keeping pace with education debt loads. A student's salary is almost 2x their student debt.

Figure 3. Median annual earnings of full-time year-round workers ages 25-34, by educational attainment: 2000–2013



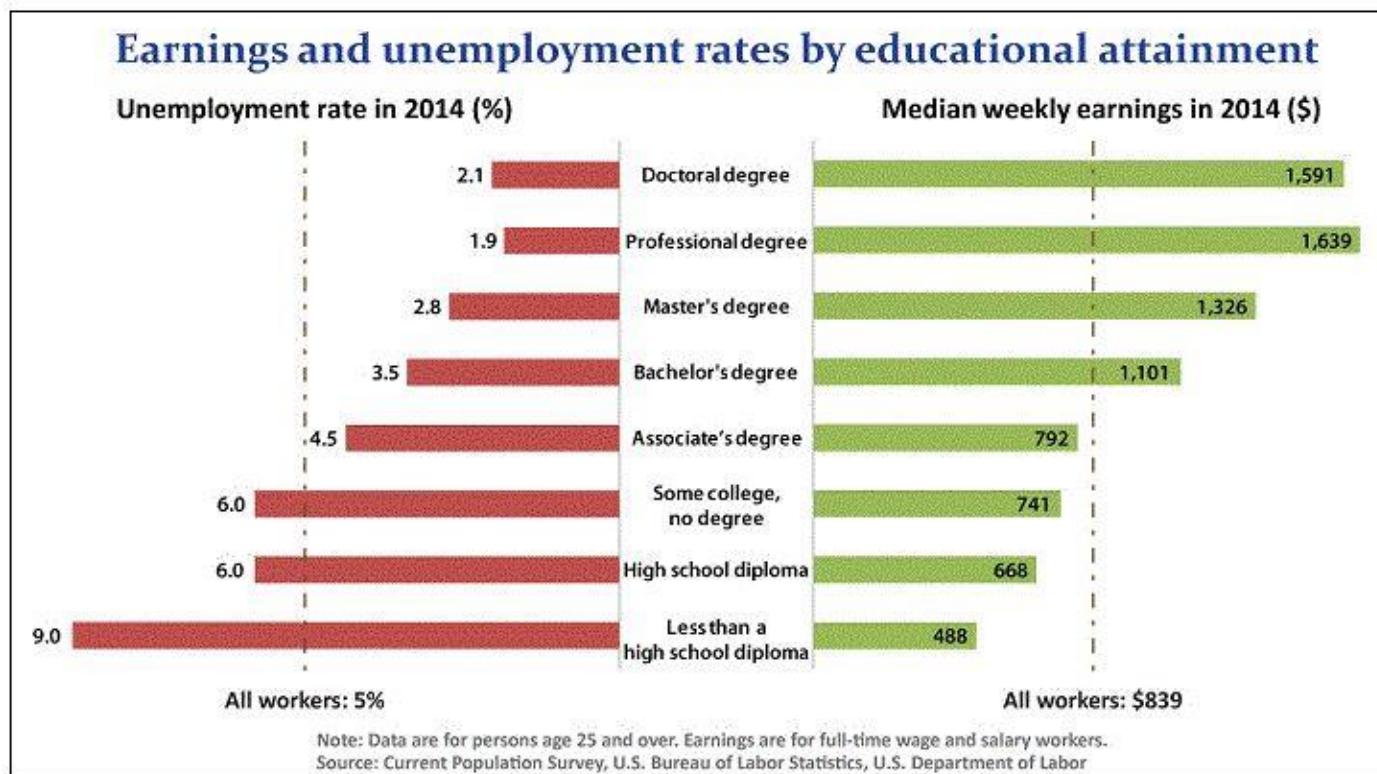
¹ Includes equivalency credentials, such as the General Educational Development (GED) credential.

NOTE: Earnings are presented in constant dollars, based on the Consumer Price Index (CPI), to eliminate inflationary factors and to allow for direct comparison across years. Full-time year-round workers are those who worked 35 or more hours per week for 50 or more weeks per year.

SOURCE: U.S. Department of Commerce, Census Bureau, Current Population Survey (CPS), "Annual Social and Economic Supplement," 2001–2014; and previously unpublished tabulations. See *Digest of Education Statistics 2014*, [table 502.30](#).

No Bubble: Lower Unemployment

Unemployment rate for individuals with at least a bachelor's degree has consistently been about ½ the unemployment rate for high school graduates.



SOURCE: Bureau of Labor Statistics, 2013b.

What Bubble?: There Is No Bubble!

TIME Business & Money

EDUCATIONAL FINANCING

Viewpoint: Stop Calling Student Loans a “Bubble”!

By Christopher Matthews | March 07, 2013 | 3 Comments

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Ever since the financial crisis, Americans have begun to see bubbles everywhere they turn. The damage wrought by the real estate bubble has been so extensive that the nation is rightfully terrified that another asset bubble is inflating beneath our noses, preparing to wreck the American economy at the drop of a hat.

Bubble-phobia has now become issue number one for those who reject Ben Bernanke's aggressive regiment of monetary stimulus, as they think it may be inflating bubbles in everything from real estate to Treasury bonds. But for frothophobes, the most dangerous bubble going today is in higher education. Don't believe me? A quick Google search will reveal hundreds of stories foretelling of a crisis when the student loan bubble finally bursts.



DAVID H. WELLS / GETTY IMAGES

RELATED

Was It Somethina I Said? Fed Minutes

“But let’s get a grip. When you take a closer look at higher education, you realize that while we do indeed have some problems to address, a bubble situation it is not. Here’s why:

1. **The primary issuer of student loans is the federal government.**
2. **There are significant economic benefits to having a robust higher education system.**
3. **For those who graduate, college is a better deal than ever.”**

Source: Time.com, "Viewpoint: Stop Calling Student Loans a "Bubble"!", March 7, 2013

Student Loan Jeopardy

What percentage of students owe more than \$100,000 in student loan debt?

- A. 4%
- B. 7%
- C. 11%
- D. 13%

Student Loan Jeopardy

What percentage of students owe more than \$100,000 in student loan debt?

