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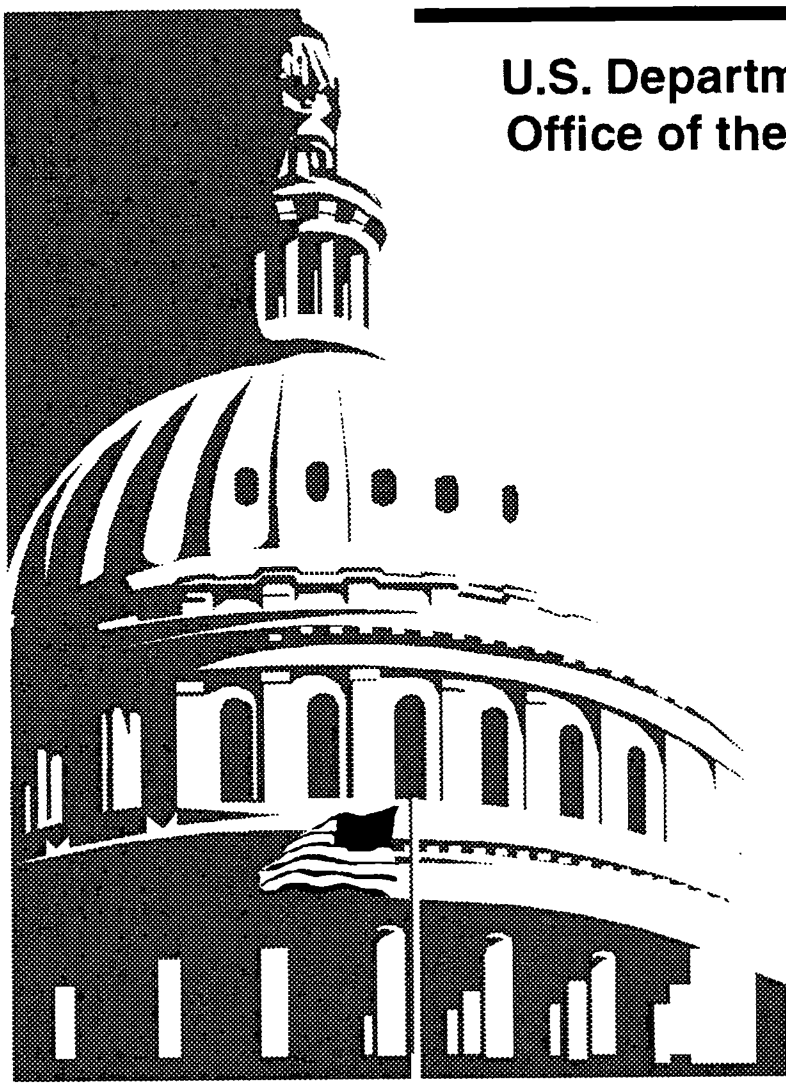
ABSTRACT

As part of a 5-year evaluation of the Direct Loan and the Federal Family Education Loan programs, 19 institutions of higher education participating in the William D. Ford Federal Direct Loan Program were visited to examine the diversity of approaches used by schools in planning for and implementing the Direct Loan program. The schools included public and private two- and four-year institutions and proprietary schools. Fifteen schools were Direct Loan participants in 1995-96, while the other four planned to enter the program in 1996-97. Major findings indicated: (1) that while two-thirds of the schools described the transition to direct loans as relatively easy, all expressed concern about the proposed congressional cap on direct lending; (2) schools used a variety of computer environments to implement the program; (3) schools reported satisfaction with the specific steps of implementing direct lending; (5) satisfaction with training and manuals provided by the Department of Education was mixed; (6) program implementation costs ranged from $3,000 to $80,000 per school; and (7) schools that used the Department's regional offices were satisfied with their services. Ongoing issues were identified in the areas of computer systems, loan processing, training, counseling, and customer service. (DB)



U.S. Department of Education
Office of the Under Secretary

Direct Loan Evaluation
Case Study Summary Report:
Academic Year 1995-96

August 1997

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Site visits were conducted by Sadie Bennett, Elaine Glover, Joel Goldman, Michelle Hearn, Helene Jennings, Laura Greene Knapp, Wendy Mansfield, Gary McQuown, Maureen Murphy, Frank Nassetta, Colleen Walsh, and Catherine Zudak. All members of site visit teams wrote individual case study reports, and provided input and review for this report.

Foreword

The purpose of the case study component of the William D. Ford Federal Direct Loan Program Evaluation is to gather detailed information about schools' experiences with the Direct Loan Program. In this third year of conducting case studies, a total of 19 schools were visited: five schools from the first cohort; ten from the second; (five being visited for the first time and five being revisited); and four from the third cohort.

Institutional case studies are one facet of Macro's 5-year evaluation of the Direct Loan Program. They provide the opportunity to describe in detail the diversity of approaches used by schools in planning for and implementing the Direct Loan Program. The findings of this report are based on our observations at a limited number of schools and thus are not meant to be representative of the universe of Direct Loan schools. Rather, they are complementary to findings disseminated in other Macro evaluation components, including a Survey of Institutions Participating in the Direct Loan and Federal Family Education Loan Programs and an Assessment of Department of Education Administration of the Direct Loan Program.

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Introduction

This *Case Study Summary Report* is part of the evaluation of the William D. Ford Federal Direct Loan Program commissioned by the U.S. Department of Education (ED). Institutional case studies have been included as one element of this evaluation. Case studies provide the opportunity to describe in detail the diversity of approaches used by schools in planning for and implementing the Direct Loan Program. The results of the case studies are used to inform the development and refinement of questions and response categories in full-scale surveys of institutions and borrowers conducted annually as part of the evaluation. In addition, case studies allow for the early identification of best practices and of recurring problems in implementing the Direct Loan Program. This may assist other institutions by suggesting ways in which they can benefit from the experiences of those who entered the Direct Loan Program earlier. Annual data collection will also provide opportunities for early feedback to be used by institutions and ED officials in improving the Program. Sampled schools are revisited to obtain a longitudinal view of the implementation of the Program and of changes in perceptions.

In this third year of the study (fall 1995 through spring 1996), Macro assessed the Direct Loan Program's second year of operation. A total of 19 Direct Loan institutions were visited—five selected for participation in the first year of the program, ten from the second year, and four from the third year. Schools include public and private 2- and 4-year institutions and proprietary schools from each region of the country. In addition, five Regional Direct Loan Offices were visited.

Overall Satisfaction

Of the 19 schools visited, 15 were Direct Loan participants in 1995-96, with the other four planning to enter the program in 1996-97. Fourteen of the 15 schools administering the Direct Loan Program reported a high level of satisfaction with the Program, despite encountering difficulties during implementation. Realized benefits included improved service to students, more control over the loan process, and improved school cash flow.

Two-thirds of the case study schools described the transition to Direct Loans as moderately easy or easier than expected; one-third said it was moderately difficult or more difficult than expected. After an increase in effort during the transitional phase, most schools reported an overall decrease in workload compared to the Federal Family Education Loan Program (FFELP).

All Financial Aid Officers (FAOs) expressed concern about the proposed Congressional cap on Direct Lending. A number of schools have invested substantial resources and effort into redesigning their student loan system to administer Direct Loans. They are concerned that a cap would eliminate them from participation, forcing them to return to FFELP.

Planning for Direct Lending

Schools reported that enhancements to Direct Loan Program training have resulted in an easier implementation for Year Two and Year Three schools. These changes helped smooth the planning and implementation of Direct Lending at Year Two schools. However, in comparison to Year Two schools, Year Three schools lagged behind in planning for 1996-97 implementation.

Because of concern about the future of the Program, some Year Two and Year Three schools changed full implementation plans to incremental phase-in plans, while others considered reducing the proportion of loan volume phased in to Direct Lending.

Computer Systems

Case study schools operated under one of four types of computer environments—mainframe to mainframe, mainframe to PC with EDExpress interface, independent mainframe and PC, and PC only. It was reported that each system had advantages and drawbacks related to the volume of loans processed, resources devoted to system development and maintenance, and compatibility of databases.

FAOs commented that having a computer-literate person with an understanding of financial aid (or a computer consultant to the financial aid staff) facilitated implementation of Direct Lending. Regional Account Managers supported this, saying that schools need to know that Direct Lending is technology-dependent.

Software

While two schools used their own software programs for administering Direct Loans, most used EDExpress on PCs or commercially purchased software for their mainframes or PCs. Improvements in EDExpress and the availability of Direct Lending modules in commercial software greatly eased Direct Loan processing. New internal edits built into EDExpress, in particular, improved efficiency and reduced reconciliation effort.

Schools reported satisfaction with the attitude and helpfulness of the Servicer's support staff; however, they qualified this by saying that some staff lacked sufficient technical expertise and an understanding of financial aid.

A number of schools praised the EDExpress software contractor for working to see a problem through until it was resolved; however, some were dissatisfied with having to leave voice mail messages and wait for callbacks.

FAOs complained that the Servicer and the EDExpress software contractor often referred schools to the other, rather than fixing the problem themselves. In these situations, the Regional Office Account Managers often acted as liaisons.

Schools using mainframe computers reported that they had not received adequate technical support or training and that the Servicer's system was not designed to receive mainframe transmissions. FAOs suggested that the Direct Loan Servicer and the software contractor may need to provide additional support to these schools.

Implementing Direct Lending

In order to best understand the administration of Direct Lending, Macro obtained a description of each step involved in processing a Direct Loan and administering the Program at each school. These steps are described below.

Originating Direct Loans

In comparison to the first year of Direct Lending, FAO staff reported that loan origination had become relatively simple once institutional staff became familiar with the procedures. Once the transition period was over, schools reported that originating Direct Loans usually required less effort than processing FFELP loan applications.

Some schools experienced a six- to eight-week "learning period" when mistakes were common and new skills were mastered. During this transition period, FAOs became aware of exceptions to the typical origination process taught during training. Manuals, training materials, and guides did not adequately prepare staff for day-to-day operations associated with the loan origination process. Most FAOs reported frequent calls to the Servicer during this period.

Promissory Notes

FAOs reported that processing promissory notes has become routine. However, promissory notes are not acknowledged by the Servicer in the order of the transmitted batches and cannot be easily tracked. To overcome this, one school used a bar code system and scanner for tracking promissory notes.

Drawdown, Disbursement, and Student Refunds

Almost all case study schools chose to draw down the exact amount of funds disbursed to avoid problems associated with excess cash. Five of the schools credited student accounts and then drew down the total credited amount; the other schools drew down the funds using an estimate of funds needed before disbursement and then refunded any excess cash to ED within the prescribed seven days.

All schools reported a very high level of satisfaction with this aspect of Direct Lending. Schools using a paper check system under FFELP reported a dramatic reduction in effort, shorter lines of students waiting to sign checks, and greatly improved student satisfaction. Schools using electronic funds transfer (EFT) under FFELP reported that Direct Lending was easier to administer than FFELP because all loans came from one source and there were no guarantee agency delays.

The most appreciated factor was the speed with which loan funds were received and disbursed to students—there were very few delays. Additional benefits included:

- Substantially fewer students needed short-term emergency loans; and
- Cash flow for the school was improved, improving the administration's planning capacity.

FAOs also noted that schools, which under FFELP endorsed the loan check over to the student and accepted a personal check for tuition, found the problem of bounced student checks to be greatly reduced under Direct Lending.

Borrower Counseling

Almost all case study schools were using ED-produced counseling materials. With two exceptions, brochures were supplied to schools in adequate numbers and on a timely basis. FAOs reported a high level of satisfaction with the quality of the Entrance and Exit interview brochures. However, not all FAOs were aware of the availability of ED-produced handouts describing the various repayment options.

Reviews of the ED-produced videos were mixed. While some FAOs used and liked the entrance and exit counseling videos, many FAOs suggested less emphasis on drama and more concrete, specific information about repayment options and consolidation.

Reconciliation

Schools reported that the reconciliation process in 1995-96 was substantially smoother than in 1994-95. Many case study schools reported that they were up-to-date in 1995-96 monthly reconciliations.[1] Many Year One reconciliation problems were caused by computer difficulties and lack of training, requiring intensive intervention on the part of the Servicer or the Task Force. Year Two case study schools had few if any unreconciled records. In addition, the reconciliation problems they encountered appeared substantially easier to resolve.

A number of FAOs recommended monthly reconciliation over annual reconciliation. Monthly reconciliation served as a means of checking the school's loan records and allowed errors to be identified more quickly.

Changing and Canceling Direct Loans

Once FAOs learned the procedures for changing loans, most found that changing or canceling loans was easier under Direct Lending than under FFELP. This was due, in part, to the fact that schools did not have to submit change notification forms to lenders and guarantors and did not have to follow up to reaffirm the status of the loan. Most FAOs said that under Direct Lending, changing a loan became completely automated, required the same action for all loans, and allowed them to easily check loan status. Once FAOs understood the Direct Loan change process, most found it easier to track the changes. However, a number of FAOs were not satisfied with the procedure of changing loans under Direct Lending.

[1] Site visits occurred in the midst of the academic year cycle. Macro did not obtain data on end-of-year reconciliation status.

