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ABSTRACT

As part of a 5-year evaluation of the William D. Ford Federal Direct Loan Program, 12 participating institutions of higher education were visited to examine the diversity of approaches used by schools in planning for and implementing the program. The schools included public and private two- and four-year institutions and proprietary schools. Major findings indicated that: (1) overall, schools indicated a high level of satisfaction with the program; (2) institutions fully implementing the program were more satisfied than those phasing in the program; (3) most institutions found the transition to direct lending easy; (4) schools indicated especially high levels of satisfaction with the program processes of financial aid packaging, loan application processing, loan origination, and estimation and drawdown; (5) however, schools indicated frustration with processing delays following transition to a new loan origination center; (6) changes in workload resulting from the program had a positive effect on overall financial aid office operations; and (7) schools found Department of Education training to be useful and cost effective. The 12 case study reports describe the on-site interviews conducted with financial aid office staff at the institutions, and offer specific recommendations to other schools planning to implement the program and to the Department of Education. (DB)

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Direct Loan Evaluation Case Study Summary Report: Academic Year 1996-97

Volume One – Study Findings

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Direct Loan Evaluation

Case Study Summary Report:

Academic Year 1996-97

Volume One—Study Findings

Submitted to

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Contents

Contents (cont'd)

Summary of Highlights

Macro International Inc. (Macro) is conducting a series of institutional case studies as part of the evaluation of the William D. Ford Federal Direct Loan Program. Commissioned by the U.S. Department of Education (ED), this evaluation is examining the overall effectiveness of the Direct Loan Program in terms of reduced cost to the federal government, simplified administration, and customer satisfaction. The case studies comprise one component of the overall evaluation. Other evaluation components include institutional and borrower surveys, and an assessment of ED's management and administration of the program.

This year, the fourth year of the case study component, 12 schools were visited by Macro staff. Among these were 10 institutions that were near the end of their first academic year of originating Direct Loans, including: 4-year public institutions (3 schools), 4-year private institutions (2 schools), proprietary institutions (4 schools), and one 2-year public institution. Two additional schools were purposefully selected that originated Direct Loans in the 1995-96 academic year and reverted to the Federal Family Education Loan (FFEL) Program after 1 year of participation. Each of these 12 institutions participated in a detailed 1- to 1½-day interview following a standard protocol.

This document summarizes the key findings from Macro's visits to the 12 institutions. The findings, which address experiences of Direct Loan Schools, may be useful to both ED and schools considering participation in the program. Because of the small sample size used in this study, broader generalizations concerning schools' experiences with and opinions about the Direct Loan Program cannot be made. These findings can be attributed only to the schools visited, and not to the larger population of Direct Loan institutions.

Findings

Case study schools provided a wealth of information regarding their experiences with the Direct Loan Program. Highlights from this year's visits include the following:

- Overall, case study schools indicated a high level of satisfaction with the Direct Loan Program.
- Case study institutions fully implementing the Direct Loan Program indicated a higher level of satisfaction with the program than did those that were phasing in the program.[1]
- The majority of case study institutions found the transition to Direct Lending to be easy.

[1] Several schools are gradually implementing (phasing in) the program by originating Direct Loans for a portion of their students while continuing to offer loans under the FFEL Program to the rest of their students.

- Case study schools fully implementing the program appear to have found the transition from the FFEL Program to Direct Lending to be easier than did those phasing in the program.
- In general, case study schools were satisfied with their Direct Loan hardware configurations.
- Case study schools indicated a high level of satisfaction with a number of Direct Loan processes, including financial aid packaging, loan application processing, loan origination, and estimation and drawdown.
- Case study schools that did not experience transmission difficulties during the loan origination process indicated a higher level of satisfaction with the Direct Loan Program than did those that experienced difficulties.
- Case study schools indicated a high level of frustration with processing delays following the transition to the new Loan Origination Center (LOC).
- The change in workload resulting from implementation of Direct Lending had a positive effect on overall Financial Aid Office (FAO) operations.
- In general, case study schools found ED-sponsored training to be useful and cost-effective.
- Case study institutions that requested assistance from Account Managers at the Regional Offices were pleased with the customer service they received.

Case Study Institutions' Advice to Other Schools Implementing the Program

Case study schools were asked to identify lessons that they learned through their experiences planning for and implementing the Direct Loan Program. They also offered suggestions to other institutions regarding the best procedures for implementing Direct Lending. Advice to other schools fell into several categories: planning for program implementation, computer resources, and training. Case study schools also offered general advice to schools planning for program implementation.

Case study institutions' advice to other schools included the following:

Planning for Program Implementation

- Allow adequate time to plan for program implementation.
- Allow adequate lead time for systems testing and modification.

- Talk to and visit schools already participating in Direct Lending.
- Seek planning advice from ED and/or the Regional Offices.

Computer Resources

- Invest in adequate computer resources, including software, hardware, and technical expertise.
- Develop an in-house technical support staff.

Training

- Get as much training as possible.
- Attend training for new Direct Loan schools far in advance of program implementation.