A. 4%

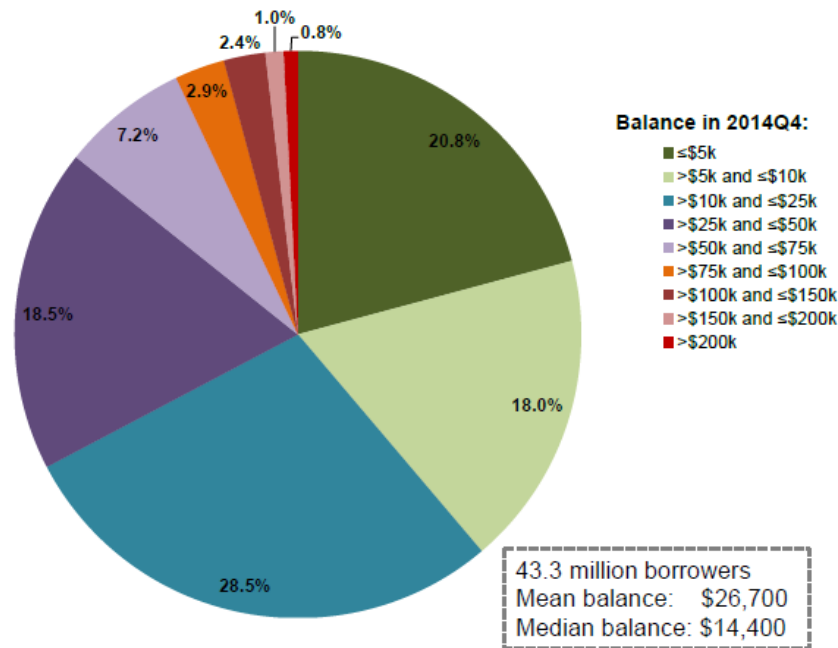
B. 7%

C. 11%

D. 13%

Headline #3: Too much debt?

Distribution of borrowers by 2014Q4 balance



Source: FRBNY Consumer Credit Panel/Equifax

Average student loan debt is still lower than the average new car cost
\$33,560*

40% owe less than
\$10,000

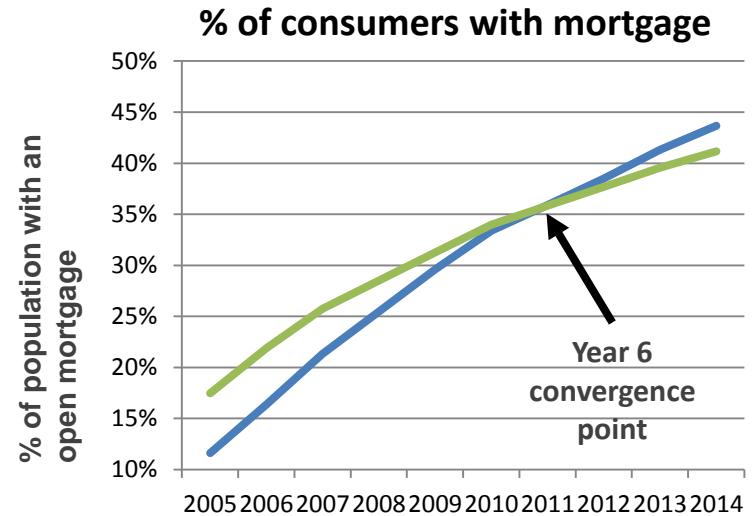
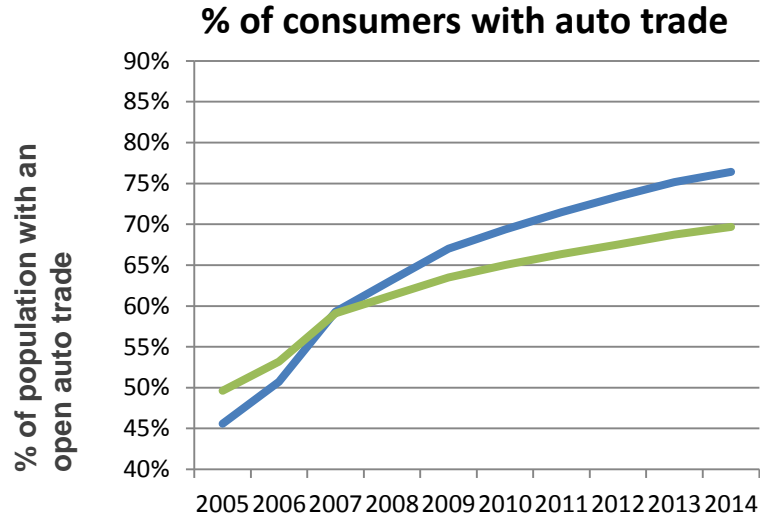
*Kelley Blue Book – April 2015

Too much debt?

Are Student Loan Borrowers Good Consumers?

Current look at 2005 consumers:

The student loan group is well ahead of control group in auto and mortgage participation in Q4 2014



— 2005 student loan group — 2005 control group

TransUnion Student Lending Study - 2015

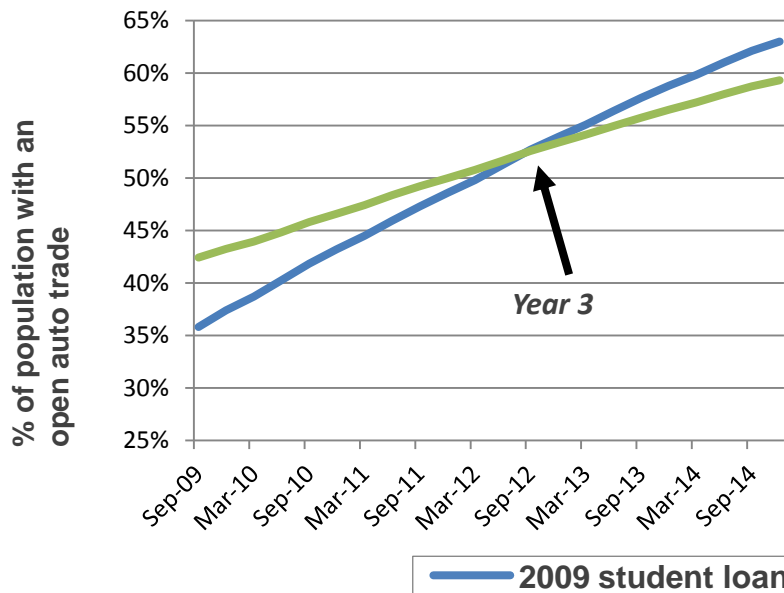
Too much debt?

