



Credit Union National Association

CUNA Issue Summary

STUDENT LENDING

ISSUE: The *Higher Education Act of 1965* funds and regulates various government guaranteed student lending programs such as the Federal Family Education Loan Program and the William D. Ford Federal Direct Loan Program as well as private sector loans and higher education programming and access.

In 2007, Congress passed legislation that was enacted into law that cut subsidies to banks and credit unions that participate in federal programs designed to encourage private sector student lending. As Congress is reauthorizing the *Higher Education Act* this year, CUNA sought two changes in the House/Senate conference report. The changes involve provisions in the original bill that could adversely affect university-sponsored credit unions. H.R. 4137, the *College Opportunity and Affordability Act of 2008*, reauthorizes the *Higher Education Act of 1965* for the first time since 1998, making significant amendments to the law that governs federal higher education programs, including financial assistance for students.

The bill requires lenders and colleges to adopt strict codes of conduct for their student lending programs. A concern was expressed that the bill, as originally passed by the House, would prohibit a lender from using the name of the educational institution in marketing the lender's private educational loans. If enacted, this would have presented university-sponsored credit unions with a dilemma. CUNA sought and received language that should provide credit unions that are named for a university sufficient latitude to market their student loans -- provided that they do not imply that the loan is made by the university and not the financial institution.

Also, CUNA won for credit unions an exemption to a 50% rule that the act granted national and state-chartered banks. Specifically, the bill imposes a 50% limitation stating that an eligible lender cannot have as its primary credit function the making or holding of federal student loans. Under the House-approved version of the bill, Federal Family Education Loan Program (FFELP) loans may not represent more than 50% of a lender's consumer credit loan portfolio, including home mortgages. The bill provided an exemption for national banks with assets under \$1 billion and CUNA secured that exemption for credit unions. On July 31, 2008, the House approved the compromise bill and the Senate passed it later that day. President Bush signed the bill into law on August 14, 2008.

CUNA POSITION: CUNA closely monitors student financial aid and loan consolidation matters. Many credit unions, particularly campus credit unions, are heavily dependent on federal subsidies so that they can offer student loans at reasonable rates. This issue has taken on added importance as the national credit crunch has dried up many lending pools for college students. In addition, recent federal legislation has decreased federal student lending subsidies to financial institutions in favor of direct government to student loans.

Student lending helps credit unions build their current and long-term lending base by reaching out to the college-student market, which is expected to reach a record levels in coming academic years. Student lending helps credit unions attract members age 18 to 24 where credit union membership is weakest.

STATUS/OUTLOOK: On February 26, 2009, President Obama submitted his budget to Congress calling for the elimination of the Federal Family Education Loan Program (FFELP) in favor of the Federal Direct Loan Program. Currently over 1,000 credit unions provide their members student loans through FFELP. A small number of these credit unions, primarily with university-based fields of membership, have significant concentrations in student lending. Credit unions that specialize in student lending provide a high quality service for their student members, and can provide much needed and individualized assistance if difficulties arise with regard to loan repayments. The elimination of FFELP will remove this valuable option for students. On March 9, 2009, CUNA expressed its concerns in a letter to Senate Budget Committee Chairman, Kent Conrad (D-ND) and Ranking Member Judd Gregg (R-VT) (see letter below).

The Committee Report accompanying the budget resolution approved by the House of Representatives on April 2, 2009, included the following language with respect to the FFELP program:

“The Committee urges the Committee on Education and Labor to review options for the student loan program that will maintain a role for FFELP lenders in the student loan program, and to look for ways to achieve savings that capitalize on current infrastructure and minimize the disruption to students and the employees of FFELP lenders who currently serve 75 percent of loans at American colleges, universities and community colleges.”

In the budget resolution conference report, the two chambers agreed on language affirming that private and non-profit lenders, originators and loan servicers help students plan for, apply to and pay for post-secondary education and training; and that any reform of the federal student loan programs should ensure that students have reliable and efficient access to federal loans, including some role for the currently involved private and non-profit entities. While Congress acknowledged the importance of private lending it also included FFELP in reconciliation which could make it easier to pass legislation to eliminate or alter the FFELP.

On May 21, the House Education and Labor Committee held a hearing on President Obama's proposal to eliminate the Federal Family Education Loan Program (FFELP) in favor of the Direct Lending Program. CUNA submitted a letter opposing the plan to leaders of the House Education and Labor Committee (see letter below).

Committee Chairman George Miller (D-CA) and many of his Democratic colleagues voiced support for the Direct Lending Program. Ranking Member Howard "Buck" McKeon (R-CA) and some of his Republican colleagues decried the plan arguing that it would stifle competition and eliminate the personal service provided by FFELP lenders. Administration officials argue that there would still be competition because private providers would be able to compete to service loans after they are made through a government contractor.

On July 21, the House Education and Labor Committee approved the Student Aid and Fiscal Responsibility Act. CUNA submitted a letter opposing the plan to leaders of the House Education and Labor Committee. The House passed the bill 253-171 on September 17, 2009.

The Senate Health, Education, Labor and Pensions Committee has not released a student lending bill as the committee's focus has been on healthcare. However, during President Obama's State of the Union address on January 27, 2010, the President reiterated his desire to eliminate student lending subsidies for financial institutions. Senator Tom Harkin, Chairman of the Senate Health, Education, Labor and Pensions Committee, indicated that the Senate will act in the coming weeks. Senator Harkin favors the elimination of FFELP.

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RELATED DOCUMENTS:

[Letter from Dan Mica to House Education and Labor Committee Chairman George Miller and Ranking Member John Kline in support of retaining the Federal Family Education Loan Program \(FFELP\).](#)

July 20, 2009

[Letter from Dan Mica to Senate Budget Committee Chairman Kent Conrad \(D-ND\) and Ranking Member Judd Gregg \(R-NH\) regarding the Federal Family Education Loan Program, March 11, 2009](#)

[Letter from Dan Mica to House Committee on Education and Labor Chairman George Miller and Ranking Member Howard McKeon in support of retaining the Federal Family Education Loan Program \(FFELP\)](#)
[May 20, 2009](#)

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