Services Provided by the Department of Education

Training

Most Year One and Year Two schools participated in ED's Direct Loan training. Satisfaction with these presentations was mixed, depending on the session attended. The proximity of training conducted by Regional Offices permitted attendance at Title IV update sessions, which otherwise may have been foregone because of travel costs. Account Managers were commended for their positive attitude and efforts in these sessions. All participating schools appreciated the opportunity for hands-on training sessions and expressed a desire for more. As in past years, schools suggested training in problem identification and solution, increased sharing of other schools' experiences, and improved training for mainframe schools.

By the end of March 1996, the four Year Three case study schools had received introductory training in Direct Lending at their Regional Office. None had participated in the more detailed 3-day training session on EDExpress and Direct Loan administration.

Manuals and User's Guide

Some FAOs reported that the instructional manuals and user's guide were useful resources but were limited in scope. Topics such as loan changes and explanations of Servicer error codes either were not addressed or were not covered with sufficient detail or clarity. Others found them difficult to use because the language was too technical or because they were not arranged in a user-friendly fashion. Many FAOs did not use these documents for solving technical loan processing problems because there was no problem solving section. Instead, they called the Direct Loan Servicer for assistance.

To assist with processing loans, schools suggested that ED develop a "trouble shooting guide" and a "quick reference" similar to those available for other financial aid programs. At the time of the site visits, development of these materials was under consideration by the Regional Offices.

Direct Loan Implementation Costs

Direct Loan implementation costs ranged from $3,000 to over $80,000 per school. As reported last year, the most extensive expenditures per school occurred in the areas of computer equipment and programming—primarily at large, mainframe schools. Except for one school, travel for training costs appeared to be less for Year Two schools than for Year One schools. Schools anticipated that these costs will continue to decline as schools take advantage of more convenient training at Regional Offices.

Additional staff were hired at one school to administer both loan programs during the transition to Direct Lending; two other schools reported staff reductions. Four case study schools reported lower than estimated implementation costs. None of the Year Three case study schools provided estimated cost information because planning had not proceeded to that point.

Regional Office Account Managers

Training

One or two Account Managers in each Regional Office had experience in postsecondary education or financial aid; most were hired from other government agencies or were recent college graduates. Almost all Account Managers received intensive training in financial aid, Direct Lending, and EDExpress prior to assuming their current roles. Some reported that training sessions were often conducted under the assumption that the Account Managers had a greater understanding of financial aid than they actually did; therefore, they did not gain a thorough understanding of the information presented. Account Managers and Regional Office Directors all said that additional ongoing training was needed.

Principal Activities

Account Managers reported providing technical assistance and training to schools as their principal activities. In addition, they often served as a liaison with the school, the Servicer, and the software contractor in solving technical problems.

At the beginning of operations, Account Managers provided much of the training and technical assistance in the field. Although Account Managers cited numerous advantages to onsite efforts, emphasis was placed on providing telephone-based technical assistance. Some Regional Offices were asked to limit or cease travel to schools because of budgetary restrictions. Most Account Managers were enthusiastic and dedicated to supporting the Direct Loan schools and were very customer service oriented. It was reported that some schools did not differentiate between the Account Managers and the Institutional Participation and Oversight personnel. Account Managers felt that this led to schools' reluctance to call for assistance for fear of prompting an institutional review.

Direct Loan Regional Offices

Of the 19 schools visited, five used their respective Regional Offices for technical assistance, and were very satisfied with this service. The reasons cited by other schools for not calling the Regional Office for technical assistance included: 1) the FAO was not sure what help the Account Managers would provide, 2) the FAO did not perceive the Account Manager to be sufficiently knowledgeable, and 3) the FAO called the Direct Loan Servicer, commercial software vendor, or a Direct Loan Task Force member to obtain assistance.

National Question and Answer Database

At the time of the site visits, the Regional Offices were collaborating to develop a National Question and Answer (Q&A) database. The objective was to combine all school-based questions and appropriate responses into a single resource that could be used by all Account Managers to provide uniform responses to schools.

Training for Schools

Eventually, each Regional Office will have a state-of-the-art training facility onsite. At the time of the five site visits, three of the training facilities were operational. Two of the three operating facilities were offering regularly scheduled sessions in Title IV updates and Direct Loan training for Year Three schools.

Relationship With ED

Account Managers reported regular, ongoing communication with ED and the Task Force through weekly conference calls. Most offices had a single member of the Task Force designated as their liaison to call with technical questions. The Account Managers said they need to be more informed about activities taking place at ED. They would like to receive ED communications before the schools do and more frequent updates on policy and software changes so that when schools have questions, they are better prepared to respond.

Ongoing Issues for Program Year Three

While case study schools were generally satisfied with Direct Lending, issues have emerged that may affect future satisfaction with the program. These issues have either emerged during the first two years of program implementation but have not been fully addressed by ED, or they are issues stemming from new initiatives such as the Title IV WAN. They are briefly discussed below and will be further examined in Year Four of Macro's evaluation.

Computer Systems

Many of the case study schools' suggestions for improvement focused on computer systems and increased opportunity for technical training on all ED-supplied software, including any new versions. To address this, it was suggested that enhanced training be provided to schools on backing up data; installation and use of the Title IV WAN; and special EDExpress modules such as QUERY, report generation, and SSCR reporting.

Schools suggested that ED stress that Direct Lending is technology-dependent, commenting that schools need a strong technical support staff with detailed knowledge about financial aid processing in order to successfully implement the program.

Loan Processing

The main source of frustration for case study schools in all areas of loan processing (including loan origination, loan changes and cancellations, and reconciliation) stemmed from a lack of clear communication from the Servicer to inform schools when there were problems. For example, during Program Year One, schools did not receive PLUS Loan denial notices directly from the Servicer, but rather the notices were self-reported by students. Thus, alternative loan processing was often delayed for these students. At the time of the visits, the Servicer was sending this information directly to schools, solving the problem for Year Two.

Problems that could be rectified by timely, clear communication to schools included: erroneous loan origination transmissions; partial batch transmissions (by designing a batch system on EDExpress which reports the number of records in the batch to the Servicer and allows the Servicer to immediately notify schools of partial batch transmission); loan changes and cancellations (by sending a list of canceled or changed loans to schools on a regular basis); and reconciliation (by acknowledging each month's data separately).

Training

In addition to clearer communication, many of the problems that occurred during loan processing could be addressed with enhanced training and reference material. Schools expressed the desire for a "quick reference" as used in other ED programs and a "troubleshooting handbook" listing explanations of Servicer acknowledgment report codes and common errors and problems with possible solutions or corrective actions to take. Training on procedures for canceling loans—both before and after disbursements—was also suggested.

Counseling

Counseling has been an area of enhanced concern by schools and ED. The initial set of counseling material was reported to be excellent by schools. It was suggested that ED further refine some of this material—particularly the entrance and exit counseling videos and loan consolidation materials.

Customer Service

Despite the expanded resources offered to schools, case study schools reported varied levels of satisfaction with customer service staff from ED; Direct Loan contracting staff, including the Direct Loan Servicer; and the Account Managers. There were two main reasons offered by schools for not taking full advantage of the resources offered to them. The first was because they were not clear about who they needed to call for various problems. This was further exacerbated by the fact that some schools were bounced from one source to another and did not get their problems resolved in a timely fashion. The other reason was that schools did not think that customer service staff was knowledgeable about Direct Lending and other financial aid issues.

To rectify this problem, it was suggested that ED ensure that all customer service staff undergo adequate training and provide clear direction so that schools clearly know which entity to contact under various circumstances, such as reconciliation problems, hardware problems, and EDExpress problems.

I. Introduction—The Case Study Component

A series of institutional case studies is part of Macro International's evaluation of the William D. Ford Federal Direct Loan Program commissioned by the U.S. Department of Education (ED). This Program consists of Federal Direct Stafford Loans (Subsidized and Unsubsidized), Federal Direct PLUS (Parent Loans for Undergraduate Students) Loans, and Federal Direct Consolidated Loans. The loan capital is provided by the Federal Government and the funds are delivered to the student through the schools. All loan payments are made to the loan servicer under contract to ED instead of to banks and credit unions.

The objectives of these case studies are to:

1) Assess schools' satisfaction with the timeliness and quality of the services and support provided by ED and its contractors;

2) Describe schools' workload under the Direct Loan Program, as compared to under the Federal Family Education Loan Program (FFELP); and

3) Describe schools' implementation processes for Direct Lending, including the following aspects:

   - Determining whether the Direct Loan Program is simpler or more complex to administer at the institutional level than the FFELP;

   - Identifying the most difficult and common problems that institutions experience in administering Direct Loans; and

   - Identifying and highlighting best practices at institutions.

For the inaugural year of the evaluation (spring/summer 1994), five sites were selected from the first cohort of 104 institutions selected by ED to participate in Year One of Direct Lending. The case study teams collected data describing pre-implementation planning processes at those schools. The findings of the first year were reported in the *Case Study Summary Report: Year One*, submitted to ED in November 1994.

In the second year of the evaluation (fall 1994 through spring 1995), the initial five schools were revisited to evaluate the first year of implementation of the Program. Another ten schools were selected: five from the first Direct Loan institutional cohort and five from the second Direct Loan institutional cohort; the latter schools were planning to implement Direct Lending in 1995-96. Both pre- and post-implementation data were collected at the five schools in the initial cohort; only pre-implementation data were collected from the five second-cohort schools. The findings of the second study year were reported in the Case Study Summary Report: Year Two, submitted to ED in May 1995.

In this, the third year of the study (fall 1995 through spring 1996), the Macro case study teams revisited the initial five schools from the first Direct Loan cohort and the five schools from the second cohort. Post-transitional implementation data were collected from the first-cohort schools; transitional implementation data were collected from the five second-cohort schools. Another ten schools were selected: five from the second Direct Loan cohort and five from the third Direct Loan cohort (i.e., those joining the Direct Loan Program in 1996-97). As explained below, only four of the third-cohort schools were visited. Pre-implementation planning data and initial implementation data were collected from the new second-cohort schools, and preimplementation planning data were collected from the third-cohort schools. The decision to expand the sample of second-cohort schools was made in light of the larger proportion of schools that participated in the second cohort of the Direct Loan Program. Sampled schools were revisited to obtain a longitudinal view of the implementation of the Program and changes in perceptions. Table 1 summarizes the collection of case study data in the first three study years.

Table 1
Summary of Data Collected On-Site Visits in Study Years One, Two, and Three

Study Year	Direct Loan Cohort (Study Year Sampled)	Number of Sites Visited	Type of Data Collected on Direct Loan Program
Study Year One	Cohort 1	5	Pre-implementation
Study Year Two	Cohort 1	5	Post-implementation,* first followup
	Cohort 1	5	Pre- and Post-implementation
	Cohort 2	5	Pre-implementation
Study Year Three	Cohort 1	5	Post-transitional implementation, second followup
	Cohort 2	5	Post-implementation, first followup
	Cohort 2	5	Pre- and Post-implementation
	Cohort 3	4	Pre-implementation

* Post-implementation signifies return visits to institutions by Macro.

This report is a summary of the findings from the 19 site visits completed in the third year of this study. A two-person team from Macro International visited each of the 19 schools between October 1995 and March 1996. Interviews at each school were conducted with key administrators and when possible, with students. Schools were also called back for clarification of specific points, when necessary.

Besides visiting the 19 schools in the third year of the Direct Loan Evaluation, the Macro case study teams visited five of the ten Regional Offices of the U.S. Department of Education. ED personnel at those Offices have been charged with assisting schools with Direct Lending administration. The

Regional Offices selected for site visits were chosen on the basis of their proximity to schools already sampled for the study.

An individual case study report was written for each of the schools and Regional Offices visited. These reports were sent to case study sites to ensure accuracy. Each report was then submitted to the Department of Education.

To protect the confidentiality of all respondents, the schools were assigned identification numbers and the Regional Offices were assigned letters A through E. Each school and office will retain the same identification number or letter in all follow-up site visits.

II. Characteristics of the Sample

Type, Control, Size, and Level of Direct Loan Program Participation

A sample of schools was drawn from lists of schools participating in the first, second, and third Direct Loan cohorts.[1] The Macro team selected schools that varied by type and control, region of the country, and estimated loan volume. The proprietary schools included in the sample were divided between technical and cosmetology schools, because those two types of schools serve different student populations.

School 22 was deleted from the sample. The selection criteria for that school required it to be a 4-year public institution, a member of the third cohort of Direct Loan schools, and located in ED's Region 10. The Macro team identified and contacted eight schools meeting those criteria. Four schools had decided not to participate in Direct Lending; two schools were delaying participation one year; one school's participation decision was still pending; and one school's Financial Aid Director could not be reached until the last week in March. The Macro Project Manager and ED Project Officer jointly decided to drop one school from the sample because time constraints precluded waiting to visit either of the last two schools or selecting a school from another region.

