



NEED FOR EDUCATION AND LENDING TRANSPARENCY

WILL DRIVE FURTHER CHANGES IN THE STUDENT LOAN INDUSTRY



By Matt Dierker
Principal
Financial Services
Brulant, Inc.

As we all know, the cost of education is increasing every year. Paying for college is a huge concern for both students and parents, and the entire financial aid process can be confusing. University Financial Aid Officers have traditionally been a good source of information for students. However, recent claims of inappropriate relationships between schools and their preferred lenders call into question whether the advice students receive is truly in the students' best interest.

These issues, combined with the increasing ability to both research and apply for student loans online, will continue to shift the student lending market from a school-based lending channel to the more competitive, direct-to-consumer lending. This presents a challenge as lenders have the opportunity to gain market online, but must also maintain and support their current school relationships.

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Recent studies indicate that retail financial services firms, including those providing student loans, aren't meeting customer expectations. Financial services companies need to provide tailored solutions that meet the financial needs of their customers and educate them so they can make smart financial decisions.

LOOKING FORWARD

Given the recent accusations of impropriety, students and parents are less likely to accept loan "advice" from their selected institution of higher learning. So what do lenders need to do to satisfy the needs of this skeptical, ever-changing client base?

1. Educate the Consumer about the Financial Aid Process

For most students, and even some parents, financing college may be the most complicated financial decision they've made in their lives. To be successful, retail lenders must fill the role of the "online financial aid officer" by educating the consumer and facilitating the entire planning process, from completing the FAFSA through a specific, comprehensive financial plan. This allows banks to lead consumers to their products without making the decision for them. Lenders should utilize consumer insight research to validate website architecture and design. Additionally, usability testing should be conducted to confirm consumer understanding and ensure the site is intuitive and easy to use.

2. Provide True "Advice" Through Schools and Online

Lenders must strengthen existing consumer relationships by alleviating concerns of improper conduct and providing the unbiased, fact-driven advice customers need to comfortably make informed decisions. If the bank's products are framed as solutions that flow naturally from these facts, then customers will be more comfortable choosing them. Lenders should develop rich media elements that engage consumers at a deeper level. Also, studies indicate that information from peers is highly valued by consumers, and greatly influences buying decisions. User communities should be considered to provide a forum for students to share information with other students and parents to share information with other parents.

3. Provide a "Transparent" Loan

Lenders should proactively provide all loan details to the prospective borrower. This may seem obvious, but often consumers are presented with aggressive interest rates that often contain hidden costs that severely penalize students who miss a payment. Some of these loans can even disqualify students from potential federal money they could receive in coming years. Lenders should provide the ability to print and email the details of the loan, as well as other information relating to their school funding plan. This gives students the ability to share it with friends and family, and provides another indirect marketing opportunity for the lender.

