



Credit Union National Association

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April 8, 2013

Ms. Monica Jackson
Office of the Executive Secretary
Consumer Financial Protection Bureau
1700 G Street NW
Washington, DC 20552

Re: Docket No. CFPB–2013–0004
Response to Request for Information regarding CFPB’s Initiative to Promote
Student Loan Affordability

Dear Ms. Jackson:

This letter represents the views of the Credit Union National Association (CUNA) in response to the Consumer Financial Protection Bureau’s (CFPB) request for information “to determine options that would increase the availability of affordable payment plans for borrowers with existing private student loans.” CUNA filed another letter with the CFPB on issues relating to financial products offered by credit unions to students on March 18, 2013. By way of background, CUNA is the largest credit union advocacy organization in the country, representing approximately 90% of the nation’s 7,000 state and federal credit unions, which serve over 96 million members.

Credit unions are member-owned, not-for-profit financial cooperatives that operate for the purpose of promoting thrift, providing credit, and providing other financial services at competitive rates. As the only consumer-owned cooperatives in the financial marketplace, credit unions have a tradition of protecting consumer interests. Likewise, as our record shows, CUNA has consistently been a strong proponent of reasonable safeguards for consumers that balance their interests with those of credit unions that need to minimize the costs of regulatory burdens, which at a credit union, are borne by all of its members.

Because of their structure and ownership which are unique within the financial industry, credit unions have traditionally worked hard to minimize fees—to the greatest extent feasible—on products and services, including in the area of student lending, unlike others in the financial marketplace.



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CUNA Strongly Supports the CFPB's Efforts to Address Issues Relating to Student Loans

As required under the Dodd-Frank Wall Street Reform and Consumer Protection Act, the agency was required to establish an office of Student Loan Ombudsman, develop a report on private loans issued in August 2012, establish a complaint procedure and database within the CFPB, and provide an annual report to Congress regarding private student loans. The Ombudsman must also make appropriate recommendations to the CFPB, the Secretary of the Department of Education, and to Congress.

Recently, CUNA Executive Vice President Paul Gentile and I had the opportunity to meet with the CFPB's Assistant Director for Consumer Education and Engagement, Students, and Student Loan Ombudsman Rohit Chopra. We felt it was a very productive meeting and share the agency's commitment to ensure students of higher education have access to affordable credit and other financial services.

In fact, CUNA is forming a Student Loan Advisory Group to help monitor and develop association policies on private student loan issues. We look forward to opportunities for the group to meet with officials from the CFPB as well as with NCUA.

CUNA Supports Targeting Problem Areas

Based on recent call report data, about 600 credit unions currently offer private student loans to their members, although this is a growing area of lending for credit unions. Like the CFPB, these credit unions want to ensure they provide products on favorable terms and that their members understand their responsibilities under student loan agreements—as credit unions do with other loan products they offer.

As mentioned in the October 2012 "Annual Report of the CFPB Student Loan Ombudsman" eighty-seven percent of the student loan complaints the agency has received so far involve the same seven companies, none of which were credit unions. In fact, as the report indicates, out of the approximately 3,500 complaints about student loans, only one involved a credit union, and it is our understanding that the complaint has been satisfactorily resolved.

In light of the fact that credit unions are not creating problems regarding student loans and that a number of credit unions want to increase their private student loan programs, we urge the agency to recognize that there is no record of abuse by credit unions in this area of activity that would justify the imposition of additional regulations on credit unions.

Rather, the Bureau's regulatory attention should be focused on the seven companies that have been the source of most complaints, and on other bad actors in the student lending field.

CUNA Seeks the CFPB's Support to Remove Barriers to Further Student Lending

As discussed below, we want to work with the agency and other policymakers, including the National Credit Union Administration (NCUA) and Congress, to help remove legal and other barriers that will enable credit unions to make even more student loans, consistent with their members' needs for such lending, current legal requirements, and reasonable safety and soundness considerations.

The Statutory Maturity Limit for Student Loans Should be Extended

As the cost of higher education continues to increase, the total amount that students and/or their parents need to finance has also increased. Credit unions have already taken some steps to help address this concern through a variety of options for borrowers, including temporary forbearance, smaller repayments while the student is still in school, and terms that are more favorable if a cosigner is obtained, such as a parent or guardian. Some credit unions even relieve the cosigner of his or her obligation if the borrower has made 12 consecutive monthly payments.

Another way to reduce the pressure on individuals who need private student loans is to allow them more time to repay the credit. Depending on the amount needed to finance, it is reasonable that borrowers may need additional time to repay their student loan debt, in order that their monthly payments are more manageable to avoid financial problems and to help credit unions minimize delinquencies or even charge offs.

However, under the Federal Credit Union Act, federal credit unions may generally not make student loans for maturities of longer than 15 years. CUNA is urging Congress to make a statutory change this year to extend the permissible maturity for credit union private student loans. We certainly encourage the CFPB and NCUA to work with us to seek this important change that will facilitate the ability of borrowers to handle their student loan debt and allow credit unions more options in offering student loan products that are responsive to their members' needs.

Need for Education about Private Higher Education Loans

Certain policymakers and members of the public alike seem to be confused about private student loans, which differ in important ways from federally guaranteed student loans. One key difference is that loans credit unions provide for higher education purposes are underwritten based on risk, as are other types of loans that credit unions make, while federally guaranteed student loans focus on the needs of the borrower.

Also, while federal student loans have had high delinquency rates (over 12.30%), private loans at all creditors have less than half that rate of delinquencies (at around 5.3%). At credit unions, delinquencies for private student loans are even lower, at around 1.45%, and some credit unions have student loan delinquency rates that are

much lower still. These statistics demonstrate that credit unions want to work with their members and provide loans that they need and can afford to repay.

There is a concern among credit unions, however, that examiners from their prudential regulators may not appreciate the distinctions between the level of risk associated with federally guaranteed student loans compared to the lower level of private student loan risk and will encourage credit unions to be too risk-averse in developing or increasing private student loan programs.

While reasonable safety and soundness considerations should be incorporated into all forms of lending, including private student loans, we urge the CFPB to work with prudential regulators to address the issue of potentially overstated concerns regarding private student loans. Concerns about past problems with federally guaranteed student loans should not be inappropriately transposed onto private student lending, resulting in skittishness on the part of credit unions to make loans to individuals who have the need for such borrowings and the ability to repay them.

Credit Union Loan Modifications Should Be Facilitated

Time after time, in credit unions across the country, well before borrowers fail to make the monthly payment, credit unions have reached out to their members to restructure or modify a loan. We believe this process for credit union lending generally is facilitated by the final rule issued by NCUA in May 2012 regarding troubled debt restructurings, which CUNA strongly supported. Also, the guidance the agency issued earlier this month regarding accounting issues related to TDRs should also be helpful.

We want to make sure, however, that credit unions have latitude to work with private student loan borrowers and make modifications when the borrower falls on hard times or other circumstances make it difficult to repay the loan under a current contract but the borrower nonetheless has the ability to repay under modified terms. We urge the CFPB to work with the prudential regulators on this issue to ensure creditors, including credit unions, will be able to work with their borrowers to determine when loan modifications may be reasonable for the credit union as well as the member borrower.

Thank you for the opportunity to express our views on the CFPB's request for information regarding an initiative to promote student loan affordability. If you have any questions about our comments, please do not hesitate to contact me at (202) 508-6736.

Sincerely,

Mary Mitchell Dunn
CUNA Deputy General Counsel