

Gazette Minute Interview

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What problems may colleges face at the tuition window this September?

Admissions offices measure and track their incoming classes very carefully. A shortfall of any percentage at all can cause problems. Schools that operate without large endowments and are heavy users of private loans are particularly vulnerable. They will be faced with the need to offer a tuition discount at that window to hold on to a certain percentage of their continuing students who are no longer eligible for private loans. Schools that do not have the balance sheet to absorb the discounts will need to quickly align costs with lower tuition revenue. Another source of borrowed funds, home equity loans, pose similar problems.

What problems may be associated with home equity borrowing?

The problem is likely to be much larger than many realize, because home equity borrowing has been a large source of funds for education that goes mostly unseen by student loan providers and the financial aid office. Home equity lenders will tell you that as much as 5 percent of their annual trillion dollar volume is borrowed for education purposes. Their disappearance will leave a \$50 billion hole that needs to be filled. It is simply impossible to get a home equity line of credit right now in many parts of the U.S.

Amid the student loan turmoil, what signs of new product development are you discerning?

Some schools, state agencies and private foundations are beginning to view themselves as stakeholders who may play a role in student loans. As insurers. Or even as lenders. The New York State Senate just passed a bill that would establish a low interest loan program for students attending New York schools. That bill might change in the state assembly, but we may be seeing the outlines of a trend. Peer-to-peer lending is drawing interest, and it certainly represents a potential game changer.

What interests you about peer-to-peer lending?

Virgin Money has an intriguing product called Student Payback. It's essentially a private loan by the parent to the student made as a result of the proceeds of a PLUS loan borrowed by the parent. Student Payback combines good features from both products into one, such as the new deferment option for PLUS. GreenNote's model enables a student to create a network of lenders out of their friends and family. Much like with LinkedIn or Facebook, a GreenNote borrower can invite parents,

friends, aunts and uncles (wealthy or not) to be a lender in his network, funding a portion of a fixed rate loan with a reasonable return.

Are they financiers, or are they technology companies?

Fundamentally they are technology platforms that bring together borrowers and lenders in a new way, but a regulator might disagree with that assessment.

Do existing student loan companies have reason to fear peer-to-peer lenders?

That is uncertain. Depending on who in the family is making the college financing decision, websites which are aimed at the student audience may find it difficult to profitably achieve scale.

What is known about the cost on campus of delivering student financial aid?

The hit that lenders have taken to their profitability will be felt next in financial aid offices. Service to borrowers and schools will be reduced as many lenders adjust to the new economics of their business. A NASFAA study in 2006 surveyed hundreds of financial aid offices regarding their staffing levels and costs. Using the survey results we calculate that the staffing costs alone average \$360 per recipient. This fall, it's reasonable to expect more phone calls, emails and aid office visits. I expect costs to rise dramatically.

Do you see a killer app for financial aid delivery on the horizon?

Yes. Watch for technology that can reduce financial aid delivery costs across college and university systems. Take for example a Virginia high school senior who applies to University of Virginia, Virginia Tech and James Madison University. Assume the student is accepted at all three schools. Should each school originate and process three financial aid applications at a cost somewhere north of \$400 per package? If so, there is an \$800 cost within the state to build and process two aid packets that will never be used. A service platform that processes the student's aid once for all the institutions would be a killer app. I'm sure the student would rather have an \$800 scholarship than financial aid materials from two schools he or she won't attend. ■



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