The case study sample contains three public 4-year, four public 2-year, four private 4-year, and eight proprietary schools (four cosmetology schools and four technical schools), representing all regions of the country. Variation in the sizes of the schools, as measured by approximate volume of loans, was considered an important selection criterion in differentiating between approaches to implementing Direct Lending. Larger schools, such as the 4-year schools with 5,000 to 8,000 borrowers, could take advantage of economies of scale in planning and implementing the Program. Planning processes, administration of financial

[1] Primary and alternate selections were made for each sample cell. Not all the schools initially contacted chose to participate in Macro's study. When a school declined, the alternate selection was contacted to participate in the study. To limit demands on school administrators, further efforts were made to contact schools that were not participating in any other Direct Loan Program study or evaluation.

aid, and resources for the larger, more complex schools were thought to differ greatly from those of the small schools with fewer than 100 borrowers or midsize schools with a few hundred borrowers. Table 2 summarizes the institutional type and control, the region of the country, the 1994-95 student loan volume, and the percentage of loan volume in Direct Lending in 1995-96 (and planned percentage participation of Year Three schools for 1996-97) of the sampled schools.

Table 2
Summary of Institutional Characteristics

School ID	Direct Loan Cohort	Type	Control	Region	Student Loan Volume* 1994-95	1995-96 % Participation
1	1	4-year	Public	8	$23,507,000	100%
2	1	4-year	Private	2	$46,571,000	100%
3	1	Cosmetology	Proprietary	4	Not available**	100%
4	1	2-year	Public	6	$ 1,530,000	91%
5	1	Technical	Proprietary	10	$ 2,053,000	90%
11	2	4-year	Public	3	$30,075,000	100%
12	2	4-year	Private	2	$ 8,320,000	100%
13	2	Cosmetology	Proprietary	4	$ 130,000	100%
14	2	Technical	Proprietary	7	Not available	0%
15	2	2-year	Public	6	$ 1,861,000	100%
16	2	4-year	Public	7	$19,956,000	100%
17	2	4-year	Private	4	Not available	100%
18	2	2-year	Public	2	$ 1,714,000	100%
19	2	Technical	Proprietary	6	$ 1,271,000	75%***
20	2	Cosmetology	Proprietary	9	$ 0	100%
21	3	4-year	Private	9	Not available	Phase in new students
23	3	2-year	Public	10	Not available	Phase in new students
24	3	Technical	Proprietary	1	$ 1,186,000	25%****
25	3	Cosmetology	Proprietary	1	$ 67,600	50%****

*1994-95 loan volume includes Subsidized and Unsubsidized Direct and FFELP Loans. PLUS Loans are excluded.

**Proprietary schools often do not follow standard academic year calendars; Accurate loan volume may not be available.

***Initially planned at 90 percent; may drop to 50 percent by July 1996.

****Planned level of participation in 1996-97.

Of the four first-cohort schools (Schools 1, 3, 4, and 5) phasing in Direct Lending, approximately 10 percent of the loans of Schools 4 and 5 remain in the FFELP. Two second-cohort schools planned to phase in Direct Lending—School 14 and School 19. At the time of the site visit, School 19 had 75 percent of its loan volume in Direct Loans; School 14 will not begin administering Direct Loans until fall 1996. All other schools were participating in Direct Lending at 100 percent of the volume of student loans. Third-cohort schools (Schools 21, 23, 24, and 25) were phasing the Direct Loan Program in with all or a portion of their entering students.

With the exception of Schools 4, 17, and 24, schools in the sample were performing all Direct Loan operations. Those three schools were designated by ED as Level 2 schools, which are required to have the Direct Loan Servicer perform some of the Direct Loan operations. School 20 contracted with a third-party servicer (TPS) to perform all Direct Loan processes except disbursement.

Loan Volume 1994-95 and 1995-96

In view of the fact that data collection began in October 1995 and ended in March 1996, only partial data were reported on loan volume for 1995-96 (Year Two of the Direct Loan Program). The period of data collection had the greatest effect on reported total loan volume at the proprietary schools. The majority of students in public and private 2-year and 4-year schools tend to borrow in the fall semester for the full year. In comparison, proprietary schools have a steady stream of new students borrowing as they enter school. Therefore, the loan volume reported for proprietary schools may have been substantially below the yearly total, while the loan volume for public and private schools was a closer estimate of yearly totals. (See Table 3.)

Although Subsidized Stafford Loan volume at most schools increased less than 5 percent, the reported volume of Unsubsidized Stafford Loans at some schools increased dramatically during 1994-95 (the last year in which complete data were available). For example, even with partial data, School 16 had a 34 percent increase in the volume of Unsubsidized Loans from 1994-95 to 1995-96; School 1 had a 14 percent increase; and Schools 2 and 11 each had a 12 percent increase. Between 1991-92 and 1994-95, School 4 experienced a 275 percent increase in loan volume. The Financial Aid Officer (FAO) at School 4 attributed much of that increase to greater student awareness of the availability of Unsubsidized Loans. She pointed out that although the rate of increase appeared to have slowed in 1995-96, yearly totals will probably rise again.

The trend in student borrowing is clear: students are borrowing more money, regardless of which loan program schools participate in. FAOs attributed increased borrowing to the following factors:

- Higher levels of need brought on by increased school costs;
- Lower proportion of school costs met by Pell Grants, State aid, and institutional aid;
- Lower proportion of cost met by publicly funded training programs; and
- Poor local economic conditions (e.g., unemployed workers borrow for living expenses while enrolled).

Table 3
Subsidized and Unsubsidized Student Loan Volume in Thousands (000s), 1994-95 and 1995-96 (through beginning of month shown)

School	1994-95			1995-96			
	FFELP	Direct	Total	FFELP	Direct	Total	Date
1	$15,418	$8,089	$23,507	NA*	$24,654	$24,654	9/95
2	NA	$46,571	$46,571	NA	$49,258	$49,258	10/95
3	Not available			NA	$ 550	$ 550	10/95
4	$ 542	$ 988	$ 1,530	$ 98	$ 1,018	$ 1,116	10/95
5	$ 979	$1,074	$ 2,053	$ 61	$ 910	$ 972	11/95
11	$30,075	NA	$30,075	$ 487	$33,320	$33,807	1/96
12	$ 8,320	NA	$ 8,320	NA	$ 8,056	$ 8,056	10/95
13	$ 130	NA	$ 130	NA	$ 78	$ 78	2/96
14	No financial aid data were available after 1993-94						
15	$ 1,861	NA	$ 1,861	NA	$ 1,325	$ 1,325	11/95
16	NA	$19,956	$19,956	NA	$24,223	$24,223	2/96
17	No financial aid data were available						
18	$ 1,714	NA	$ 1,714	NA	$ 1,680	$ 1,680	10/95
19	$ 1,271	NA	$ 1,271	$ 249	$ 846	$ 1,095	1/96
20	$ 0	$ 0	$ 0	NA	$ 44	$ 44	2/96
21	Not available			$ 150	NA	$ 150	3/96
23	No financial aid data were available						
24	$ 1,186	NA	$ 1,186	$ 1,218	NA	$ 1,218	3/96
25	$ 68	NA	$ 68	$ 50	NA	$ 50	3/96

*NA signifies data were not applicable.

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Proprietary and 2-year public schools have a high percentage of independent students; therefore, those schools administered very few PLUS loans. Only six of the sampled schools had more than 25 parent borrowers. Four of the six schools (see Table 4) reported a higher volume of PLUS loans from 1994-95 to 1995-96. Total PLUS loan volume at School 1 grew by 250 percent, at School 11 it almost doubled, and at School 2 it grew by more than 25 percent. The FAO at School 1 attributed the increase to higher out-of-state fees and parents experiencing a "credit squeeze" due to over-extended credit. The FAO at School 2 said that the typical calculated parental contribution based on Federal Methodology (FM),[2] was higher this year than in many years and that parents were borrowing to meet it. Both FAOs said that PLUS interest rates are very competitive with those that most lenders offer, making PLUS loans particularly attractive. Other FAOs noted that the credit criteria of Direct PLUS Loans are more liberal than those of many private lenders, making it easier for parents to borrow in this Program. A greater extent of borrowing by students and parents was also attributed to the raised eligibility limits allowed by the 1992 Reauthorization of the Higher Education Act; however, most loan volume increases resulting from these raises in loan limits took place prior to 1994-95 or 1995-96.

Table 4
PLUS Borrowing in Schools with 25 or More Parent Borrowers, 1994-95 and 1995-96

School	1994-95		1995-96*	
	PLUS Borrowers	PLUS Volume	PLUS Borrowers	PLUS Volume
1	226	$ 888,000	411	$3,132,000
2	691	$6,183,000	702	$7,779,000
3	106	$ 356,000	64	$ 142,000
11	385	$2,105,000	610	$3,992,000
12	331	$3,800,000	307	$3,800,000
16	59	$ 196,000	58	$ 253,000

*Table 3 lists the date on which the loan volume was calculated for these schools.

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[2] The process by which financial aid eligibility is determined by the federal government.

III. Planning for Direct Lending

New Planning Assistance Available

Changes and additions to the training activities of the Direct Loan Program aided Year Two and Year Three schools in planning for and implementing the Program. At the time of the site visits, the Year Three schools had not yet begun concrete planning for Direct Lending and had not taken advantage of these Program changes. Besides enjoying general refinements in training, Year Two schools and Year Three schools had access to the following ED-produced aids to planning for Direct Lending:

- Regional Office assistance through designated Account Managers;
- "Novice" and advanced EDExpress training sessions;
- Refined training materials available early in the planning process;
- Commercially developed mainframe software;
- Mainframe user groups;
- Reconciliation training and guide;
- Multiple Internet bulletin boards as a source of information and advice;
- In-person assistance and/or telephone advice from Year One schools; and
- Some training sessions led by Year One schools' FAOs.

Year Two and Year Three schools reported having discussions with schools already participating in Direct Lending. According to the FAOs, most of the discussions tended to be general, but in a few instances, Year One schools shared administrative advice. None of the Year Two or Year Three schools in the study sample visited a participating school to observe Direct Loan operations, but Year One schools in the sample reported on-site visits by nearby Year Two schools. As reported last year, School 15 received assistance from a Year One school in the form of shared mainframe software. One Year Three school contacted earlier Program participants and reported it was helpful in deciding to participate in Direct Lending. The FAOs suggested that ED continue to encourage this activity.

Year Three schools had the extra advantage of being able to attend training at Regional Offices and of enjoying state-of-the-art equipment, lower travel costs, more time for hands-on experience, and further refinements of content (such as a new emphasis on the sequencing of activities).

Schools Planning for Year Three

Year Three case study schools appeared to have begun preparing for Direct Lending later than the previous two cohorts. As late as March 1996, three of the four Year Three schools had not begun planning. Only one of the four Year Three schools had begun any planning, and that school was only at the information-gathering stage. In comparison, five of the ten Year Two schools were actively planning procedures as early as fall 1994 for fall 1995 implementation, and only one had not begun any planning at the time of the second study year site visits.

In Years One and Two, training began with a national Direct Loan kickoff meeting. Its purpose was to provide new schools with an overview of Direct Lending. The kickoff meeting was followed by an intensive three-day training session on EDExpress and the administration of Direct Loans. For Year Three schools, the Regional Offices assumed responsibility for that introductory meeting. Some of the Regional Offices provided the three-day training session for Year Three schools and for new financial aid office personnel from some Year One and Year Two schools.

By March 1995, nine of the ten Year Two schools had participated in three-day ED training. Personnel from all four of the Year Three schools had attended a one-day introductory training session by the end of March 1996, but none had attended a full three-day EDExpress training session.

In the uncertain political climate of 1995-96, there appeared to have been less direction from ED regarding implementation of the Program and less certainty among prospective Direct Loan schools about participation than there used to be. A number of Year One and Year Two schools entered Direct Lending expecting it to be "the program of the future" and had a high level of commitment to the Program. In early March 1996, two of the four Year Three schools had only just received training announcements and some Direct Lending materials from ED. By contrast, kickoff meetings for Year One and Year Two schools were held months earlier.

All of the case study schools expressed concern about the future of the Program and the effects that a Congressionally-imposed cap might have on Direct Lending. Most schools in the first two cohorts, which phased in Direct Lending in 1994-95 or 1995-96, cited administrative reasons (e.g., time and effort needed to learn new procedures) for having less than 100 percent participation. Some of the Year Two and Year Three schools changed full implementation plans to incremental phase-in plans; others were thinking of reducing the proportion of loan volume phased into the new Program. While only one Year Two school developed a contingency plan, others said they were maintaining lender relationships to protect future borrowers. Some were maintaining those relationships by keeping the PLUS Program in FFEL or phasing a smaller percentage of borrowers into Direct Lending than initially planned. As noted above in the discussion of sample selection, some schools have changed their participation plans and will continue in FFELP—at least until the future of the Direct Loan Program is more assured.

Two of the Year Three schools cited another factor affecting their implementation plans. They reported dissatisfaction with the rules for calculating default rates for Direct Loans.[3] One FAO said it is unfair for the school to be charged with a default if a former student is making regular payments of any size. She felt that ED was "changing the rules in the middle of the game." Another Year Three school was considering withdrawing from Direct Lending because of those rules.

Using a Third-Party Servicer

Two of the case study schools—from different cohorts—used a third-party servicer (TPS) for Direct Lending, with very different outcomes.

- School 20 used a TPS for processing Pell Grants and was very satisfied with the service. The TPS services Direct Loans for many other proprietary schools in the region. According to the FAO, it is held in high esteem. The school therefore decided to have the TPS service its Direct Loans. The TPS provided Direct Loan training, supported the school with technical assistance, and developed a good working relationship with the Account Managers in the Regional Office; the Regional Office has maintained and fostered the relationship. In short, the FAO of School 20 was very satisfied with that servicer.