General Advice

- Fully implement Direct Lending.
- Get all stakeholders (including staff and students) to buy into the program.
- Be prepared for "bugs" in the system.

Case Study Institutions' Recommendations to the Department of Education

Case study institutions were also asked whether they had any suggestions for improving the Direct Loan Program or advice for ED. Schools had recommendations in four areas: technical support and customer service, planning, training and technical assistance, and software.

Technical Support and Customer Service

- Fix the LOC.
- Don't change the LOC in the middle of the year.
- Improve the process by which loan changes are made.
- Improve the customer service provided to schools by the LOC.
- Give students more access to their loan information.
- Ensure that Account Managers have real-world financial aid experience.

Planning

- Paint a more complete picture of what is involved in implementing Direct Lending.

- Increase awareness among schools entering the program about the importance of technology requirements.

Training and Technical Assistance

- Create a Direct Loan policies and procedures manual for FAOs.
- Break out Direct Loan training into different sessions.
- Expand training sessions to include school owners and presidents.
- Provide onsite technical assistance.

Software

- Improve and make modifications to EDExpress.
- Distribute fewer EDExpress updates.

I. Introduction

Macro International Inc. (Macro) is conducting a series of institutional case studies as part of the evaluation of the William D. Ford Federal Direct Loan Program (Direct Loan Program). Commissioned by the U.S. Department of Education (ED), this evaluation is examining the overall effectiveness of the Direct Loan Program in terms of reduced cost to the federal government, simplified administration, and customer satisfaction. The case studies focus on schools' experiences during implementation of the program. Other evaluation components include institutional and borrower surveys, and an assessment of ED's management and administration of the program.

The objectives of the case studies were 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 (FFEL) Program

3) Describe schools' implementation processes for Direct Lending, including

   - whether the Direct Loan Program was simpler or more complex to administer than the FFEL Program

   - problems that schools experienced in administering Direct Loans

   - best practices at institutions.

Background

Since 1965, federal student loans have been awarded under the Federal Family Education Loan (FFEL) Program. Under this program, private lenders provide loan principal for Federal Stafford Loans (student borrowers) and Federal PLUS Loans (parent borrowers). Loans are guaranteed by the federal government through state or private non-profit guaranty agencies. The school certifies a student's eligibility for a loan and then the guaranty agency and lender approve the loan. The lender then sends the loan amount to the school, which disburses the proceeds to the student (or the parent, in the case of a PLUS loan).

In 1993, through the Omnibus Reconciliation Act, the federal government created a new loan program, the William D. Ford Federal Direct Loan (Direct Loan) Program. The Direct Loan Program differs from the FFEL Program in that the federal government provides the loan principal for both student and parent loans; private lenders are not involved. Under Direct Lending, the school certifies a student's (or parent's) eligibility for the loan, and the

Department of Education then sends the loan amount to the school, which disburses the proceeds to the student or parent (in the case of a PLUS loan).

The two loan programs have been operating together since the 1994-95 academic year. As of 1996-97, Direct Lending accounted for approximately one third of total loan volume with FFEL accounting for the remaining two thirds. The Direct Loan Program differs from FFEL in the following important aspects:

- The source of capital for Direct Lending is federal borrowing on long-term Treasury notes, compared to privately provided capital through more than 4,800 lenders in FFEL.
- Direct Lending does not utilize guaranty agencies as intermediaries as FFEL does; thus, there are no administrative allowance payments to these agencies and no reinsurance payments on defaulted loans.
- Under Direct Lending, borrowers' loan applications are, generally speaking, processed directly by their postsecondary educational institutions; in FFEL, a borrower completes a student aid application to demonstrate unmet need and applies to a private lender. A financial aid package is prepared by the institution, and the federal loan guarantee is administered by a guaranty agency.
- All Direct Loan schools must offer their borrowers flexible repayment options, including graduated or extended repayment schedules, or income contingent repayment. The Higher Education Act of 1993 also encourages lenders to offer such flexible options to their student loan borrowers. However, lender practices are not controlled by the federal government under FFEL.

Case Study Methodology

This year, the fourth year of the case study component, 12 schools were visited by Macro staff. Among these were 10 institutions that were near the end of their first year of originating Direct Loans, including 4-year public institutions (three schools), 4-year private institutions (two schools), proprietary institutions (four schools), and one 2-year public institution. Two schools were visited that had originated Direct Loans the previous year and had reverted to the FFEL Program after 1 year of participation. Each of these 12 institutions participated in a detailed 1-to- 1½-day interview following a standard protocol.

The instruments used to collect case study data were complementary to those used in the Survey of Institutions Participating in the Federal Direct Loan and Federal Family Education Loan Programs.[1] Several questions in the field protocol were designed to match questions in

[1] This survey is a component of Macro's evaluation of the Direct Loan Program.

the institutional survey so that findings from the case study component could be compared with those from the institutional survey.

