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Extra Credit

Local Credit Unions Learning How To Succeed At Student Lending

Jeanne D'Arc, DCU Among Those Finding Profitable Niche As Demand Grows

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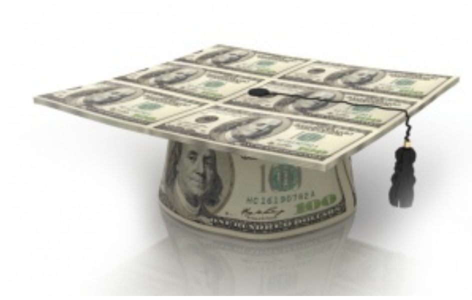

Two years ago, private student lending was unfamiliar turf for credit unions. But they had good reasons to try it: Demand was high, and thanks to the credit crisis, competition was low.

Today, it appears student lending has solid footing among credit unions, with more joining the pack.

"It took off for us pretty easily," said Michelle Silveira, marketing director for Lowell-based Jeanne D'Arc Credit Union. The $886 million institution started offering private loans in August, booking $117,000 in student loans so far, representing approximately 30 borrowers, Silveira said. Now, Jeanne D'Arc is gearing up for another wave of loan activity, as students come back for second-semester money.

The credit union created that business with only a minimal marketing effort, she said – a mass e-mail to members and a few online advertisements. And demand remains steady.

"There's definitely a need," Silveira told Banker & Tradesman.

Competing Models

Credit unions mostly entered the field as the credit crisis was heating up in 2008, a year when major lenders mostly deserted the normally high-risk student lending field, taking billions of dollars in funding with them.

Because credit unions don't have much experience with student loans, credit union service organizations (CUSOs) and other providers have built up a service industry to make a quick entry into the market. According to them, business is booming.

"It's been phenomenal," said Mike Mullowney, managing partner of Newton-based Silver Sword Capital Partners, a company that connects national student lenders like Sallie Mae and Chase with community banks and credit unions that can sell co-branded loan products.

Formed in 2007, Silver Sword got a big boost in the past six months as smaller institutions joined up to sell the loans. Mullowney said his company currently has 300 bank and credit union customers nationwide, with strong presences along the East Coast and in the Midwest.

In Silver Sword's model, banks and credit unions are basically a storefront to sell the loans – they neither service nor retain the loans, but collect a fee for offering them to customers. Credit unions see it as a way to bring younger customers in the door, hoping that creating stronger ties with those consumers will lead to more cross-selling later on.

Jeanne D'Arc and about 20 other Massachusetts credit unions have parntered with a Washington, D.C.-based CUSO called Credit Union Student Choice, which provides underwriting and loan servicing work for members.

The CUSO has grown steadily in the two years since its founding, said spokesman Michael Weber. It now stands at 160 credit union members nationwide, with a collective $200 million in student loans for the 2010-2011 school year.

That's more than double the CUSO's loan volume the previous year, he said, as more credit unions have joined and others have grown their customer base. Unlike Silver Sword, Student Choice members keep the loans they write on their own books.

Marlborough-based Digital Federal Credit Union has used the system to great effect, according to Anne Nelson, consumer loan manager for the institution. DCU had $22 million in student loans at the end of 2009 – a number that jumped to $52 million after the busy late-summer lending season.

DCU has seen particularly large demand through a lending program specifically geared toward international students attending the renowned business program at The Wharton School of the University of Pennsylvania.

The $3.6 billion credit union got into student loans in 2008 because it was looking for more chances to expand its portfolio, Nelson said, and is anticipating more borrowers this month returning for their spring semester loans.

Mark Kantrowitz, publisher of student advisory website FinAid.org, said he's seen credit unions continue to increase their presence in the market since they popped up on the scene a couple years ago. But he noted that their movement into student lending doesn't nearly make up for the vast, untapped consumer demand. He said from a consumer standpoint, it's always best to seek cheaper public loan options before heading to private lenders.