Are Student Loan Borrowers Good Consumers?

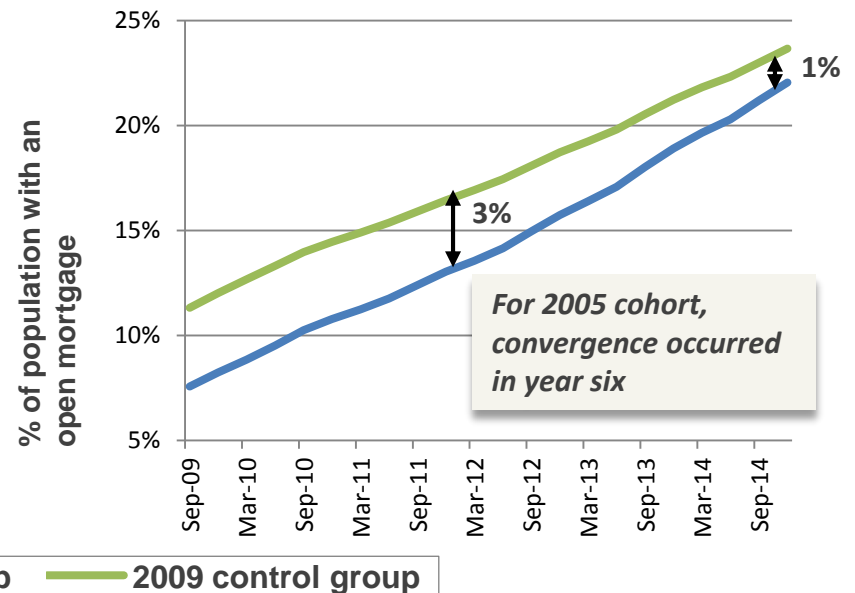
Current look at 2009 consumers:

The student loan group has passed the control group in auto and nearly matched them in mortgages in Q4 2014.

% of consumers with auto trade



% of consumers with mortgage

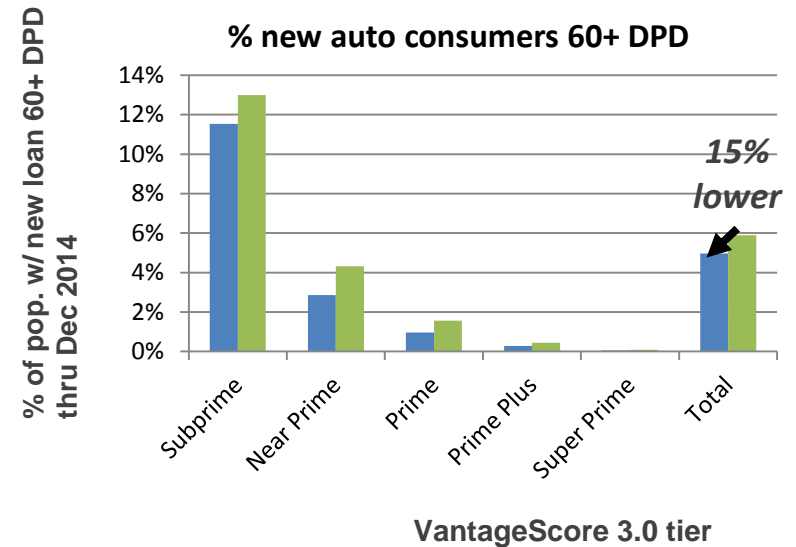
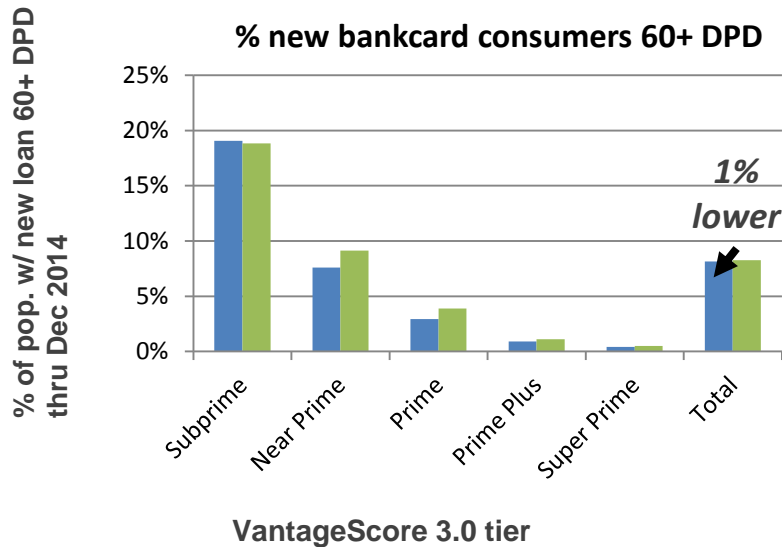


For 2005 cohort, convergence occurred in year six

Too much debt?

Are Student Loan Borrowers Good Consumers?

2012 New Loan Performance



■ 2012 student loan group ■ 2012 control group

Headline #4: Regulatory Oversight

Chairman's Corner

CREDIT UNIONS HELP STUDENTS GO BACK TO SCHOOL

In 1961, President John F. Kennedy established the first annual American Education Week. In his proclamation, President Kennedy said:

"Let us think of education as the means of developing our greatest abilities, because in each of us there is a private hope and dream which, fulfilled, can be translated into benefit for everyone and greater strength for our nation."

Those words ring as true today as they did when President Kennedy issued that proclamation. Education unlocks the enormous potential of American ingenuity and remains a basis of our national economic power.

But as America's students return to school for another year, the benefit of a college education is coming at an increasingly higher cost.

Back in 1961, attending an Ivy League college for a year cost about \$2,300. That amounted to about 40 percent of the median household income. Today, the average annual cost for that same education is around \$54,000—astonishingly, more than 100 percent of median household income.

Unfortunately, these rising education costs have outpaced lagging household income and financial aid. These factors have led to a growing demand for private student loans to meet consumers' needs.

"Build mutually beneficial relationships today, and student-loan borrowers could become loyal members for life."

Fortunately, where consumers are in need, we often find credit unions committed to serving them. Private student lending is one of the fastest-growing products among credit unions.