Following each institutional site visit, an individual case study report summarizing the school's experiences with the program was written. The reports were sent to the schools for review to ensure accuracy. Reports describing each of the schools visited this year can be found in Volume Two of this report. To protect the confidentiality of the schools and all respondents, each school is identified by a number.

This Report

This report summarizes the findings from site visits conducted during the 1996-97 academic year—Year 3 of the Direct Loan Program. The information presented in this document summarizes the key findings from Macro's visits to the 12 institutions that participated in the case study component.

The findings provide insight into the experiences of institutions participating in the Direct Loan Program. This information may be useful to both ED and schools considering participation in the program. Because of the small sample size used in this study, broader generalizations concerning schools' experiences with and opinions about the Direct Loan Program cannot be made. Findings from the case studies can be attributed only to the schools visited and not to the larger population of Direct Loan institutions.

II. Characteristics of the Case Study Schools

Case study schools were purposefully selected to ensure representation across three major criteria: type, control, and geographic region. Both technical and cosmetology schools were selected from the proprietary school sector. Macro attempted to only select schools that were predicted to have a significant Direct Loan volume to ensure that they had originated enough loans to have fully incorporated, or institutionalized, the loan processes. Ten of the case study institutions were selected from a list of schools slated to first originate Direct Loans during the third year of the program—academic year 1996-97. Two additional schools were selected because they had originated Direct Loans for 1 year and then had reverted to the FFEL Program. Table 1 describes the 12 case study institutions that participated in this year's case study component.

Table 1

1997 Case Study Institutions: Summary of Institutional Characteristics

School ID	First Year of Participation in Direct Lending	Type	Control	Region*	Level of Origination	Level of Implementation
21	1996-97	4-year	Private	IX	1	0%
23	1996-97	2-year	Public	X	1	100%
24	1996-97	Technical	Proprietary	I	3	.05%
26	1995-96	4-year	Public	III	1	100%**
27	1996-97	Technical	Proprietary	VI	1	100%
28	1996-97	Technical	Proprietary	VI	1	95%
29	1996-97	4-year	Public	VII	2	100%
30	1995-96	4-year	Private	V	1	100%**
31	1996-97	4-year	Public	IV	1	100%
32	1996-97	4-year	Public	IX	1	100%
33	1996-97	4-year	Private	III	1	25%
34	1996-97	Cosmetology	Proprietary	III	1	100%

* "Region" refers to the 10 regions of the country as designated by ED.

**These schools originally fully implemented Direct Lending but no longer participate in the program. At the same time of the site visits they were not originating Direct Loans.

Level of Origination

ED designates levels of participation in the Direct Loan Program on the basis of an assessment of an institution's fiscal stability and administrative capacity. Of the 12 institutions interviewed, 10 were "level 1" schools and performed all Direct Loan functions themselves. One school was designated a "level 2" school (either the ED Loan Origination Center (LOC) or an ED approved entity (i.e., TPS) performed cash management functions) and one was designated a "level 3" school (the LOC or TPS performed cash management and promissory note management functions).

Level of Implementation

Two of the schools participating in the case study component had not yet originated Direct Loans at the time of the visits. Of the 10 case study schools that had originated Direct Loans, 7 had fully implemented the program and 3 schools were phasing in the program.[2] During the first year of program participation, these schools originated Direct Loans for a portion of their students while still participating in the FFEL Program with the rest of their students. They planned to gradually increase their level of program participation until all students were borrowing under the Direct Loan Program. For example, one case study school offered Direct Loans to incoming freshman and transfer students only. The Financial Aid Office (FAO) felt that this would create less confusion for students than having them have two types of loans.

Loan Volume

Because data collection was conducted from March through May 1997, only partial data were reported on loan volume for academic year 1996-97. The majority of students in public and private 4-year institutions apply for financial aid in the fall for the full academic year. In comparison, proprietary schools enroll new students throughout the year and thus are continually processing new loan applications. Case study schools reported that they continued to process and originate additional loans throughout the remainder of the academic year and could not report total loan volume. Three case study schools were unable to supply information on loan volume in time for inclusion in this report.

Case study schools' total federal loan volume ranged from $131,673 to $47.2 million for academic year 1996-97. Most case study schools had noticed increases in student and parent borrowing in recent years. This was attributed to several factors, including increases in tuition, changes in the local economy, and increases in federal loan limits. One school noted that they had a significant increase in PLUS borrowing and felt that this was because PLUS loans were easier to process under Direct Lending.

[2] The two case study schools that had not yet originated Direct Loans planned to phase in the program.

III. Computer Systems and Software

Computer Systems

One of the most important decisions in planning for and implementing Direct Lending is the choice of a computer system because it is the driving force behind Direct Loan processing. Case study schools participating in the Direct Loan Program used a variety of computer systems to administer the program. Schools cited the size of the school and the number of loans they had to process as the primary factors in determining what type of system they adopted. Large schools generally opted for mainframe-based systems and smaller schools used personal computer (PC) systems. Table 2 details the hardware configurations used by case study schools.