- School 3 decided to use a TPS in the first year of participation because financial aid staff had not been trained in Direct Lending, computer-literate staff had no financial aid experience, and the TPS had administered the school's Pell Grants. The TPS, however, when informed that the schools planned to administer Direct Loans in-house after the first year, reacted by withholding Pell Grant disbursements. In the second year of its participation, the school employed a new FAO to administer Direct Loans in-house. He has since discovered inaccurate reporting and errors in data on borrowers in the records of the TPS.

If schools are interested in using a third-party servicer, case study schools recommended that FAOs check their track record and client satisfaction.

IV. Computer Systems

The most important decision in planning Direct Lending is the choice of computer system because it determines all the other operations of loan processing. The choice of computer system was

[3] For proprietary, non-degree-granting schools, loans repaid under the Income Contingent option will be included in the default calculation as a default against the school if the payment is too low to repay the interest (and therefore, the loan is negatively amortized) during the first two years of repayment (34 C.F.R. 66827 (e) and (f)).

determined by the schools themselves after examining a number of determining internal and external factors.[4] Large schools with thousands of borrowers need mainframe computers or combination mainframe-and-PC systems. Freestanding PC systems work well for small schools, however, they lose their efficiency as the number of borrowers increases. FAOs reported that each type of system had its advantages and its drawbacks. Table 5 summarizes the types of computer systems used by the sampled schools.

Table 5
Computer Systems of Sampled Schools
1995-96 Direct Loan Administration

Type of Computer System	Schools
Mainframe-to-mainframe	1, 2, 12, 14,* 16, 17
Mainframe to PC with interface	15, 11
Independent mainframe & PC**	4, 5, 18
PC only	3, 13, 19, 20,*** 23, 24, 25

*School 14 will use a mainframe-to-mainframe system if the problems with their operating platform are resolved; otherwise, the school will use a dual-mainframe-and-PC system.
**No interface. Staff must either double-enter or upload and download with diskettes.
***School 20 uses a freestanding PC with modem connection to the Third Party Servicer's computer and is using the TPS's software.

Hardware Used for Processing Direct Loans

Mainframe-to-Mainframe

Some schools reported that major improvements in mainframe-to-mainframe systems have come as a result of the availability of Direct Lending modules programmed into vendor software. There have, however, been transmission problems because, according to one FAO, the Servicer was not expecting mainframe transmissions and was not set up to readily deal with them. Schools also experienced delays in implementing Direct Lending because of problems obtaining complete and adequate specifications for mainframes or for mainframe-to-PC interfaces.

School 14 has a mainframe supported by a commercially-available operating platform. But because this system was not compatible with EDExpress, the school was unable to begin originating Direct Loans in Year Two. At the time of the visit, the administrators believed

[4] The U.S. Department of Education offers the operating software, EDExpress, to schools free of charge. Many larger schools chose to modify or replace this software with alternate products.

that most of the system problems had been resolved, but if they are not, the school will use independent mainframe and PC systems. In general, FAOs expressed the need for more ED support for mainframe schools.

Independent Mainframe and PC

Three schools operated independent mainframe and PC systems. Those systems required the FAO to upload and download data on diskette (School 18) or to double-enter data on each system (School 4). School 5 uploaded Direct Loan origination record data from the PC to the mainframe for internal reporting and generated lists of students' names when their loans were to be disbursed. Owing to the "independence" of the two systems, however, the mainframe systems required extra programming to enable them to accept the data from EDExpress or to reformat the data for downloading to EDExpress. School 18's system, which is more "integrated" than the other independent systems, required approximately 200 hours of programming to run successfully. Maintaining independent systems has caused problems in keeping the databases compatible. Any delay between uploading and downloading can cause discrepancies in the databases, which may lead to later reconciliation problems. For example, School 18 found that if a disbursement program is run on the mainframe on a Friday and on EDExpress on the next day (Saturday), EDExpress records the date as Monday and the records will not match or reconcile.

Using the ED-recommended hardware is an important factor in administering Direct Loans. School 4, which attempted to use a PowerMac with EDExpress, experienced many system problems.

Independent PC

Most of the schools that used an independent PC maintained separate EDExpress and financial aid databases—often on separate PCs. Because there was no interface between the school's database and EDExpress, data from one system had to be keyed into the other in order for both systems to have all the necessary data. For example, disbursement amounts and dates from EDExpress were keyed into the school's financial aid record on each student. That process was not always efficient, and some FAOs reported the risk of errors in transcription. One school generated hard-copy reports to ensure consistency between databases.

Software Used for Processing Direct Loans

Schools used three different types of software for processing Direct Loans:

- EDExpress
- Commercial Direct Loan software
- In-house Direct Loan software.

Three of the Year One schools and two of the Year Two schools used EDExpress. All four of the Year Three schools planned to use EDExpress. School 2 used mainframe software programmed by the school's Computer Support Services department. School 14 planned to use mainframe software, but had encountered problems of compatibility with its operating platform. Last year, a Year One school gave School 15 a mainframe program for interfacing with EDExpress. Members of School 15's contracted computer support staff adapted and refined that software for use in their system.

One Year One school and four Year Two schools used commercially-purchased mainframe software. In 1995-96, Direct Loan modules became available for this software for mainframe-to-mainframe loan processing. The modules, which are compatible with the vendor's modules now on the school's mainframe, were provided as part of the annual contract for the schoolwide software system (i.e., the Direct Loan module was included at no additional charge). School 20 used its third-party servicer's software. School 19 used a commercial software Direct Loan module that was compatible with the vendor's other PC modules for financial aid. Table 6 summarizes the type of software used by the case study schools.

Table 6
Direct Loan Software (1995-96)

Direct Loan Software		Schools
EDExpress	Implemented Planned	3, 4, 5, 13, 18 21, 23, 24, 25
In-house mainframe to mainframe		2, 14
In-house mainframe interface to EDExpress		15
Commercial mainframe software		1, 11, 12, 16, 17
Commercial PC software		19, 20

EDExpress

The 1995-96 EDExpress software included improvements over the version used in 1994-95. Among the improvements were the following:

- Internal edits that prevented or limited the rejection of origination records caused by problems such as rounding errors or missing state data in the driver's license field;
- Improved screen layout that enabled FAOs to look at multiple loan records for a student simultaneously;
- The ability to print multiple promissory notes;
- The ability to save an origination record and copy information to other loan records without exiting the loan origination module; and

- The ability to enter loan amounts with a single keystroke instead of keying the amount from a different screen.

The School 5 staff said that the new software operated more smoothly than the 1994-95 version, but there were still many time-consuming "waits" and "saves." The programmer at School 18 reported that databases in EDExpress regularly corrupted and frequent reorganization was needed. Also, he said, EDExpress had many "holes," and the system was not adequately tested.

EDExpress "query" options were expanded, but early EDExpress training did not include much direction on using the query or report generation functions. Documents from the Regional Office Account Managers described how to use the query function for reviewing the status of loan records, identifying records with errors, or finding the source of other problems. However, one FAO mentioned that she was not aware of the EDExpress capacity for designing more efficient reports and only learned of it while attending a workshop.

Commercial Direct Loan Software

Commercial software programs for mainframe systems were reported to be excellent. Schools using commercial mainframe software had no need for an interface to EDExpress because the commercial software is programmed to mirror EDExpress and provides mainframe-to-mainframe communication.

Schools 11 and 16 developed and refined their software in collaborative efforts with their vendors and reported a high level of satisfaction with the arrangement.

Previous problems, such as the time-consuming PC transmission problems experienced at School 1, were resolved because the commercial software provided mainframe-to-mainframe transmission. Internal edits greatly reduced the number of rejected origination records, but some refinements were needed, such as edits checking anticipated graduation date on the Student Aid Report (SAR). For one school, using a commercially developed software package did not preclude the need for further in-house programming. School 16's FAO reported that some 300 hours were needed for programming batching capacities, internal reporting requirements, and for maintaining an audit trail.

Schools using commercial software had initial difficulties in learning new Direct Loan procedures; however, once the "bugs" in the software were corrected and the staff gained experience, the schools found it to be quite satisfactory. For example, in 1994-95, School 1 began administering Direct Lending with an in-house software program interfacing EDExpress with the school's mainframe. In 1995-96, the staff members of School 1 began using a commercial Direct Loan module and found loan processing much easier.

Schools 11 and 17 used a commercially-produced mainframe interface to EDExpress. School 11 was generally satisfied with its system, but reported numerous difficulties in start-up and loan processing. There were delays in implementing Direct Lending because the testing of commercial software took longer than expected. Those schools found that working with the system—particularly EDExpress—was more difficult than initially expected. There were also problems with interfacing the systems caused by "confusing and ambiguous documentation" provided by the EDExpress software contractor. The mainframe system and EDExpress did not have equivalent internal edits, which caused confusion among users. In comparison, School 17 reported a few "system bugs," such as differences in rounding procedures, but the FAO rated the vendor's product as "excellent."

School 19 used commercial PC software. The FAO had experience with the software's functions because it was used for Pell Grant processing. She said there were many advantages to the commercial Direct Loan module over EDExpress, including the following:

- Fewer keystrokes are necessary for data entry;
- Many fields are automatically populated, with data entered once;
- The commercial software is more "streamlined" and easier to operate; and
- Reports are easier to generate from an on-screen menu than by using the previous less user-friendly query function.

In-house Direct Loan Software

At the time of the visits, only two schools were using software systems programmed in-house—Schools 2 and 15. School 2 designed its own mainframe-to-mainframe system and encountered numerous software problems during the last two years. These problems were caused, in part, by changes in the personnel of FAOs and computer support staff and the programming of its mainframe without having complete specifications for the software. Although they originated and disbursed all the needed Direct Loans, the programmers did not complete the work necessary for reading the Servicer's acknowledgment reports. Internal edits were not initially programmed, so there were many records that the Servicer rejected. More programming was needed to perform reconciliation, and reprogramming was needed to meet ED's 1995-96 system specifications. As compared with the school's first year of Direct Lending, the software—with all functions and edits programmed—was operating smoothly in 1995-96.

School 15 operated a mainframe system networked to an integrated PC system. The school was initially unable to obtain system specifications from the EDExpress software contractor for the school's mainframe. The contracted computer support company placed a notice on the Internet to which a Year One school responded. The Year One school shared the interface software, and the computer programmer of School 15 adapted and refined it. The system, however, was not considered totally satisfactory, because keeping three systems (the Servicer's database, the PC database, and the mainframe database) compatible was difficult. Short delays in uploading and downloading data between the PC and the mainframe caused discrepancies—such as in recorded disbursement dates—between the systems. The school was in the process of implementing a new system that will allow the PC to be used as a terminal to the mainframe, eliminating the need to transmit through a commercial operating protocol. However, it will not eliminate the need to upload and download data between the two systems.

Technical Support for Computer Software

In most instances, the Direct Loan Servicer was the first resource called when a school had a technical problem or a question about Direct Loans. Some of the FAOs referred to the Servicer as "NCS" and did not always distinguish between the two sources of support—the Direct Loan Servicer and the EDExpress software contractor. For example, one FAO said she called "NCS in Utica." If the Servicer staff could not solve the problem, the school was referred to the software contractor's support staff.

The most frequent complaint was that the Servicer and the EDExpress software contractor continued to shuffle schools between them, each saying that the problem experienced at the school was the other's responsibility. To some extent, the Regional Office Account Managers acted as liaisons with schools when that type of situation occurred, arranging conference calls to try to resolve problems.

Another problem reported was the delay in the Servicer's notifying the school about incomplete transmissions or other problems, such as record overwrites.

Although most of the schools reported satisfaction with the attitude and helpfulness of the Servicer's support staff, FAOs questioned whether the Servicer's technical support staff was adequately prepared to assist schools. FAOs supported this by saying that the Servicer's staff had inconsistent levels of technical expertise and often had little understanding of financial aid. Once schools found a support staff member who understood the problem—at either the Servicer or the software contractor—solutions were usually arrived at quickly; the difficulty was finding the right person. Schools appreciated that the Servicer's technical support staff knows who they are; that situation replicates the individualized and personal relationship that many FAOs had with lenders' account representatives.

A number of schools reported that the EDExpress software contractor worked to see a problem through until it was resolved. The most frequently mentioned source of discontent with the EDExpress software contractor was that the FAOs have to leave a voice-mail message and wait for a callback. One FAO stated, "When I am stuck in the middle, I need to talk to someone now, otherwise, the whole process is delayed."

Title IV WAN

Only five of the schools already administering Direct Loans were visited after the Title IV Wide Area Network (WAN) was implemented by ED and no systematic questions were asked about it. However, a general comment by FAOs was that ED needs to give schools sufficient advance notice and training when introducing any system changes so that they can implement the changes on their computer systems. Site visit teams also noted the following issues mentioned by FAOs:

- School 13 was not able to pull in 1994-95 data and was operating separate systems for 1994-95 loan data and 1995-96 data until the technical support staff could identify and resolve the problem;

- Schools 11 and 14 said they had no advance notice of the switch to the Title IV WAN and had to reprogram their systems;

- Schools 17 and 19 reported transmission problems that had not been resolved at the time of the site visit; and

- School 19 said that the technical support staff for the Title IV WAN gave her conflicting directions about resubmitting Pell Grants and that she did not know which directions to follow.