Student lending is a potentially promising opportunity for credit unions to establish long-term relationships with consumers by providing affordable loans at the beginning of their financial lives. It is also an

opportunity, when managed well, to diversify credit unions' loan portfolios.

NCUA is highlighting private student lending as part of our supervisory focus in 2014. My letters to credit unions and NCUA examiners outlined expectations for soundly managing student loans.

Best Practices for Student Lending

NCUA continues to encourage credit unions to adopt best practices that safely serve members and manage the unique risks associated with private student loans:

1. **Know the product and the risks.** Student loan defaults may not appear on the books for the first four years. So a poorly managed portfolio could strain earnings and liquidity.

Make sure you have appropriate risk-management systems, internal controls, and policies to originate, service, and monitor your portfolio.

2. **Review third parties.** If you offer student loans through a third party, you will be expected to carefully review the originator and any private insurer. Your due diligence and ongoing oversight will be critical to ensuring that your members are treated fairly and your portfolio performs as expected.

Expect the originator to uphold your credit union's standards. Confirm that the insurer has legal authority to operate in your state(s), financial capacity to cover your portfolio, and reasonable conditions for coverage to remain in force.

3. **Educate members.** Clearly inform and educate your members about the benefits, risks, and obligations of this unique form of credit.

Encourage members to visit NCUA's consumer education website at www.mycreditunion.gov to learn about student financing options.

4. **Work with struggling borrowers.** Many recent graduates have struggled to reach their career potential. The Consumer Financial Protection Bureau estimated that the unemployment rate for private student loan borrowers exceeds 15 percent.

However, it is in your interest, as well as your members' interest, to reach reasonable accommodations in order to keep loans from defaulting.

Build mutually beneficial relationships today, and student-loan borrowers could become loyal members for life. Manage your student-loan portfolio well, and your investments in education will pay off in terms of future prosperity for your members and for your credit union.



Debbie Matz
Chairman


—Debbie Matz

Chairman Matz – September 2014

1. Know the product and risks
2. Review 3rd Parties
3. Educate members
4. Work with struggling borrowers

"Build mutually beneficial relationships today, and student-loan borrowers could become loyal members for life. Manage student-loan portfolio well, and your investments in education will pay off in terms of future prosperity for your members and for your credit union."

Student Loan Jeopardy

What is the latest Department of Education 3yr Student Loan Default Rate?

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*In 2011, the federal default rate was at 13.7%, so it is trending downward

Headline #5: Performance

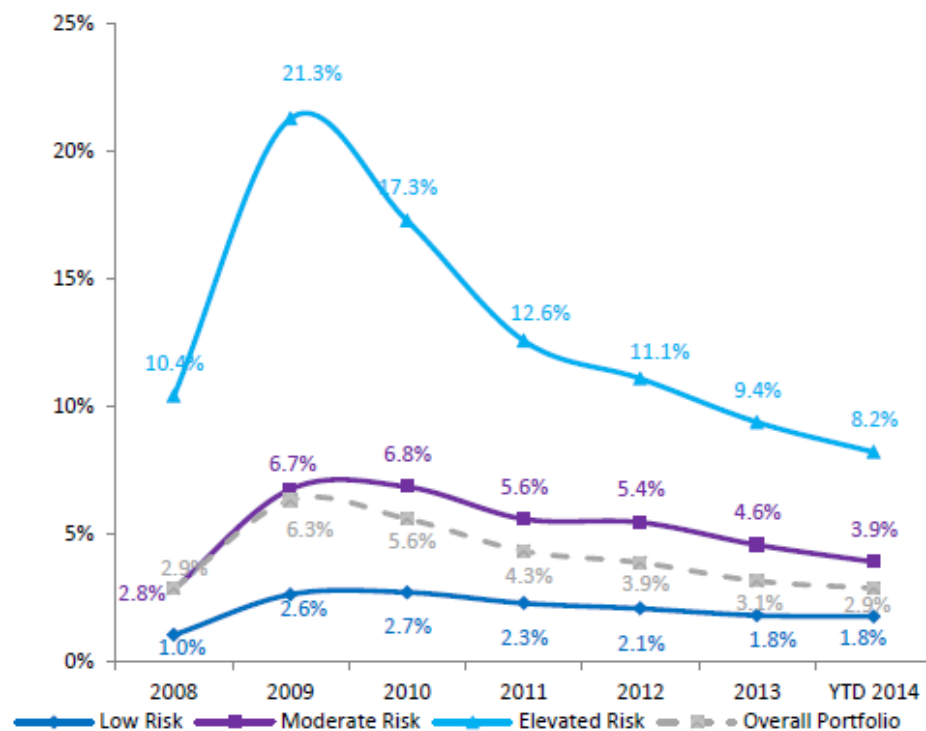
Private Education Portfolio Statistics

Balance (\$bn, net of allowance)	\$30
Avg. Loan Size	\$10,262
Avg. FICO at Orig.	718
% Cosigner	64%
90+ Day Delinquent	3.2%

CU Student Choice Historical Differentiation in Underwriting:

- Capturing Co-Borrowers
- Refined School Eligibility
- Conducting School Certification
- Disbursing Directly to the College/University

Private Credit Charge-Off Rate by Segment



Navient as of 6/30/14

Positive Performance

Declining Delinquency & Charge-off Rates

CU Student Choice

90+ DPD = 1.10%

Gross Annualized CO = 0.55% (Q3 2014)

Gross Annualized CO = 0.71% (Q3 2015)

PSL Industry (Measure One)

90+ DPD = 2.12%

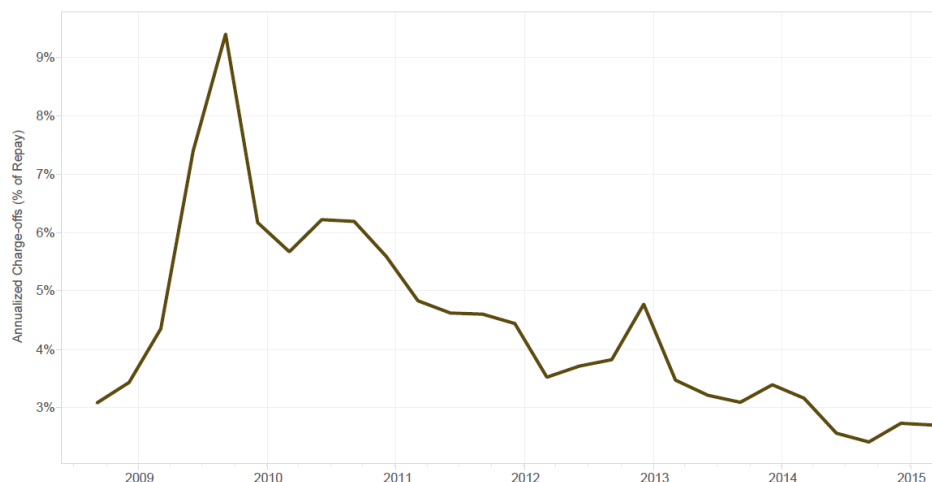
Gross Annualized CO = 2.37% (Q3 2014)