Table 2

Hardware Configurations Used by Case Study Schools

Type of Configuration	Number of Schools Using Configuration
Mainframe to PC With Interface	4
Independent PC and Mainframe	1
PC Only	6*
Other (Paper)	1

*The two case study schools that had not yet originated Direct Loans planned on using PCs to originate loans.

Implementation of Computer Systems

A slight majority of case study schools found their computer systems for Direct Lending to be fairly easy to adapt and implement. Of the 10 case study schools that had originated Direct Loans, nine processed the loans themselves; one school used a third-party servicer (TPS) for the majority of their Direct Lending functions. The majority of those schools processing Direct Loans themselves described their computer systems as being easy to adapt and implement for the program:

- Schools using PC-based systems required the least amount of effort overall—nearly all of the PC-based schools that had originated Direct Loans commented that system implementation was easy.

- Schools operating under a mainframe to PC system with interface found it more difficult to implement their system—nearly all of these schools commented that a moderate level of effort was needed.

- The school operating under an independent PC and mainframe system said that their system was difficult to set up and implement.

Satisfaction With Computer Systems

Given the computer-intensive nature of the Direct Loan Program, a school's satisfaction with the program often hinged on the effective and easy operation of their computer systems. Schools were asked to rate their satisfaction on a scale of 1 (very satisfied) to 5 (very dissatisfied). Nearly all of the case study schools were satisfied with their Direct Lending hardware configurations. The two schools that were dissatisfied with the computer systems they were using said their frustrations were the result of using PCs that were too slow.

As shown in Table 3, satisfaction tended to vary by type of hardware configuration being used. Case study schools that were using PCs expressed the highest level of satisfaction with their hardware configuration. Nearly all of the schools using mainframes with PC interfaces also expressed satisfaction with their hardware configurations. One of the case study schools using a mainframe with a PC interface was somewhat dissatisfied with their configuration (rating it a 4) and commented that the slow speed at which their network operated accounted for much of their dissatisfaction with their system. Another respondent said that it was important to heed ED's hardware recommendations. They discovered that using a PC below ED's specifications resulted in EDExpress processing loans slowly.

Table 3

Case Study Schools' Satisfaction With Their Hardware Configurations

	Level of Satisfaction					
Type of Configuration	**Very Satisfied**	**2**	**3**	**4**	**Very Dissatisfied**	**N/A**
Mainframe to PC w/interface	1	2	0	1	0	0
Independent PC & mainframe	0	0	0	0	1	0
PC only	3	1	0	0	0	2
Other (paper)	0	0	0	0	0	1

Software

Case study schools' decisions to use a particular software package were often influenced by the type of hardware configuration they were using. For those schools operating a PC-based system or an independent mainframe and PC system, the software package of choice was EDExpress. In the four schools operating interfaced mainframe to PC systems, software options tended to vary more, with one school using EDExpress, one using a commercially developed Direct Lending software package, and two schools deciding to develop and use their own in-house software[3] based on EDExpress specifications. Table 4 summarizes the software packages used by case study schools.

Table 4

Software Packages Used by Case Study Schools

Type of Software Package	Number of Schools*
EDExpress	5
Commercial Direct Loan Software	3
In-house Direct Loan Software	0
Other (combination of EDExpress and either in-house software or a commercial product)	3

* Total does not equal 12 because one school was using a paper system to track Direct Loans

Satisfaction With Software

Case study schools' satisfaction with their software package tended to vary. Although the majority of case study schools were satisfied with their software, four were less than satisfied. As shown in Table 5, some of this variation in satisfaction may be attributed to the different types of software packages being used by case study schools. All of the schools using commercially-developed software were very satisfied, schools using EDExpress, either alone or in combination with their packages, were less satisfied.

[3] In-house Direct Loan software signifies software that was programmed by school staff to duplicate the functions of EDExpress.

Table 5 Case Study Schools'* Satisfaction With Their Direct Loan Software						
	Level of Satisfaction					
Type of Software	Very Satisfied	2	3	4	Very Dissatisfied	N/A
EDExpress	0	2	1	0	1	1**
Commercial Direct Loan Software	3	0	0	0	0	0
In-house Direct Loan Software	0	0	0	0	0	0
Other (combination of EDExpress and either in-house software or a commercial product)	0	0	2	0	0	1**

* One school did not use software to process Direct Loans, therefore, total responses equal 11.
** Two schools had not yet originated Direct Loans at the time of the site visits.

One of the driving forces behind satisfaction with the software was how efficient it was in carrying out Direct Loan processing functions (e.g., the ability to batch-process or process multiple types of loans). Most of the case study schools assessing their software's processing efficiency were satisfied. Respondents were similarly satisfied with their software's handling of various Direct Lending functions. Table 6 provides a detailed breakdown of case study schools' satisfaction with their software's ability to manage specific Direct Lending functions.