V. Implementing Direct Lending

To clarify our understanding of the administration of Direct Lending, the Macro teams obtained a description of the steps involved in processing a Direct Loan and administering the Program at each school. The topics discussed during the site visit approximated the temporal order of loan processing—from packaging financial aid through Direct Loan reconciliation.

Besides describing each procedure, respondents were asked about the type and frequency of problems, changes in workload (compared to FFELP, where appropriate), general satisfaction with the administration of that procedure, satisfaction with the technical support received for that procedure, and any plans for change. This section of the report summarizes schools' responses.

Packaging Financial Aid

School policies and practices in packaging loans were examined in relation to limiting or encouraging student borrowing. Five of the schools (Schools 1, 2, 14, 16, and 17) followed practices that may increase borrowing at maximum levels—such as automatically including maximum loans in the financial aid award letter and/or including a promissory note for maximum loan(s) with the award letter.[5] One FAO at a public 4-year school said the practice of including maximum loan amounts in the award letter encourages students to enroll and reduces the effort in the Financial Aid Office.

Nine schools (Schools 4, 5, 12, 15, 18, 19, 20, 21, and 24) had policies and practices aimed at limiting student borrowing. Schools with specific policies generally limited borrowing to the amount needed to meet tuition and fees. Other schools required students to specifically request a loan—often by filling out an additional school-based loan request form. Some included only the amount of "unmet need" in the award letter and did not list it as counting toward loan eligibility; others listed only eligibility for a Subsidized Loan. When completing a school's additional loan request form, the student was encouraged to request the minimum amount needed to attend school. One school did not process any loans other than Subsidized Loans.

Originating Loans

Typical Procedures

Once a student has decided to borrow money and the amount of the loan has been determined, the next step is the creation of the loan origination record. Mainframe schools usually imported Institutional Student Information Record (ISIR) data to create student aid records and then to create the loan origination record.

Schools with mainframe systems (whether interfaced to EDExpress or mirroring EDExpress) incorporated many of the same edits used in 1995-96 EDExpress software. When there were missing data or data outside normal parameters were entered, the system prevented transmission of the record to the Servicer until the data were corrected, alerting the FAO to correct the data. Efficiency of loan administration has been improved by lowering the number of records rejected by the Servicer. In smaller schools, the most common practice was to key all origination data into EDExpress.

As origination records were created, the commands for printing a promissory note are initiated. Origination records were then batched and transmitted to the Servicer, who responded with an acknowledgment report.

In comparison to the first year of Direct Lending, the process of loan origination became relatively simple after the staff became familiar with the procedures and all software bugs were removed from the system. Not all schools struggled through a transition period. Some schools commented that, "It was so easy we couldn't believe we were doing everything right." For other schools, the first six to eight weeks of Direct Lending were described as "a nightmare." Mistakes were common and new skills were mastered during the typical learning

[5] To mail the promissory note with the award letter, the school must create Direct Loan origination records and print notes for all aid applicants eligible to borrow.

period. During the transition period, FAOs learned of the number of cases that were exceptions to the typical origination process taught during training. At those times, the full manuals, including training materials and guides, appeared to be of little use and FAOs said a "quick reference" guide would have been helpful due to the short time frame in which they were trying to originate the majority of the year's loans. Most FAOs reported frequent calls to the Servicer during the transition period because they did not have an easy reference to consult.

Batch Transmissions

One of the frequently mentioned problems with origination was incomplete batch transmissions. The FAOs were not always sure why a batch of records did not fully transmit to the Servicer. EDExpress has no built-in system for tracking batches transmitted to and from the Servicer. Although ED designed a sample form for that purpose, each school tended to design its own system. Schools 3 and 13 maintained a manual log of important data about each loan and each batch. School 11's mainframe matched the school's records to those in the Servicer's acknowledgment report, but the school did not keep track of batch transmissions, and the mainframe system did not identify missing records. The FAO at that school said that staff identified rejected records by trial and error.

Most schools maintained a log to keep track of batch identification number, date transmitted, number of records, type of records, and date of acknowledgment. Generally, schools only recorded the total number of records contained in that batch, not a list of contents. School 5 maintained a hard copy of the contents of each batch. The Servicer's acknowledgment only listed the number of records transmitted—not *which* records were transmitted and received. Schools became aware of transmission problems by matching the number of records transmitted to the Servicer with the number of records in the acknowledgment report; there was no special notification from the Servicer.

Some FAOs reported having difficulty identifying which records failed to transmit and reconstructing the batch for retransmission; however, School 5 said EDExpress will reconstruct a batch. Some larger schools would like to be able to transmit larger batches than the Servicer's limit of 50; but, that is hazardous because when schools submit a larger batch, they run a greater risk of incomplete transmission and decrease their ability to check the contents of the batches.

School 18 designed a viable solution to this problem. The FAO downloaded one batch at a time from the mainframe. Each batch was maintained on a diskette after the loans were originated in EDExpress and transmitted to the Servicer. Then, if a batch ever needed to be reconstructed, the FAO could easily retrieve the data from the diskette for that batch.

Two changes were suggested to alleviate the problems of incomplete transmissions. If EDExpress had the capability to incorporate the number of records in a batch into the transmission codes, the Servicer would be able to immediately identify partial transmissions and notify the school. Another remedy would be to redesign acknowledgment reports so that they individually list all records in the batch—regardless of the status of the records, allowing the school to quickly find out which records had failed to transmit.

PLUS Loans

The processing of Direct PLUS Loans was similar to that of Stafford Direct Loans for schools. One problem, identified in the first year of Direct Lending, was resolved by the Servicer. In Year One, schools were not informed of the PLUS Loan denial status until a parent submitted the letter of denial to the school. Often, parents would not forward this notice to the FAO, delaying origination of an Unsubsidized Stafford Loan for the student. This year, the Servicer notified the school of the accepted/denied status of the PLUS Loan, but without reporting the reason for denial. This practice eliminated delays in Unsubsidized Stafford Loan processing and protected the parents' privacy as well.

School 17 reported dissatisfaction with the processing of PLUS Loans. When the initial PLUS application was denied, the FAO originated an Unsubsidized Loan for the student. At the same time, however, the parent was allowed to reapply for a PLUS Loan with a co-signer. That confluence of events could result in both the student and parent receiving loans. To prevent this in the future, the FAO will delay 30 days before originating Unsubsidized Stafford Loans. He will also send the parent the information, in hope of expediting the process. He also pointed out that the process of switching to the Title IV WAN and the Federal Government shutdown delayed notification of PLUS status for as long as two or three weeks, instead of the expected five days.

Servicer Acknowledgment Reports

In comparison to the first year of Direct Lending, schools were having very few origination records rejected. That success can be directly attributed to the EDExpress edits, which prevent a loan record with incorrect or missing data from being submitted to the Servicer. Schools also found themselves experiencing fewer and fewer rejections as they became familiar with the process.

Schools reported needing one additional edit in the software. When originating loans, schools often used the anticipated graduation date the student listed on the Free Application for Federal Student Aid (FAFSA)—which was frequently incorrect. When the school tried to originate a loan with a loan period extending beyond the originally anticipated graduation date, the loan record was rejected. Some mainframe-using schools had already incorporated the edit. Other schools decided to avoid the problem by not automatically transferring the FAFSA date on origination records.

The Servicer's acknowledgment report uses codes to indicate the reason for rejecting an origination record. While some FAOs found the acknowledgment record to be clear and easily understood, others reported difficulty in understanding the error messages.

One school experienced a problem that may face multi-campus schools or school consortiums. Although its Central Loan Processing Office administered loans for seven divisions of the university, it transmitted loan records to the Servicer under a single school code, with no mechanism in EDExpress to keep track of which records came from each division. When acknowledgments of errors were received from the Servicer, the Loan Processing Office staff had problems in redirecting the error message to the appropriate division for correction. In general, schools have reported difficulty matching individual records with acknowledgment reports.

School 16 used the acknowledgment reports as a quality control tool to help identify problems and prevent their reoccurrence. The FAO noted that this helped refine the school's system. The school added additional checks and edits rather than simply correcting the errors and resubmitting the records. For example, after a number of records had been rejected because of the graduation-date problem, the school ceased using the graduation date listed on the FAFSA.

Quality of Technical Support

The majority of FAOs praised the Servicer's technical support staff for a friendly and supportive attitude in helping schools resolve origination problems. As noted earlier, the schools said that when the problems were relatively simple they received answers quickly. But the more difficult or complex the problem was, the less likely the support staff were able to resolve it immediately. The FAOs noted that the technical support staff almost always called back with an answer; the exception was with problems related to computer systems.

Satisfaction

Overall, FAOs interviewed from case study institutions reported being very satisfied with the origination process for Direct Loans. They commented that once they became familiar with the system, it proceeded smoothly and efficiently. Most FAOs assessed the level of effort as being equal to that of processing FFELP loan applications but consisting of different activities. With loan origination they had to key in data and correct rejected records; with FFELP they had to distribute and collect applications, complete the data on the school, and correct lenders' errors. Schools with multiple lenders reported that Direct Lending required less effort than FFELP because all loans come from a single source, eliminating the difficulties caused by variations in lender application forms. In some instances, originating Direct Loans was a new responsibility that required a moderate increase in that person's workload. For instance, School 5 and School 19 said that the person responsible for administrating Direct Loans in their Financial Aid Office had not had experience in administering FFELP Loans.

Promissory Notes

Typical Procedures

Promissory notes were usually mailed to the student's home, either with the award letter or after a student indicated they wanted to take out a loan. Students were then responsible for signing the note and mailing it or returning it in-person to the Financial Aid Office. If the note was produced near the beginning of classes or during the school term, the school kept the note at the Financial Aid Office and had the student sign it there. Staff members at the Financial Aid Office entered the receipt of the individual promissory note in the computer system as a status change.

Some schools printed both a Subsidized Stafford Loan and an Unsubsidized Stafford Loan on a single promissory note. Others preferred to have the student receive and sign separate notes to reinforce the fact that the student was taking out two distinct loans with different terms. In many cases, receipt of a signed promissory note served as the trigger for disbursing loan funds. School 16 made use of the pre-printed bar code on the promissory note and used a scanning machine to keep track of the notes in their mainframe system.

Some schools waited until they received the Servicer's acknowledgment of both the origination record and the promissory note before beginning the disbursement process. This prevented the school from disbursing a loan without an accepted origination record or signed promissory note and resulted in fewer unreconciled records during the reconciliation process.

Schools encountered very few problems with the promissory note process. School 11 reported being unable to track 4,000 promissory notes because the Servicer's acknowledgment report was not sorted by the batches submitted. School 11 did not, however, consider that inability to be a problem.

Satisfaction

All of the case study schools reported satisfaction with processing promissory notes. The FAOs considered that to be a part of the origination process and reported expending little or no extra effort beyond that needed to administer FFELP applications.

Drawdown, Disbursement,[6] and Refunds to Borrowers

Typical Procedures

When drawing down funds, all but two schools used the actual amount disbursed instead of an estimate to avoid having excess cash. For the first drawdown of the fall and spring semesters only, School 2 ran a program simulating the disbursement and then added an amount likely to cover the signed promissory notes expected to be returned in the next two days for the drawdown.

Five of the schools (1, 2, 15, 16, and 20) credited students' accounts and then drew down the amount of total credits. The remaining schools drew down the funds before disbursement. Schools 4 and 17, as second-level schools, had the Servicer draw down the funds. They disbursed loan funds after receiving funds from ED. Schools disbursing funds before drawdown were generally making a "paper float" because a) they were crediting the funds against the balance of tuition and fees owed to the school, and/or b) students' refund checks were mailed and not cashed until ED's funds had been received (within 48 hours of a request).

The drawdown request and disbursement of funds was usually done by the schools' Accounting or Business Office. School 19's central FAO drew down the funds and disbursed funds to each campus.

School 20 wrote a check to the student, then notified the third-party servicer (TPS). The TPS then requested the drawdown, which the school received two to three days later. Students endorsed the check back to the school. The FAO at School 20 points out that having the borrower endorse a check reinforces the idea that the student is receiving a loan. The school was floating the loan funds for approximately four days. However, since loans were limited to tuition and fees, there were no refunds and the "float" was actually a four day delay between crediting the student's account and actually receiving funds from ED.

School 5 began uploading EDExpress data to the mainframe to develop a list of the names of students ready to have their loans disbursed. The 1994-95 EDExpress software did not provide the list; it only provided a total of dollars to be disbursed. The FAO at School 13 reported that the 1995-96 version of EDExpress allowed her to generate such a list, edit as needed, and delay disbursement of loans to students with poor attendance records who might fail to meet requirements for satisfactory academic progress.