Gross Annualized CO = 2.23% (Q3 2015)

Federal Student Loans

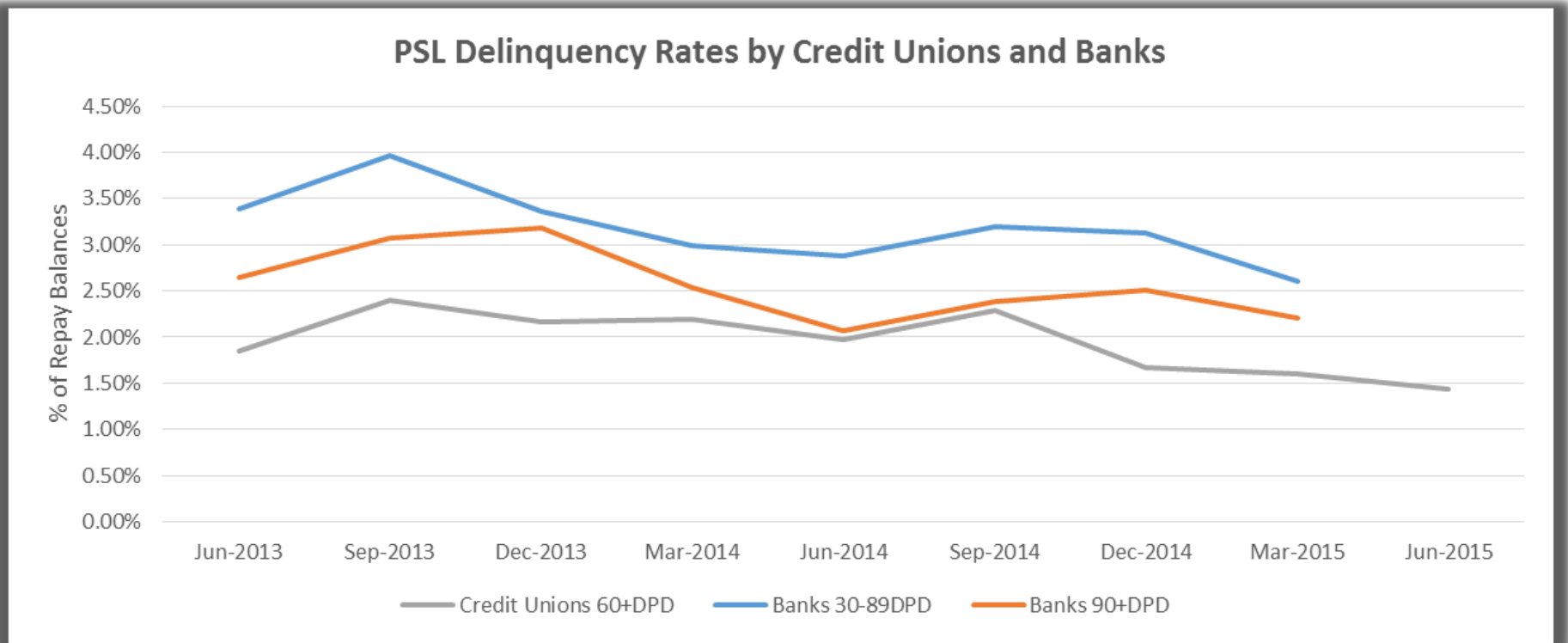
Cohort Default Rate = 11.8%*

*as of 2015 data



...Delinquency and
Defaults are
Decreasing

Overall CU Industry Performance is Strong



Credit Union PSL 60+ delinquencies continue to remain low (under 2%)
20-30% better than even the **90+ delinquency** rate experienced by banks

Sources: PeerToPeer, Q2 2015. MeasureOne, Private Student Loan Performance Report - Q1 2015.

CU Student Choice Portfolio Performance

Student Choice Portfolio Snapshot

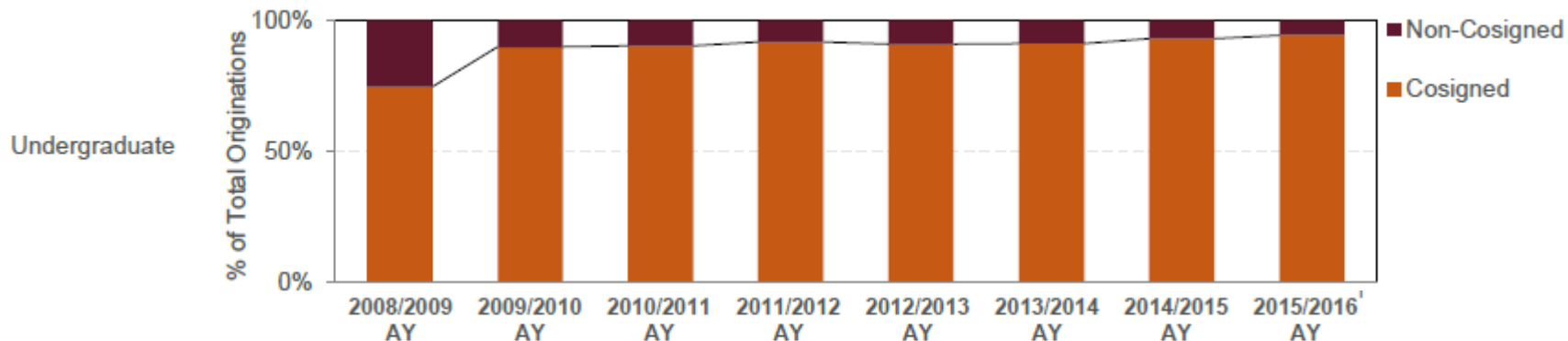
as of Q4 2015

- **\$1.78 Billion** in Outstanding Balances
- **59.9%** Loans in Repayment
- **\$171.1M** Loans Paid in Full