Overall, case study schools tended to be very satisfied with their software's ability to handle the specific Direct Lending functions. The rating of "very satisfied" for every loan function was given by more respondents than any other satisfaction rating. Although schools rated their satisfaction with software processing of different Direct Lending functions highly, two of the eight schools responding to this question expressed dissatisfaction with the handling of loan disbursements and the refunding of cash. Schools that were dissatisfied expressed frustration with the inordinate amount of time it took the Direct Loan Origination Centers (LOCs) to provide schools with promissory note acknowledgment, which was more of a criticism of the LOC than of the software itself.

Case study schools were asked to suggest improvements to EDExpress. Many felt that EDExpress could be improved by making it more user-friendly, providing more online help so that users would not have to search through the manuals to solve a problem, and increasing the processing speed. One respondent in particular commented that the expected change in design of the 1997-98 version of the software (from a function-based system to a student-based one allowing the user to shift between functions for a particular student) would be a major improvement.

Table 6

Case Study Schools' Satisfaction With Their Software's Ability To Manage Direct Loan Functions

Loan Function	Level of Satisfaction					
	Very Satisfied	2	3	4	Very Dissatisfied	N/A*
Packaging	4	1	0	0	0	7
Loan Application Processing	4	2	1	0	0	5
Loan Origination	6	1	1	0	0	4
Loan Estimation and Drawdown	5	1	0	0	1	5
Loan Disbursement and Refunding Cash	3	1	2	1	1	4
Loan Changes	4	3	1	0	0	4

* The N/A classification was used to represent schools for which a question was not applicable because the school did not perform a particular function. For example, some schools used a TPS to perform certain Direct Lending functions.

Title IV Wide Area Network

The Title IV Wide Area Network (WAN) was the primary method Direct Loan schools used to submit loan information to the LOC. Satisfaction with this system tended to vary, with four of the seven schools for which this question was applicable giving it satisfactory ratings. Dissatisfaction with the Title IV WAN was primarily due to transmission problems and lost batches sent by schools to the LOC. However, how much of this blame was attributable to the Title IV WAN itself and how much may have been the result of a problem with the LOC was not known. One school noted that up until shortly before the time of the site visit, they had been confident in the system's transmitting of batches; however, during the process of switching from the former LOC to the new one, they had lost more than 18 batches (more than 200 loans) that had been transmitted to the LOC via the Title IV WAN. At the time of the site visit, the LOC was still unable to locate these batches, greatly delaying the school's ability to process Direct Loans.

IV. Direct Loan Program Implementation and Operation

Case study schools were asked several questions about their decision to participate in the Direct Loan Program and how they went about planning for and implementing the program. They were also asked a series of questions concerning the individual steps involved in processing Direct Loans. Steps included financial aid packaging, loan application processing, loan origination, estimation and drawdown, disbursement and refund of excess cash to borrowers, loan changes, borrower counseling, and reconciliation. Schools were asked to share lessons learned through their experiences as well as problems and challenges they had encountered. Respondents were then asked to comment on satisfaction with individual Direct Loan functions and the level of effort required to perform them. This section provides a brief summary of case study schools' experiences planning for, implementing, and operating the Direct Loan Program.

Planning for Program Implementation

Case study schools cited a variety of reasons for deciding to participate in the Direct Loan Program. Schools were motivated to implement the program for the following reasons:[4]

- Institutional control of the loan application process (four schools)
- Program favored by key institutional administrators (four schools)
- Borrowers better served through the program (three schools)
- Perception that Direct Lending was going to replace the FFEL Program (three schools)
- Dissatisfaction with the FFEL Program (two schools)
- More advanced technology; ability to integrate with their existing system (two schools)
- Better and more efficient way to deliver services (two schools)
- Administrative allowance for originating loans (two schools)[5]
- Problems with the state guaranty agency (two schools).

Other reasons for participating in Direct Lending included seeking a reduction in workload or paperwork, flexible repayment options, and a perception that Direct Lending would be easier to administer than the FFEL Program.

When considering participation in the Direct Loan Program and planning for program implementation, case study schools tended to consult with other schools already participating in the program. The majority of institutions said that presentations at professional meetings and discussions with other schools had affected their decision to participate in the program.

[4] Institutions were asked to cite their reasons for participating in the program. Because the question was asked in an open-ended manner, many schools cited multiple reasons, so the responses exceeded 12.

[5] ED provided an administrative allowance, or Payment for Origination Services on reconciled loans, to schools from program inception through April 26, 1996. This allowance was eliminated by Congress and is no longer provided to schools administering Direct Loans.

Half of the schools visited or sought advice from other Direct Loan schools when planning for program implementation. Most sought advice from schools of similar type, control, and operating system; interactions ranged from informal discussions to the sharing of software and institutional procedures.

The majority of case study institutions found the transition to Direct Lending to be easy. Several schools commented on aspects of the transition to Direct Lending that were easiest for them. Two schools identified a reduction in paperwork requirements. Three institutions reported that improvements in customer service to students eased their workload. As one FAO director said, "[Direct Lending] took 2,500 students out of our office. It was a huge step up in [our] service to students."