In schools with mainframe systems, the drawdown calculation, disbursement to students' accounts, and calculation and cutting of the refund check were subsumed in a single automated process. In comparison, School 4—with an independent mainframe and PC system—entered disbursement data into the database of the mainframe. The FAO requested

[6] In this report, the term *disbursement* refers to crediting students' accounts with loan funds; the term *refund* refers to the loan funds in excess of tuition and fees that are returned to the student.

a student refund check from the Business Office and gave the student a release-of-funds form. The student took the form to the Business Office, which returned the form to the FAO after giving the student the refund check. Because the process entailed double-entering disbursement data into both computer systems, the FAO reported that it was more time consuming than under FFELP.

Satisfaction

The most greatly appreciated factor of the Direct Lending disbursement process was the speed with which loan funds were received and disbursed to students; there were very few delays. That speed-up produced other benefits as well, including:

- Substantially fewer students needed short-term emergency loans; and
- Cash flow for the school was improved, enhancing the administration's planning capacity.

FAOs noted that schools, which under FFELP endorsed the loan check over to the student and accepted a personal check for tuition, found the problem of bounced student checks greatly reduced under Direct Lending. They also noted shorter lines of students waiting for loan checks.

Changing and Canceling Direct Loans

Typical Procedures

To change or cancel a loan, the origination record needs to be adjusted and resubmitted to the Direct Loan Servicer. All but one of the Level 1 schools returned the cash to their Direct Loan account and reduced the subsequent drawdown by that amount. Only School 5 returned the cash to the Servicer. School 5 had difficulties with calculating the drawdown amount in 1994-95, so now that the drawdown process is operating smoothly, it does not wish to change.

Problems arose at some schools if a second disbursement had to be changed or canceled or if a disbursement date had to be changed. Many FAOs were not sure how to process such changes and stated that the training did not address those issues and that the reference materials were unclear. School 18 reported that learning how to perform the function required a considerable amount of time; School 17's FAO said that changing loans was its "biggest headache."

Processing a loan change has the effect of creating a new loan record with a new identification number. This can potentially cause reconciliation problems because of multiple records for the same loan and instances of the number of loan records for a student exceeding the software's maximum. That problem was solved in the 1996-97 EDExpress software, in which changed loans carry the same identification number as the original loan record, and the maximum number of records per student was expanded.

Two schools reported that loan cancellations had been submitted to the Servicer but had not been processed. Thereupon borrowers began receiving repayment notices for the canceled loans. Both schools said their EDExpress records showed the loans canceled and the funds returned, but the Servicer told the borrowers that "the school is holding the money." Other schools did not discover that loan changes or cancellations had not been processed by the Servicer until the records failed to reconcile. That may have been caused by the Servicer's requiring a disbursement record before allowing a change to be processed.

Two mainframe schools experienced problems in programming loan changes or cancellations. School 15's mainframe "zeroed out" canceled second disbursements, but that was not acceptable to the Servicer. So the aid office had to double-enter the changes into the mainframe database and into the EDExpress system. School 2's program was incapable of canceling second disbursements and needed substantial reprogramming to comply with the Servicer's recording requirements. The FAO at that school said that the process of changing loans was much more complicated than he had anticipated and the Servicer was not flexible in helping the school arrive at a solution to the programming problem. In comparison, School 1—using commercial software—submitted a batch of 800 loan changes with no errors or problems.

Satisfaction

Because of the difficulties involved, a number of the FAOs were less than satisfied with the procedure of changing loans. However, once they had learned the procedures, most FAOs reported, that changing or canceling loans was easier under Direct Lending than under FFELP because the school did not have to submit change notification forms to lenders and guarantors and did not have to follow-up to reaffirm the status of the loan. Most of the FAOs said that under Direct Lending, changing a loan is completely automated, requires the same action for all loans, and allows them to easily check the loan status. Under FFELP, schools sent a handwritten change form to the lender or guarantee agency. They were often unsure of the resolution and had no means of tracking the changes. Once FAOs understood the Direct Loan change process, they found it easier to track the changes.

The Importance of Sequence of Loan Processing Actions

Although EDExpress allows a certain amount of flexibility in processing, the software implicitly establishes a specific ordering of some events and actions. ED, through its training activities and the Regional Office Account Managers, has stressed the importance of sequencing the steps required to process loans. The Regional Office Account Managers stressed that reconciliation, when processed as part of this optimal sequence of actions, will more likely run smoothly. The exhibit below summarizes "optimal" sequencing of the steps in processing loans. It was compiled by Macro, based on data supplied by a broad range of school FAOs during the case study interviews. Although no serious problems occur if some steps are performed out of sequence, reconciliation may be easier if the correct sequence is followed consistently.

Optimal Sequence of Loan Processing Actions
• Create origination record • Generate promissory note • Send promissory note to student • Transmit origination records to Servicer • Mail signed promissory note to Servicer • Receive acknowledgment of origination record from Servicer • Receive acknowledgment of promissory note from Servicer • Draw down cash • Disburse funds • Transmit disbursement record to Servicer • Receive acknowledgment of disbursement from Servicer • Make changes in loan amount • Correct errors in acknowledgment report • Reconcile

The following examples were reported by FAOs as potential consequences of processing Direct Loan steps out of order:

- If a loan is disbursed before receipt of the origination or promissory note acknowledgment reports, the school may be disbursing a loan that has not been booked. Early errors cause the subsequent records to be rejected, causing multiple unreconciled records for each loan and potentially leading to problems in audit and accounting.

- Errors listed in the acknowledgment reports must be corrected before reconciliation, or records will fail to reconcile.

- The Servicer must have a disbursement record before a loan change can be processed. If a change is submitted before a disbursement record is on file, the change will not be processed and loan records will fail to reconcile.

- The acknowledgment of the promissory note must be received before reconciliation or the loan record may fail to reconcile. Promissory notes mailed to the Servicer near the end of a month may not yet be processed. If reconciliation is attempted early in the next month, those loan records will fail to reconcile. One FAO recommends waiting until the second week of the month to attempt reconciliation or to wait until acknowledgment of all promissory notes is received.

- Schools must be aware of the role that timing of procedures plays in reconciliation. School 18 disbursed loan funds on its mainframe on a Friday and ran the EDExpress disbursement program on Saturday. Although the mainframe listed the disbursement as Friday, the EDExpress software listed the disbursement as the following Monday. The disbursement dates did not match and the records failed to reconcile. To avoid that problem, the school now disburses on the mainframe on Thursdays and downloads the data to EDExpress on Fridays.

Borrower Counseling

ED's Printed Materials

Almost all of the case study schools were using ED-produced counseling materials. With two exceptions, brochures were supplied to the schools in adequate numbers and on a timely basis. The FAOs reported a high level of satisfaction with the quality of the entrance and exit interview brochures. Although ED has produced handouts addressing the various repayment options, not all of the FAOs knew that.

Some FAOs expected to receive individualized exit-counseling materials for each borrower. The Direct Loan Servicer sends that information directly to the students instead of to the schools, but FAOs may request that they be sent to the school.

Videos

Reviews of the ED-produced videos were mixed. Some FAOs used and liked the entrance and exit videos, but many FAOs recommended less emphasis on drama and more concrete, specific information about repayment options and consolidation. School 15's FAO said she would use the videos if they provided enough information that she did not have to supplement them with an in-person presentation. Like other FAOs, she said that the videos did not hold the students' attention and did not present enough factual information in a realistic way. Some schools preferred the videos produced by lenders and guarantee agencies, while others said they were good, but out-of-date.

Level of Effort

Most FAOs said that counseling borrowers required the same level of effort in both Direct Lending and FFELP. Others reported some areas of decreased or increased effort. One FAO noted that under Direct Lending, counselors had substantially more time for counseling. Another FAO noted that exit counseling was simplified because the school no longer had to determine which servicer was involved each time. For schools that received assistance from lenders, the workload increased. One school noted that the loss of lender participation also meant the loss of added "banker credibility" with students. One FAO said that the need to train financial aid counselors about repayment options had temporarily increased the workload.

Reconciliation

In reporting on reconciliation issues, Macro was not privy to detailed reports stating the percentage of total loans reconciled at an individual school. Site visits occurred in the midst of the 1995-96 academic year cycle and Macro did not follow-up with institutions to gather final reconciliation statistics. We focused on evaluating the ease, usefulness and satisfaction with the reconciliation process as opposed to performing a statistical analysis of the reconciliation process. In asking if schools were up-to-date in the reconciliation process, in most cases, the responses were of an anecdotal nature rather than an absolute accounting of all loan records.

There were dramatic differences between Year One and Year Two schools' experiences with reconciliation. The majority of reconciliation problems among Year One schools were due to issues associated with a start-up program, such as software problems at the school or at the Servicer, limited understanding of the reconciliation process, or lack of training in reconciliation.

Those problems created database inconsistencies that required intensive intervention on the part of the Servicer or the Task Force. The Year One schools struggled with correcting 1994-95 records, but report that the software refinements, more available training, and better understanding of the reconciliation process greatly improved 1995-96 reconciliation.

Year Two schools, in comparison, reported having few if any unreconciled records. They encountered similar problems including software/hardware compatibility issues and a need to get up-to-speed on knowledge of the reconciliation process; yet with the Year Two improvements (mentioned above), problem resolution seemed much easier. At the time of the visits, Year Two schools either were completely up-to-date or were in the process of correcting the few rejected records.

Typical Procedures

For most of the schools in the sample, the FAO was responsible for reconciliation. The Business Office entered data on drawdown and receipt of funds into the mainframe system or submitted those data to the FAO to be entered into EDExpress. The FAO then checked the records for completeness and accuracy. The reconciliation file was then transmitted to the Servicer. Schools are required to reconcile Direct Loan transactions three ways:

The Cash Transaction Report—lists individual cash records including drawdowns, disbursements, and refunds;

The Cash Summary Report—lists summary cash records in a number of categories, including drawdown cash, cash disbursed, and excess cash; and

The Loan Detail Report—compares school and Servicer data for origination, promissory note, and disbursement for each student.

Schools must identify the unreconciled records, correct them, and resubmit them. Some FAOs noted that they could not always understand the codes used for records failing to reconcile and therefore did not know how to correct them.

Reasons for Failure to Reconcile

Schools reported that the majority of unreconciled records are loan detail records. As noted in the section of this report addressing the sequencing of tasks, there are several conditions that might cause out-of-sequence events records to fail reconciliation:

- Promissory notes had not been processed or accepted by the Servicer;
- Rejected origination or disbursement records had not been corrected before reconciliation; and
- Loan changes were made before the Servicer had a disbursement record.

The Servicer's acknowledgment reports are cumulative records. If a loan record failed to reconcile in one month and was not corrected, it reappeared on the subsequent month's acknowledgment. That lag prevented schools from knowing which month's records were fully reconciled. It also led to problems for schools that created their records in 1994-95 but waited until 1995-96 to reconcile them. For instance, School 2 had to reprogram its system to add batch identification to 1994-95 records, and School 4 could not bring 1994-95 records into 1995-96 software.

Quality Assurance[7]

Since the beginning of Direct Lending, ED has provided schools with a *Quality Assurance (QA) Guide*. This guide contains an overview on quality assurance principles and includes a self-assessment for FAOs to administer. Most schools visited indicated that they were not using this guide or implementing any quality assurance procedures. Some FAOs commented that ED's QA processes seemed to be designed for larger, complex organizations and were of little value for smaller offices.

[7] Full descriptions of Quality Assurance (QA) procedures were not obtained. FAOs were asked whether they were implementing QA and if so, whether they were using ED's guide.

VI. Services Provided by the U.S. Department of Education

Besides providing EDExpress software, technical support services, and borrower counseling materials, ED provides Direct Loan schools with training, various technical references, an electronic bulletin board, videoconferences, policy guidance, and the support services of the Direct Loan Regional Offices. What follows is a brief summary of the case study schools' use of and satisfaction with the latter group of support services.

Training

Reconciliation Training

Based on Year One experiences, numerous modifications were made to training in Year Two. Training in reconciliation was enhanced by the addition of the state-of-the-art facilities at the Regional Offices and better materials, including manuals and guidebooks.

Satisfaction with the reconciliation training was mixed. Some of the FAOs visited indicated that it was scheduled at exactly the time needed—early fall—because they had just begun the reconciliation process. Some also reported that the trainers were responsive and answered all questions. By contrast, FAOs from three schools who attended reconciliation training in Washington, DC, said the trainers were poorly prepared, ended the session hours earlier than scheduled, and did not answer questions about performing reconciliation on a mainframe computer.

All FAOs who made suggestions for improving training said that hands-on training is the most valuable kind. The new Regional Office training laboratories have begun to address this issue; the classes are small and the facilities support participatory training. FAOs who attended Title IV update training and other Regional Office training sessions appreciated the Account Managers' efforts and the fact that travel expenses for training were reduced, allowing them to attend training sessions they would otherwise have had to forgo.

Year Three Training

Of the four Year Three schools, only two had staff members who attended an introductory Direct Loan training session by the time of the site visit. Two others had staff members attend a one-day session about one week after the site visit. Since there will be no three-day Direct Loan training offered in New England (Region 1), schools in that region will have to attend training in New York City.

Schools' Suggestions for Improvement

FAOs reported a number of ways in which ED could expand or improve Direct Loan training. Some of the suggestions included the following:

- "Best Practices Seminars," at which Direct Loan schools could share their experiences;
- Training in solving problems;
- Expanded training in using query and reporting options;
- More time for interaction with other schools; and
- More training for mainframe schools led by trainers knowledgeable on this topic.