- **0.50%** Annualized Gross Charge-off Rate
- **1.47% 60+** Delinquency Rate
- **0.82% 90+** Delinquency Rate

Solution: Co-Borrower Emphasis

Origination Volume by Cosigned vs. Non-Cosigned (% of Total Originations)



Origination Volume by Cosigned vs. Non-Cosigned (% of Total Originations)

Academic Year	Undergraduate		Graduate		Total ²	
	Cosigned	Non-Cosigned	Cosigned	Non-Cosigned	Cosigned	Non-Cosigned
2008/2009 AY	74.80%	25.20%	57.14%	42.86%	73.04%	26.96%
2009/2010 AY	89.85%	10.15%	59.50%	40.50%	86.09%	13.91%
2010/2011 AY	90.30%	9.70%	59.97%	40.03%	86.66%	13.34%
2011/2012 AY	91.79%	8.21%	65.18%	34.82%	88.41%	11.59%
2012/2013 AY	91.00%	9.00%	61.33%	38.67%	86.87%	13.13%
2013/2014 AY	91.24%	8.76%	56.74%	43.26%	86.19%	13.81%
2014/2015 AY	93.21%	6.79%	54.29%	45.71%	87.82%	12.18%
2015/2016 AY ¹	94.39%	5.61%	57.72%	42.28%	90.10%	9.90%

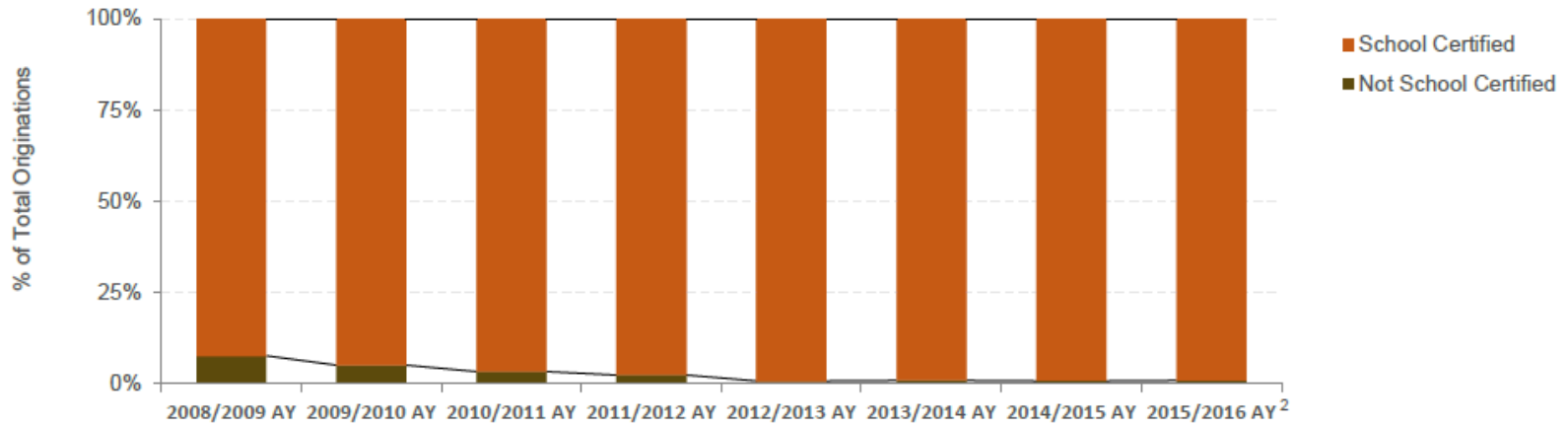
¹ The origination volume for the 2015/2016 AY is only through Q3 2015, which is only first quarter and not a full academic year.

² This does not include consolidation loans or loans that were not coded by the six participants.

Source: MeasureOne Q3 2015 Private Student Loan Performance Report

Solution: School Certification

Origination Volume by School Certified vs. Non School Certified (% of Total Originations)¹





Academic Year	School Certified	Not School Certified
2008/2009 AY	92.35%	7.65%
2009/2010 AY	94.88%	5.12%
2010/2011 AY	96.57%	3.43%
2011/2012 AY	97.56%	2.44%
2012/2013 AY	99.20%	0.80%
2013/2014 AY	99.02%	0.98%
2014/2015 AY	99.17%	0.83%
2015/2016 AY ¹	99.09%	0.91%

¹ This does not include consolidation loans or loans that were not coded by the six participants.

² The origination volume for the 2015/2016AY is only through Q3 2015, which is only first quarter and not a full academic year.

Source: MeasureOne Q3 2015 Private Student Loan Performance Report

Solution: Financial Literacy

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iGrad Highlights


Take command of your financial future:

- › Financial Literacy Resources
- › Financial Aid Center
- › Personal Finance Coach



iGrad Townhall

Q&A to guide you through student life

 **3** votes **1** answer **15** views

HOT TOPIC
I can't afford to pay my student loan bill. What should I do?

Job Genius

3,498 Jobs in Ottumwa, IA

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Student loan balance reminders, step-by-step FAFSA help, scholarship assistance, repayment calculators and more.

Career Development

Personalized entry-level, internship, and job search engine with resume analyzer and cover letter assistance.

Live Webinars

Live HD tutorials on hot button student loan and money topics.

Townhall Forum

Expert-moderated community forum where students receive answers to questions from experts and peers.

Games, Calculators and Simulators

Take your favorite NFL team down field with Financial Football and explore many of the other great resources.

Personalized Profile

Personalize your experience with dynamic content, recommendations, courses, and badge awards.