Schools also mentioned areas of change that were the most difficult for them. Case study schools reported issues ranging from problems with reconciliation to concerns about switching from a paper system to an electronic system. Three schools said that gaining campus support for the Direct Loan Program was difficult—both with administrative offices (two schools) and students (one school). One school said, "the only real resistance or lack of understanding came from the students. . . [Our difficulty] was getting them to change their thought process."

Case study schools that fully implemented the program appeared to have found the transition from the FFEL Program to Direct Lending easier than those that phased in the program did. More than half of the schools that fully implemented the program said that the transition was very easy, rating the ease of transition a 1 on a scale of 1 (very easy) to 5 (very difficult), while only one of the three schools that phased in and originated Direct Loans rated their transition a 1.

Program Implementation

Satisfaction

Overall, case study schools indicated a high level of satisfaction with the Direct Loan Program. Half of the schools that originated Direct Loans said that they were very satisfied with the program, giving it a rating of 1 on a scale of 1 (very satisfied) to 5 (very dissatisfied). An additional three schools were somewhat satisfied with the program and rated their satisfaction a 2. The two schools that reverted to the FFEL Program were less satisfied—one rated their satisfaction a 3 and one rated their satisfaction a 4 on the same scale.

Several factors may have contributed to case study schools' overall satisfaction with the Direct Loan Program. In particular, schools fully implementing the program reported higher levels of satisfaction than those that phased in the program.[6]

[6] Several schools were gradually implementing (phasing in) the program by originating Direct Loans for a portion of their students while continuing to offer loans under the FFEL Program to the rest of their students.

The majority of case study schools recommended full implementation of the program. Two of the three schools that phased in the program and had originated loans said that if they were to implement it again they would not phase in the program. One school commented that they thought it would have been easier to concentrate on a single loan program than two. Another said that they did not have enough staff to operate two loan programs. The one school that said they would continue to operate both loan programs did not want to lose their relationship with the state guaranty agency.

Another factor that appears to have contributed to overall satisfaction with the program was whether or not schools experienced transmission difficulties during the loan origination process. Case study schools that did not experience transmission difficulties indicated a higher level of satisfaction with the Direct Loan Program than did those that experienced these difficulties.

Previous satisfaction with the FFEL Program also appears to have had an effect on case study schools' satisfaction with the Direct Loan Program. Case study institutions that had been dissatisfied with the FFEL Program during the year prior to implementing the Direct Loan Program tended to be more satisfied with Direct Lending than institutions that had been satisfied with the FFEL Program the year prior to program implementation. It is interesting to note that the two case study schools that indicated they were very satisfied with the FFEL Program (rating their satisfaction a 1) had not yet originated Direct Loans at the time of the site visits.

An increase in workload as a result of implementing the Direct Loan Program also affected case study schools' overall satisfaction with the program. Schools that experienced a decrease in workload reported higher levels of overall satisfaction with Direct Lending than did those that experienced an increase in workload.

When asked which Direct Lending process they were most satisfied with, case study schools indicated the following[7]:

- Loan origination (four schools)
- Financial aid packaging (two schools)
- Loan application process (two schools)
- Estimation and drawdown (two schools).

In contrast, case study schools were the least satisfied with

- Reconciliation (five schools)
- Disbursement and refund of excess funds to students (three schools)
- Loan changes (one school).

[7] The two case study institutions that had not yet originated Direct Loans did not respond to this question, therefore, total responses equal 10.

One case study institution said that there were no Direct Lending processes that they were dissatisfied with.

Schools were asked to rate their satisfaction with individual Direct Loan process. Case study schools generally indicated a high level of satisfaction with all processes; table 7 summarizes their satisfaction.

Table 7

Case Study Schools' Satisfaction With Direct Loan Processes

Loan Process	Level of Satisfaction					
	Very Satisfied	2	3	4	Very Dissatisfied	N/A*
Financial Aid Packaging	4	1	2	0	0	5
Borrower Counseling	6	2	1	1	0	2
Loan Application Process	8	1	1	0	0	2
Loan Origination	6	2	1	0	0	3
Estimation and Drawdown	6	2	0	0	0	4
Disbursement and Refund of Excess Funds to Borrowers	5	4	0	0	1	2
Loan Changes	5	4	0	0	0	3
Reconciliation	2	3	1	1	2	3
Loan Servicing	1	0	0	0	0	1

* The N/A classification was used to represent schools to which a question was not applicable because the school did not perform a particular process. For example, some schools used a TPS to perform certain Direct Lending process.

Level of Effort

The implementation of Direct Lending had varying levels of impact on case study schools' overall workload. The majority of schools experienced either a small or a significant increase in workload. In general, these changes in level of effort or workload were seen by case study schools as having a positive effect on FAO operations. The majority of schools reported that the resulting impact was positive, while only one school reported a negative impact on operations. A few of the schools that reported a positive impact indicated that services to students had improved as a result of program implementation. One director said, "It's a big improvement in student services. We can tell students exactly when the promissory note will be there."