It was also suggested by FAOs that published training schedules include more detail about the contents of the training session. FAOs would like to be able to distinguish sessions recapping skills and information they have already learned from those offering new information. Another FAO suggested offering more Direct Loan training sessions focusing on particular topics, similar to the reconciliation training.

Manuals and User's Guide

Some FAOs regarded ED's technical manuals and user's guide as useful resources but limited in scope. Topics such as loan changes and explanations of Servicer error codes either are not covered at all or are not covered with sufficient detail or clarity. (Note: School 13's FAO said she uses the "Get Help" and "Codes" sections of the *Software User's Guide* extensively.) Others found the printed materials difficult to use because the language is too technical or because they are not arranged in a user-friendly way. They could not always find the section they needed and could not always understand the information presented. Many FAOs did not use the documents for solving technical problems in loan processing because there is no problem-solving section. Instead, they called the Direct Loan Servicer for guidance.

Electronic Bulletin Board

No school reported using ED's bulletin board. The few schools that use the Internet reported using the FINAID-L bulletin board developed by Pennsylvania State University for updates about regulations and general financial aid information. School 18 also used the Direct Loan Bulletin Board (established for use only by Direct Loan schools by the University of Oregon's FAO) for exchange of information on loan processing and ideas on solving problems.

Teleconferences

Schools that participated in ED's teleconferences appreciated this medium because it allowed all office staff to attend training at a minimal cost. The FAOs who viewed some of the videotapes of the sessions exhibited mixed responses. Some FAOs said that although it was a good medium for transmitting information, it should not be viewed as a substitute for in-person or hands-on training. Other FAOs said there was little relevant content. Two FAOs said they appreciated the ability to fast-forward through "boring" or irrelevant sections and view or review the sections containing relevant information. Overall, this medium for transferring information was found to be relatively helpful for most with viewing capabilities.

Policy Concerns

FAOs reported that they called the person they knew and felt most comfortable with when they had a Direct Lending policy question. A number of FAOs call a member of the Direct Loan Task Force; others ask questions of the Servicer's technical support team. None of the FAOs reported asking the Direct Loan Account Manager about policy issues, but some would consider that as an option if they were assured that ED was keeping Account Managers up-to-date with all pertinent Direct Loan Program information.

Direct Loan Regional Office

Of the 19 schools visited, five used the Regional Office for technical assistance—two Year One schools, two Year Two schools, and one Year Three school. The TPS of School 20 called the Regional Office frequently. Schools contacted the Regional Office for the following services:

- Assistance with loan processing problems;
- Assistance with reconciliation procedures;
- Questions about completion of paperwork and reporting; and
- Help in resolving conflicting information from the Servicer and the EDExpress software contractor.

Reasons cited for not calling the Regional Office for technical assistance included the following:

- The FAO was not sure what help the Account Managers would provide;
- The FAO did not perceive the Account Manager as being sufficiently knowledgeable in financial aid duties; and
- The FAO called the Direct Loan Servicer, the commercial-software vendor, or a Direct Loan Task Force member to obtain assistance.

The FAO of School 15 noted that she believed that calling ED could entail the risk of triggering a site review. She did not differentiate between the Direct Loan Regional Office and the Institutional Participation and Oversight Board at ED's Regional Office. An Account Manager pointed out that the purported relationship between requests for technical assistance and institutional review was inaccurate. The Account Managers made a great effort to overcome this initial hurdle in gaining schools' trust.

VII. Regional Office Account Managers

Macro's case study teams visited five Regional Offices located near schools in the study sample. The five offices were similar in staff background, training received, structure of staff, services provided, and philosophy. The main differences observed were in the school-to-staff ratio and the stage of development of the training facility.

Staffing, Staff Background, and Office Structure

Most Regional Offices had no more than one or two persons with a background in financial aid to higher education. Most of the Account Managers were hired from other Government agencies. Each office had hired recent college graduates with no experience in financial aid under the Outstanding Scholar Program.

All offices used a form of team structure to organize the staff. Each team was assigned responsibility for a portion of schools in the office's region. The ratio of Direct Loan schools to staff ranged from 14:1 to 35:1. Within the teams, there were Account Managers who had developed specialized expertise in training, computer systems and software, and reconciliation. As training activities increased, the ability of the trainers to respond to "their" schools became more limited, but most offices reported that all staff members participated in developing training materials and training presentations and responded to incoming calls for assistance. There appeared to be a highly cooperative atmosphere within each office, with each Account Manager sharing overall office responsibility.

Account Manager Training

Almost all Account Managers received the same basic training. That training included the following:

- Three weeks of intensive training conducted by Direct Loan Task Force members, representatives from the first cohort of Direct Loan Schools, and representatives of the Direct Loan Servicer and the software contractor—where the focus was on policy and day-to-day Direct Lending administration;

- A two-week externship in the Financial Aid Office of a first-cohort Direct Lending school—a form of training that covered day-to-day operations;

- Two and one-half days of EDExpress training;

- A two and one-half-day visit to the Direct Loan Servicer, which included an overview of loan processing and servicing activities and a focus on the reconciliation process;

- A one-week Account Manager Follow-up Training Conference, conducted by first-cohort schools that had made a significant commitment to implementing Direct Lending, in which both large universities and small schools—including proprietary schools—were included; and

- Training in a wide range of computer applications.

Not all late hires received all training because of an accelerated operating timetable and increased demands for staffing the office. There was also considerable cross-training among office staff. For example, at one office Account Managers selected a topic to study in depth and presented their findings and a summary of their notes to other staff members.

Account Managers and Regional Office Directors all said that further training was necessary for the Account Managers to be able to fully function in their job. Many reported that the initial Title IV training assumed a basic knowledge of financial aid that the Account Managers did not possess. They could not absorb all of the information presented and "real life" applications of this information, but only realized this after they began working in the field. Most of the offices operate in a structure that requires each Account Manager to function as a specialist in all areas of Direct Lending. Therefore, many requested more cross-training in topics such as reconciliation and computer systems. Additional training was desired in the following areas:

- Overall Title IV (especially whom to contact at ED with questions);

- Hardware and software systems management—particularly in the area of memory and memory backup;

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- Direct Loan updates—software and policies;
- Local Area Network (LAN) administration for maintenance of a training facility; and
- Information and technical training from ED contractors for ED's new systems, such as the Postsecondary Education Participation Service (PEPS). (General systems information has been difficult for the Account Managers to obtain.)

A number of Account Managers said that additional hands-on training, in the form of externships at financial aid offices, would be more meaningful once they had acquired a rudimentary knowledge of financial aid.

The Account Managers also noted that they could better serve the schools if they could offer more detailed assistance to schools entering the computer age. There were problems with databases and language, and new commercial software systems that required additional support. The Account Managers realized they cannot become experts in these areas and said they need expert resources to turn to for help in this area.

Account Managers indicated that attending regional and State professional association meetings helped keep them up-to-date and would like to continue attending those sessions.

Principal Activities

With the number of Direct Loan schools increasing, ED developed the Account Manager system to duplicate the support role played by the Direct Loan Task Force. Account Managers reported providing technical assistance and training to the schools while onsite, or over the telephone, as their main activities. They often served as a liaison with the school, Servicer, and software contractor in solving technical problems. Account Managers received frequent requests from ED for information about the schools (or from the schools) through this office. Some Account Managers reported spending as much as 20 to 25 percent of their time documenting contacts with the schools.

Technical Assistance

At the beginning of office operations, most Account Managers made visits to introduce themselves to their schools. One Regional Office visited in mid-October emphasized in-person technical assistance to its schools. Some offices were directed to limit or stop onsite assistance because of budget constraints.

On-site technical assistance was found to be the most effective means of assistance. FAOs were emphatic about the benefits of Account Managers coming onsite to provide assistance for the following reasons:

- The visit helps create a relationship between the Regional Office and the School; FAOs perceive ED as caring and willing to help;
- The Account Manager has the opportunity to see the computer screens—which are crucial for identifying the source of a problem—and at the same time, they can uncover other potential problems;
- The visit can provide an opportunity to improve trust and confidence in the Account Manager's abilities;
- The Account Manager can walk an FAO though a Direct Loan process, observing where the FAO is having difficulty; and
- The Account Manager can bring other school staff members (from the Business Office or the computer support staff) to a meeting to discuss problems and identify solutions jointly—which is easier in-person than scheduling conference calls and callbacks.

The emphasis during the first year of the Account Management system was on providing technical support over the telephone. During peak periods of loan processing or reconciliation, Account Managers reported receiving as many as 20 or 30 calls from schools each week. There are, however, limitations to telephone-based assistance, including the following:

- Frequent callbacks are needed, especially when the Account Manager is acting as a liaison between the Servicer and the school or does not have an immediate solution to a problem.
- Account Managers often have to schedule calls, especially if more than one person is involved.
- The Account Manager has to rely on the FAO to describe the problem or the data appearing on a screen; however, the source of the problem might lie on another screen. (Account Managers have EDExpress on their PCs, but no school data. They said they would like to be able to have modem connections to the schools so the schools could transmit their data to Account Managers' screens. That would improve their ability to identify and resolve problems over the telephone.)

Some Account Managers expressed frustration with their role as liaison between schools, the Servicer, and the software contractor because the technical support staff did not always have the answer to a question or could not solve a problem. Some schools used the Regional Office as a "last resort" when there was difficulty obtaining the needed assistance from the Servicer's technical support staff, while other FAOs called the Account Manager as a first resource.

The Account Managers are strongly oriented toward customer service. In fact, one Account Manager requested further training in approaches to and techniques for customer service.

National Question-and-Answer Database

At the time of the visits, the Regional Offices were in the process of developing a National Question-and-Answer (Q&A) Database. The objective was to combine all school-based questions and appropriate responses into a single resource that all Account Managers could use to provide uniform responses to schools.

Some Account Managers were apprehensive about the planned Q&A system, expressing fear that the system will fall short of its potential because critical elements of information will be missing. The envisioned system would contain the schools' histories and questions and answers being fielded by the 10 Direct Loan Regional Offices, but not policy pieces from ED. The questions and answers from the Direct Loan Servicer's technical support staff would also be excluded. Although a team of Account Managers was working on categorizing the Servicer's database of technical questions and answers, nothing (to the knowledge of the interviewed Account Managers) had been done with the results. They believed that for the system to be an effective tool, all participating agencies must be funneling information in.

The Account Managers said that another weakness of the planned Q&A system is the lack of integration with other information databases. The IQUERY system—which allows the Account Manager to read the Direct Loan Servicer's file on each school—is not integrated with the Q&A system. To be able to use this information about the school in conjunction with the Q&A system, the Account Manager would have to log off one system and log on to the other. They believed that ED is working on a means to download IQUERY to a flat file in order to later upload it into the Q&A system. The Account Managers will be able to access the National Student Loan Data System (NSLDS), but that data system is not integrated with the Q&A system.

Training for Schools

Eventually each Regional Office will have a state-of-the-art training facility on-site. At the time of the five site visits, three of the training facilities were operational.[8] These facilities include multiple user stations, a server, and instructor stations. They also contain a variety of audiovisual equipment, including a new LCD projector and an overhead projector.

Training schools for Direct Lending has the highest priority at these facilities, but the facilities will also be used for training in other student financial aid programs as well as ED training in other areas. Two of the offices had fully operational training facilities and were offering regularly scheduled sessions. In conjunction with the ED Student Financial Aid (SFA) Office, Regional Offices conducted Direct Loan and EDExpress segments for training in Title IV updates. Three Year Three Direct Loan training sessions and several Title IV Update training

[8] As of July 1996, 10 of the 11 training facilities were operational. The remaining Regional Office is in the process of looking for a more appropriate site to house these facilities.

sessions were scheduled for spring 1996. The Regional Offices will offer training on reconciliation and (with the Guarantee Agencies) training on Student Status Confirmation Reports (SSCRs).

Relationship With ED

Quality of Communication

Account Managers reported regular, continual communication with ED and the Task Force by means of weekly conference calls. Most offices had a single member of the Task Force designated as the liaison. The Account Managers often called that person to answer specific technical questions.

The Account Managers at one office said they had only one conference call to address policy issues in Direct Lending. They said they need to be more informed about changes that are taking place at ED so that when schools have questions, they are better prepared to respond. They have asked for a conference call to be held every two weeks to discuss policy issues and update them on Direct Lending changes, but they said the Task Force would not make a commitment to that schedule.

At one office, the Account Managers said they received ED's "Dear Colleague" letters at the same time the schools received them. That timing did not give the staff sufficient time to review and understand the implications of the information before the schools began calling with questions.

Overall Relationship

Examining their relationship with ED as a whole (beyond issues of communication), some Account Managers expressed dissatisfaction. They said that ED officials have a different vision of the Direct Loan Program from that of Regional Headquarters staff. These different visions hinder their mutual ability to develop the cooperative relationship needed for best serving the schools. For example, some perceived ED as having a different philosophy about the internal workings of the Direct Loan Program, saying the Task Force puts more of a premium on appearances than substance. They cited the following examples:

- If a school has a problem, the office will hear about it first-hand from front-line Direct Loan staff; the Task Force, however, may hear about it "fourth-hand" from the school's administration. The office will try to determine the source of the problem and attempt to find a solution—sometimes a time-consuming process. In comparison, ED gives the office a directive for an immediate and instantaneous resolution, without—according to the Account Managers—having a thorough understanding of the problem.
- The Account Managers have been frank with schools, disclosing problems with EDExpress; they believe they need to be open with schools to maintain credibility.