College Planning for Members

- **Member Seminars**

Our Strategic Partners Team has conducted nearly 40 national seminars in 2015, attended by more than 1,000 members

- **Open National Broadcasts**

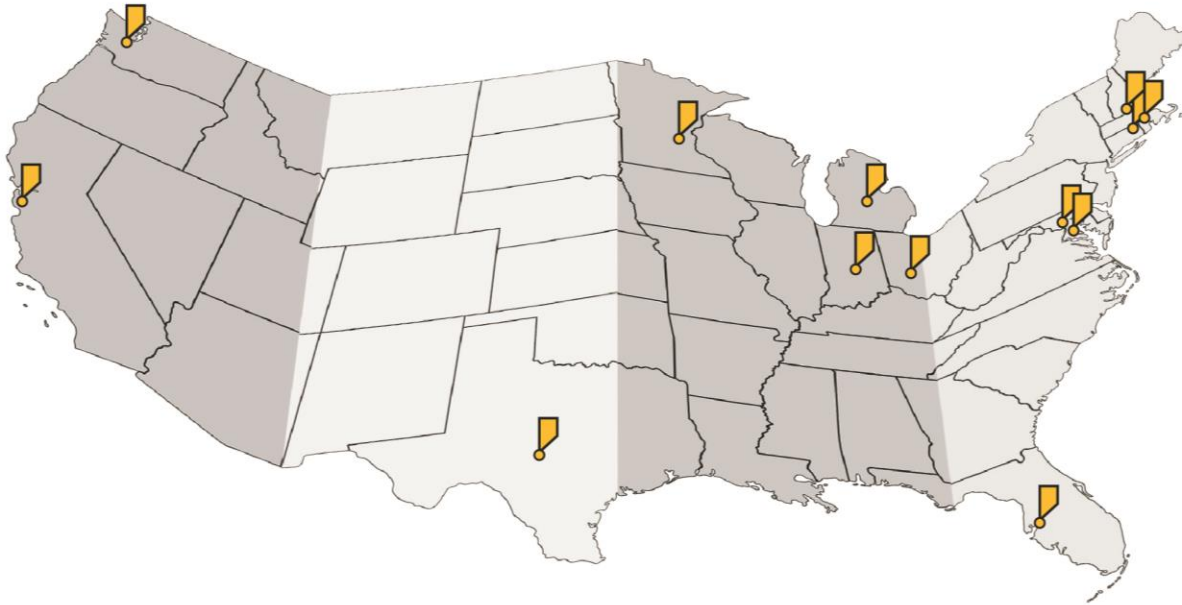
Last summer, we offered a free national webinar to help college-bound families on how to keep costs down and survive the first days of college. In January 2016, we offered a free national webinar on completing the FAFSA

- **1:1 Counseling**

Launched free individualized counseling service for families to schedule in-depth consultations with our college planning expert



Who We Are: Credit Union Student Choice



By credit unions, for credit unions

Credit Unions in full control

Sustainable loan growth

CU Industry Asset-Class Expertise

Results Snapshot:

- 60,000+ young adult members assisted
- \$1.7B under management
- 244 CU programs
- Strong portfolio performance
- Strong value to members