At the same time, these changes appear to have had little or no effect on case study schools' summary reporting burden (such as FISAP[8] and other year-end reports). An FAO director

[8] Fiscal Operations Report and Application to Participate.

reported, "It made no difference. We're always overloaded." A couple of schools noted a positive impact on their reporting burden. One school commented that the program "freed up time" and another was able to customize reports in their commercial Direct Loan software.

Case study schools were asked to compare their level of effort to perform specific processes under the FFEL Program to their level of effort to perform the same processes under Direct Lending. Again, changes in the level of effort varied among schools. Table 8 summarizes the changes in level of effort experienced by case study schools. According to most case study schools, two lending functions required less effort to perform under the Direct Loan Program than under the FFEL Program—1) processing loan applications and 2) disbursing loan funds and receiving and distributing paper checks. Several case study institutions experienced a change of effort when performing three Direct Lending functions—refunding excess loan funds to borrowers, increasing loan amounts, and canceling loans.

Schools varied in their experiences in terms of level of workload when performing two Direct Lending functions—counseling borrowers and decreasing loan amounts. For both of these functions some schools noted an increase in level of effort while others noted a decrease in level of effort.

A number of Direct Lending functions did not appear to affect case study schools' workloads. These processes included packaging financial aid, processing deferments, servicing loans, and processing Student Status Confirmation Reports (SSCRs). It should be noted that due to National Student Loan Data System (NSLDS) testing problems, schools did not submit SSCRs from March 1996 through February 1997. Although full participation was mandatory as of February 1997, few case study schools had processed their SSCRs. Only one case study school had had any Direct Loans that had reached the loan servicing stage.

Case study schools were also asked about the effects that several new responsibilities under Direct Lending (PLUS loan application processing, loan origination, and reconciliation) had had on their overall workload. In all three areas, schools tended to experience a decrease in level of effort or workload that often resulted in staff changes.

Table 8

Case Study Institutions' Changes in Level of Effort

Loan Function	Level of Effort: Significant Decrease	Small Decrease	No Change	Small Increase	Significant Increase	N/A*
Financial Aid Packaging	0	2	4	2	0	4
Loan Application Process	5	2	1	0	1	3
Disbursement of Loan Funds and Receipt and Distribution of Paper Checks	5	1	0	1	1	4
EFT	0	0	2	0	1	9
Refunding of Excess Loan Funds	3	1	5	0	0	3
Increasing Loan Amounts	2	2	4	1	0	3
Decreasing Loan Amounts	2	0	3	3	0	4
Canceling Loans	4	0	3	2	0	3
Borrower Counseling	1	2	4	1	1	3
Loan Servicing	0	0	2	1	0	9
SSCRs	1	0	1	0	0	10

* The N/A classification was used to represent schools to which a question was not applicable because the school did not perform a particular function. For example, some schools used a TPS to perform certain Direct Lending functions.

V. Direct Loan Origination Centers

Case study schools were asked to assess their interactions with the LOCs. They rated their satisfaction with their interaction with the LOC for various Direct Lending functions such as loan origination and reconciliation. In addition, schools were asked to compare the quality of the service they received from their LOC to that received from their FFEL lenders, guaranty agencies, and servicers.

During the data collection phase of this year's case study component, March through May 1997, a new Direct Loan Program LOC began operations. Findings presented here, for the most part, relate to interactions with the original LOC. However, because some of the visits occurred during the transition to the new LOC, some of the schools also provided information regarding issues that resulted from that transition.

In general, case study schools were satisfied with their interactions with the LOC. Table 9 presents schools' satisfaction with their LOC interactions by Direct Lending function.

Table 9

Case Study Schools' Satisfaction With Interactions With the Direct Loan Origination Centers

Loan Function	Level of Satisfaction					
	Very Satisfied	2	3	4	Very Dissatisfied	N/A*
Loan Origination	4	4	1	1	0	2
Estimation and Drawdown	5	1	0	1	0	5
Loan Changes and Cancellations	5	4	0	0	0	3
Reconciliation	3	3	1	0	1	4
Processing Deferments	0	0	0	1	0	11
Loan Servicing	2	2	0	0	0	8
Student Status Confirmation Reports	1	2	0	0	0	9

* The N/A classification was used to represent schools to which a question was not applicable because the school did not perform a particular function. For example, some schools used a TPS to perform certain Direct Lending functions.

Case study schools reported receiving better service from the LOC than from their FFEL lenders, guaranty agencies, and servicers. Six of the seven schools that compared the quality of service they received reported receiving better service from the LOC. The remaining school rated the service received under Direct Lending as being worse than that received from their FFEL Program servicers.

Comments regarding service received from the LOC tended to reflect the overall positive impression that case study schools had regarding this aspect of the program. As one school said, "[the] Direct Loan customer service personnel were much more helpful in walking through the [loan functions]." Schools also commented that having to deal with only one LOC, as compared to the multiple lenders and guaranty agencies under the FFEL Program, made their interactions much less time-consuming.