In summary, Account Managers said that more direction and a more uniform vision from ED would provide more support for the Regional Office. The Office staff saw their role as serving the schools and helping them work with ED.

VIII. Summary of Institutional Costs

The cost of implementing Direct Loans differed dramatically across schools, with a range from $3,000 at School 10 to about $80,000 at Schools 1 and 2. (Table 7 summarizes total costs to date for all schools.) As reported last year, the most extensive expenditures occurred in the areas of computer equipment and programming. With the exception of School 16, travel for training costs appeared to be less for Year Two schools than for Year One schools. Those costs should continue to decline as schools take advantage of the more convenient location of training provided by the Regional Offices. Only one Year One school reported additional training costs of $1,000.

Table 7
Summary of Estimated Direct Loan Expenditures

School	Travel	Computer Equipment	Programming	Staff Change	Misc*	Total
1	$ 7,000	$15,500	$15,000	$50,000	$ 0	$87,000
2	$ 5,200	$10,000	$80,000	($18,000)	$ 4,200	$81,400
3	$ 1,200	$ 100	$ 0	$ 0	$13,500	$14,800
4	$ 2,000	$ 2,400	$ 0	$ 0	$ 550	$ 4,950
5	$10,000	$ 3,600	$ 0	$ 0	$ 700	$14,300
11	$ 0	$ 7,000	$ 0	$ 0	$35,000	$42,000
12	$ 0	$ 0	$ 0	$ 0	$ 7,000	$ 7,000
13	$ 2,400	$ 0	$ 1,800	$ 0	$ 0	$ 4,200
14	$ 300	$ 5,000	$ 0	$ 0	$ 0	$ 5,300
15	$ 1,500	$ 2,500	$10,000	$ 0	$ 700	$14,700
16	$12,000	$23,000	$30,000	($18,000)	$ 3,500	$50,500
17	School did not report cost data					
18	$ 700	$ 4,700	200 hrs.	$ 0	$3,100	$ 8,500
19	$ 4,500	$ 2,900	$ 0	$ 0	$ 100	$ 7,500
20	$ 1,500	$ 0	$ 0	$ 0	$ 0	$ 1,500**

*Includes mailing promissory notes to Servicer, publicity costs, and the 1-year cost of a third-party Servicer at School 3.
**School 20 did not provide cost of third-party Servicer.

Ongoing expenditures were reported in the categories of added staff, printing ($1,000-$1,500), future travel to Direct Loan training ($1,000-$2,000) and mailing promissory notes to the Servicer ($500-$700 per year). Some schools said they might need system upgrades and more software in the future, but those estimated costs are not included here because it was not clear that these could be attributed to Direct Lending. Although School 20 did not report the cost of its third-party Servicer, this will be an ongoing cost unless, like School 3, they begin to administer Direct Loans at the school. All other expenditures reported were one-time start-up costs.

Followup With Year One Schools

Because Year One schools did not report the extra annual cost of mailing promissory notes to the Servicer, for many schools, costs reflected this year are lower than reported last year.

- School 1 reduced estimated implementation costs by $15,000. This amount represented the expected cost of their commercial mainframe software. The software for Direct Lending was included in the school's annual contract for the schoolwide system at no extra cost.
- Last year, School 1 reported $50,000 in salary and benefits for two FTE clerks to assist in administering two loan programs in Year One. At the time of the visit, the school was only administering Direct Loans, but the FAO did not report a reduction in staff (which is reflected as a lower administrative cost this year).
- School 3 replaced the former FAO and discontinued third-party servicing, reducing costs in its second year of Direct Lending by $13,500.
- School 4 reported planning to hire additional staff (.25 FTE) for Direct Lending, at a cost of $4,000. At the time of the second follow-up visit—more than one year after implementing Direct Lending—the staff change had not been made.

Year Two Schools

Of the five Year Two schools with prior visits (Schools 11 through 15), two schools reported changes from their original estimated implementation costs. School 13 spent an additional $1,000 for travel to Regional Office training. School 15 dramatically reduced estimated costs. The FAO anticipated programming costs of $55,000; actual costs to date for the service have come to $10,000.

Year Three Schools

At the time of the site visits, the Year Three schools visited had no Direct Loan expenditures and had not yet made any estimates of future expenditures to implement the Program. Based on Macro's observations of Year Two schools' experiences, Year Three schools should budget for a possible increase in costs because of start-up time, training, and equipment and expect few, if any, future costs.

IX. Perceptions of Direct Lending

FAOs were asked not only to rate their satisfaction with each of the Direct Loan procedures, but also to summarize their experience with the Program in terms of ease of implementation, estimated level of effort, and overall satisfaction (see Table 8).

Table 8
Overall Direct Lending Satisfaction

School Number	Ease of Implementation	Level of Effort	Overall Satisfaction	Comments
1	FAO: Moderately Easy Computer staff: Moderately Difficult	Overall Decrease	Very Satisfied	Improved student service
2	Somewhat More Difficult than Expected	Overall Decrease; Temporary Increased Programming	Very Satisfied	Improved student service
3	Not Difficult	NA*	Wonderful	Especially helpful for a small school
4	Easy Transition; Reconciliation Difficult	Moderate Increase	Very Satisfied	NA
5	Moderately Difficult	All DL is New Responsibility	Corporate Office: Dissatisfied FAO: Satisfied	FAO: fewer delays & problems
11	Moderately Difficult	Moderate Decrease	NA	NA
12	"Smooth"	Decreased	NA	Improved student satisfaction
13	Easier than Expected	Increased	NA	Benefits outweigh extra effort
14	NA	Moderate Decrease (anticipated)	NA	NA
15	Moderately Easy	Overall Decrease; Moderate Increase first 6 months	Very Satisfied	More time for student counseling
16	Difficult	Overall Decrease; Associate Director: Increased	Positive	Improved student satisfaction
17	Relatively Easy	Overall Increase; Anticipate Smoother Next Year	Very Satisfied	Easier for students; school receives funds faster
18	Moderately Easy	FAO: Moderate Decrease, (Except Start-up); Business Office: Substantial Decrease	Very Satisfied	NA
19	Relatively Easy	Administrator: Increase; FA Counselors: Substantial Decrease	Very Satisfied	Improved funds delivery & cash flow
20	NA	NA	Pleased	Uses Third-Party Servicer

*NA signifies data were not applicable.

Overall Ease of Implementation

Schools were almost equally divided between rating implementation as relatively easy or easier than anticipated and relatively difficult or more difficult than anticipated. If a school had a mainframe or developed a mainframe-to-PC interface, they were more likely than schools using a stand-alone PC to have reported difficulties with implementation. Most schools said that the first few weeks of learning the system and establishing procedures were stressful, but after that, the Program operated smoothly. Generally they found the process of originating loans to be the easiest task. Aside from the reported computer programming difficulties, FAOs found reconciliation to be the most difficult task. School 2 had expected reconciliation to entail only matching total dollars with the Servicer (as in the Perkins Student Loan Program); Schools 4 and 5 encountered numerous reconciliation problems—mostly caused by Year One computer processing issues.

Two of the Year Three schools expected relatively easy implementation, but they said that the level of ease would depend on the usefulness of the reference materials. The FAO at a third Year Three school anticipated a moderately difficult transition and was considering using a third-party servicer.

Level of Effort

In general, computer programmers and FAOs involved with computer programming reported a moderate increase in their level of effort, but it was considered transitional and was not expected to continue. In schools where one person performs all Direct Loan tasks, the FAOs reported an increase in their level of effort. Some of the increase was regarded as transitional and temporary. A few of the FAOs said that once all procedures were operating smoothly they expected to transfer a number of operations to an office clerk, thus reducing their overall effort. In School 5, the Corporate Accounting staff took on almost all of the functions of Direct Lending. (FFELP Loans had been administered by a different Corporate Office and were all transmitted using EFT.) Thus, all responsibilities in the Program were in addition to their prior accounting tasks and were considered increases to the office's level of effort.

Decreased effort was reported for administrative financial aid staff and counseling staff. Schools generally reported fewer problems and delays with loans and fewer calls and visits by students concerned about delayed loans. The improvement gave the financial aid counselors more time to spend on counseling students and other job responsibilities. School 18 was able to administer all aid even though the office was short of staff, and School 2 was able to decrease the FAO clerical staff. Business offices, especially at large schools, reported that their level of effort decreased substantially because they no longer had to distribute paper checks or communicate with multiple lenders and guarantee agencies.

Experiences With FFELP

Most FAOs did not report serious problems with FFELP; however, processing of in-school deferments by Servicers was still a problem. FAOs indicated that guarantee agencies and loan servicers appeared to have improved their products, services, and attitude toward customer service in recent years. Most of them attributed the improvements to the competition with Direct Lending. A number of FAOs said that they have had longstanding collegial relationships with staffers at guarantee agencies and lending institutions and have maintained those relationships since entering the Direct Loan Program.

Two FAOs reported a less cooperative attitude from their guarantor and an active effort on the part of the guarantor to discredit Direct Lending. For example, the former guarantor for School 4 visited the school without the FAO's knowledge and told school administrators that the default rate for Direct Loans would "go through the roof." School 11's FAO reported that the guarantor was disparaging the school to student borrowers.

Overall Satisfaction

The case studies revealed that all FAOs were very satisfied with Direct Lending despite experiencing transitional or permanent increases in effort and difficulties with computers and reconciliation. They reported improved service to students with faster funds receipt, fewer delays, and less frustration. Large schools, which had paper checks under FFELP reported no student lines waiting to pick up or sign loan checks. Schools reported that Financial Aid Office procedures had been streamlined as a result of Direct Lending—paperwork was reduced, staff no longer had to communicate with multiple lenders and guarantee agencies, and loan processing was under the school's control. As a result, cash flow to the schools had improved, and the need for emergency student loans had substantially decreased.

X. Ongoing Issues for Program Year Three

While, overall, case study schools were satisfied with Direct Lending, issues emerged that may affect future satisfaction with the Program. These issues either emerged during the first two years of Program implementation, but have not been fully addressed by ED or were issues stemming from new initiatives such as the Title IV WAN. They are briefly discussed below, and will be further examined in Year Four of Macro's evaluation.

Computer Systems

Many of the case study schools' suggestions for improvement focused on computer systems and increased opportunity for technical training on all ED-supplied software including any new versions. To address this, it was suggested that enhanced training be provided to schools on backing up data, installation and use of the Title IV WAN, and special EDExpress modules such as QUERY, report generation, and SSCR reporting.

Respondents also suggested that ED impress upon schools that Direct Lending is technology-dependent and that participating schools need a strong technical support staff who also have detailed knowledge about financial aid processing in order to successfully implement the Program.

Loan Processing

The main source of frustration for case study schools in all areas of loan processing, including loan origination, loan changes and cancellations, and reconciliation, stemmed from a lack of clear communication from the Servicer to inform schools when there were problems. For example, during Program Year One, schools did not receive PLUS Loan denial notices directly from the Servicer, but rather these notices had to be self-reported by students. Thus, alternative loan processing was often delayed for these students. The Servicer now sends this information directly to schools, solving this problem for Year Two.

Problems that can be rectified by timely, clear communication to schools include erroneous loan origination transmissions, partial batch transmissions (by designing a batch system on EDExpress which reports the number of records in the batch to the Servicer and allows the Servicer to immediately notify schools of partial batch transmission), loan changes and cancellations (by sending a list of canceled or changed loans to schools on a regular basis), and reconciliation (by acknowledging each month's data separately).

Training

In addition to clear communication, many of the problems that occurred during loan processing could be addressed with enhanced training and reference material. Schools expressed the desire for a "quick reference" as used in other ED programs and a "troubleshooting handbook" listing explanations of Servicer acknowledgment report codes and common errors and problems with possible solutions or corrective actions to take. Training for procedures for canceling loans—both before and after disbursements—was also suggested. Finally, by emphasizing the importance of sequencing of processes to schools, ED should be able improve the success that schools have with reconciliation.

Counseling

Counseling has been an area of enhanced concern by schools and ED. The initial set of counseling material was reported to be excellent by schools. It was requested that ED further refine some of this material—particularly the entrance and exit counseling videos and loan consolidation material.

Customer Service

Despite the expanded resources offered to schools, including the Account Managers, case study schools reported varied amounts of success with customer service staff from ED, Direct Loan contracting staff including the Direct Loan Servicer, and the Account Managers. There were two main reasons offered by schools for not taking full advantage of the resources offered to them. The first was that schools were not clear about who they needed to call for specific problems. This was further exacerbated by the fact that some schools were bounced from one source to another and did not get their problems resolved in a timely fashion. The other reason was that schools did not think that customer service staff was knowledgeable about Direct Lending and other financial aid issues.

To rectify this problem, schools suggested that ED should ensure that all customer service staff undergo adequate training and provide clear direction so that schools clearly know which entity to contact under various circumstances, such as reconciliation problems, hardware problems, and EDExpress problems.

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