CUSO Owners

Affinity Plus FCU

SAINT PAUL, MN

MIT FCU

CAMBRIDGE, MA

Star One CU

SUNNYVALE, CA

CUFSLP

WASHINGTON, DC

BECU

TUKWILA, WA

NASA FCU

UPPER MARLBORO, MD

Workers CU

FITCHBURG, MA

Callahan & Associates

WASHINGTON, DC

Founded in 2008 Zero Venture Capital

Digital FCU

MARLBOROUGH, MA

Lake Trust CU

LANSING, MI

Wright-Patt CU

FAIRBORN, OH

PSCU Financial Services

ST. PETERSBURG, FL

Elements Financial CU

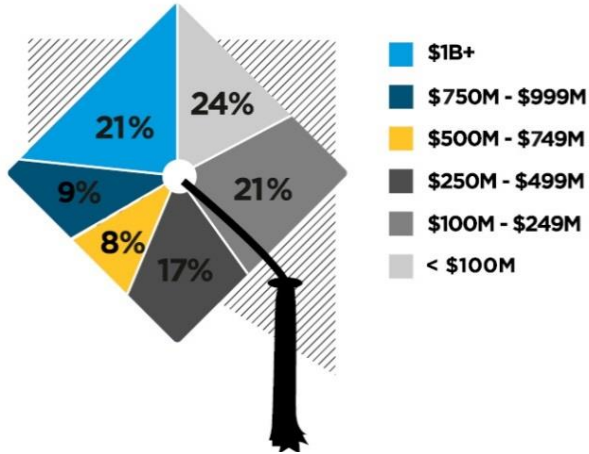
INDIANAPOLIS, IN

San Antonio FCU

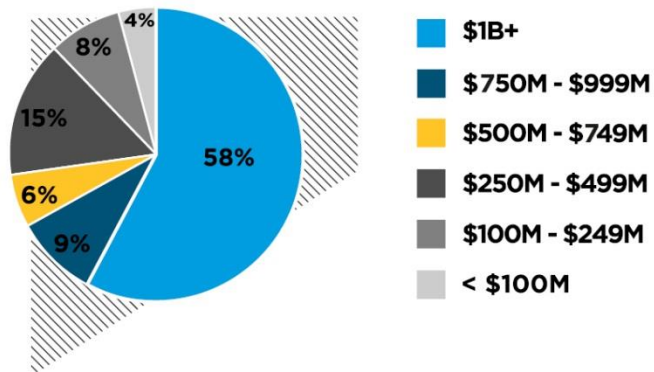
SAN ANTONIO, TX

Who We Are: Our CU Partners

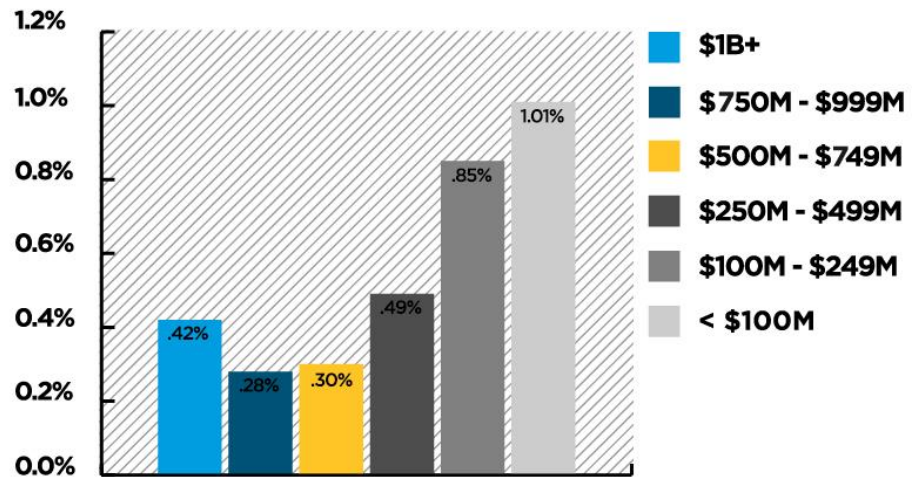
CREDIT UNION PARTNERS
BY ASSET SIZE



CREDIT UNION PARTNERS
BY ASSET SIZE / PERCENT OF CUSO PORTFOLIO



CREDIT UNION PARTNERS
MEDIAN CONCENTRATION



Private Student Loan Balance
Held by Credit Union Industry

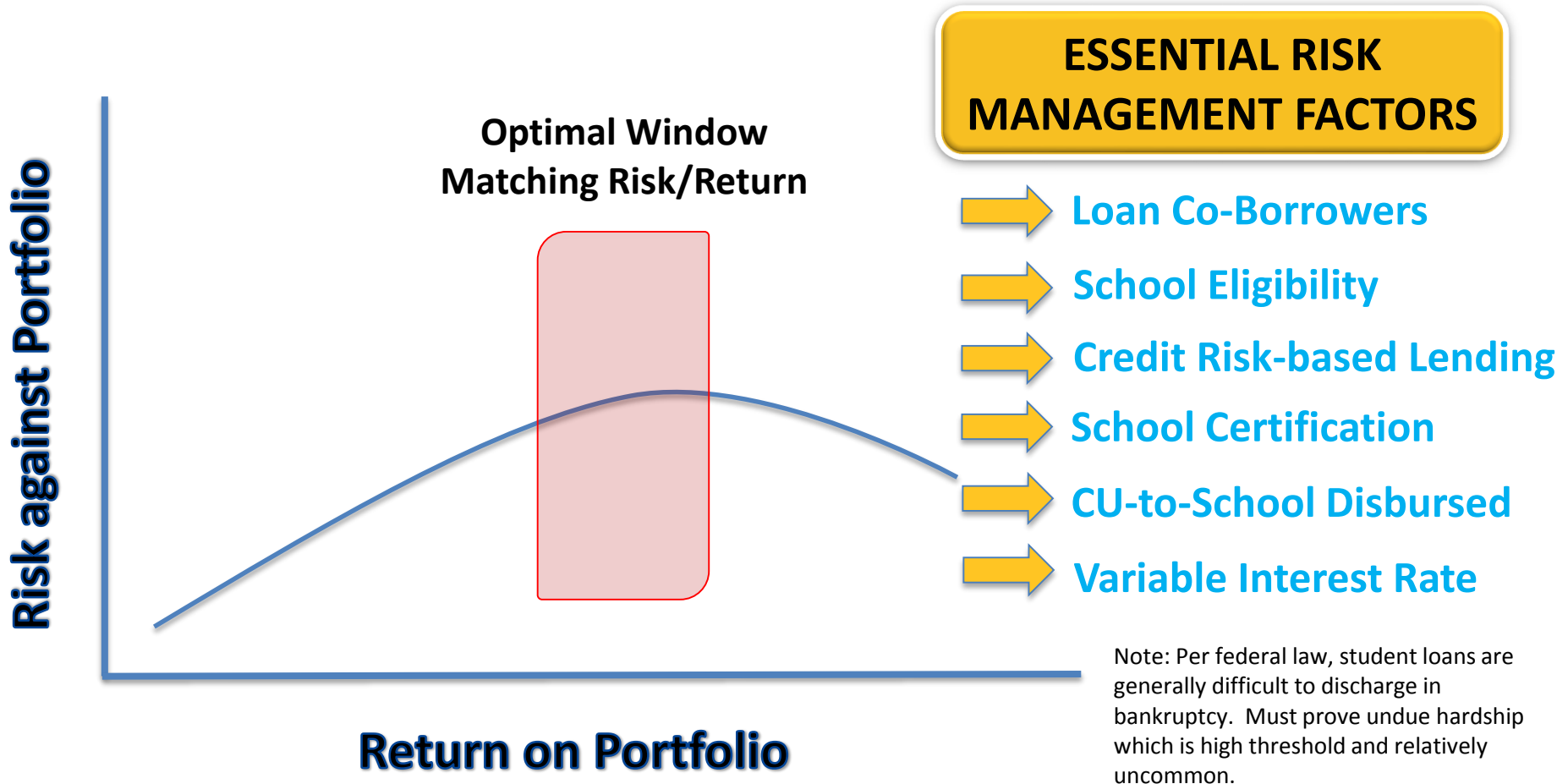
\$3.1 BILLION

Credit Unions Lenders
Engaged in Private Student Lending

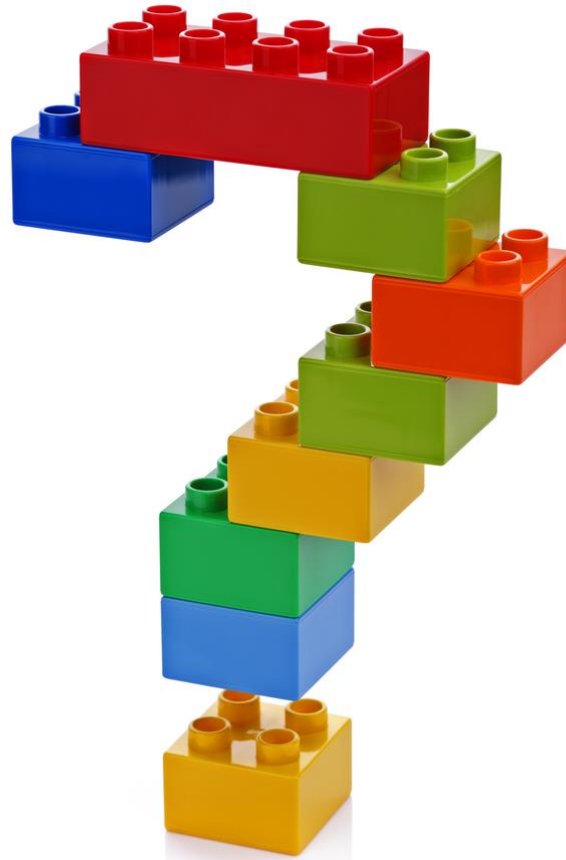
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Risk Optimization



Any Questions?



Thank You

Glad to be here!

Jillian Gajtka

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