Case study schools found the transition from the previous LOC to the current one to be problematic. As a result, some case study schools indicated a high level of frustration with the processing delays and reconciliation problems that resulted from this transition. Additional comments from case study schools regarding problems that were a result of the transition include the following:

- "By the end of the first semester [1996-97], all but two loans were reconciled. [We] haven't been able to reconcile since the transition to the new LOC."

- "The LOC needs to get [the problems] taken care of within 2 or 3 weeks... ED can't afford to have [the] perception [that the LOC is not functioning] out there. The Task Force thinks things are taken care of when they're not... This really reflects poorly on the Department of Education."

- "The move to [the new LOC] has slowed down the reconciliation process. It now takes up to 4 weeks to process batches. [We are using] promissory notes to disburse [funds to students] because it's taken so long. With the [former LOC], the wait was no longer than 7 days for prom-note acknowledgment."

- "Up until recently, we had been very satisfied with the Title IV WAN and batch transmission. Recently, lots of batches went to [the former LOC] and were supposed to be transferred to [the new LOC] but were not. During the transition, about 18 batches (containing over 200 loans) were in the Title IV WAN but have not been picked up by either [the former LOC or the new LOC]."

A few case study schools commented on their comparative experiences with the two LOCs. Schools expressed dissatisfaction with the new LOC, specifically regarding reconciliation.[9] In three instances a comparison can be made between a case study school's satisfaction with reconciliation under the previous LOC and under the new LOC—in all instances schools rated their satisfaction with the previous LOC higher than their satisfaction with the new LOC.

[9] It should be noted that reconciliation problems at the LOC were addressed by ED in May 1997. For a more detailed discussion of the LOC transition and related issues, refer to Macro's *Assessment of Department of Education Administration*, 1997.

VI. Technical Support and Customer Service

ED provides a range of support services that were designed to provide training, materials, technical references, customer service, policy guidance, and technical assistance to Direct Loan institutions. ED continued to modify many of these services prior to and during academic year 1996-97. The three most significant developments in this area were 1) continued enhancement of the Regional Office training facilities and expansion of training offerings, 2) the first full year of implementation of the Regional Office Account Managers and the provision of customer service to Direct Loan schools, and 3) the implementation of a new LOC. This section provides a summary of the case study schools' satisfaction with the customer service and technical support provided by ED and its contractors as well as suggestions for improvement.

Training and Counseling Material

Training

In general, case study schools found ED-sponsored training to be useful and cost effective. Schools were asked to rate the usefulness of training on a scale of 1 (very useful) to 5 (not at all useful). Eight schools said training was useful—two gave a rating of 1 and six gave a rating of 2.

All of the schools attended Direct Loan training sessions. Sessions attended included training for new Direct Loan schools, cash management, EDExpress, reconciliation, and Title IV Update sessions. At a minimum, attendance at training included the FAO director and assistant/associate director for each case study school. Most case study schools sent many additional FAO staff members, including counselors, clerical staff, and loan coordinators. Staff from other campus administrative offices also attended training including the business/comptroller's office, student accounts, and computer services. In one case, the owner of a proprietary school attended training.

Case study schools found many aspects of ED's training to be positive, including the small size of the training sessions, the "hands-on" approach to training, and the ability to interact with other schools. Schools utilized Direct Loan and other training in order to gather both general concepts and specific implementation processes and procedures.

While schools found the training beneficial, a few of the case study schools indicated that they encountered difficulty in getting information on ED-sponsored training. Despite ED's efforts to disseminate training announcements in a timely fashion, these schools indicated that the information on the training was slow to arrive at their school and sometimes arrived too late for them to attend.

Most schools felt that training was cost effective. Case study schools appreciated having the Regional Office training facilities available to them for training. In most cases, this allowed

FAOs to attend training close to their institutions, thereby saving time and money. Account Managers conducted in-person training at two schools. Of those schools that did not find it cost effective, two indicated that they were shut out of sessions held in their region and had to travel to other regions.[10] Another school was not close to any Regional Office, and one school was located in a region that had delayed the opening of the training facility.[11]

Half of the case study schools indicated that they had attended training held by sources other than ED. These other sources included state and regional associations, guarantee agencies, commercial software users groups, and a TPS. In addition, a couple of case study schools went to other schools for informal observation of their Direct Loan processes.

Case study institutions seemed to have different experiences with the training depending on school type and the level of knowledge and sophistication they had going into the program. One large mainframe school said that they had not absorbed any of the hands-on training and had not begun to understand what they needed to do until they had actually implemented the program. The reason they gave was that the trainers just read the material. They thought that trainers should use a case study approach to training because real issues are discussed. Another large mainframe school said that Direct Loan training was geared to "brand-new" Direct Loan schools and therefore was not relevant to them. This school had spent an extended period planning for the program and found that the training occurred after schools were already performing the functions that the training had addressed. A school that used a custom software product to administer Direct Lending said that the training was good for concepts and "planting seeds" to obtain information, but did not offer details useful for their specific operating configuration.

Of the four proprietary schools visited, only one expressed an unqualified positive opinion of the training. Two schools felt that the training went too fast and was geared exclusively toward 4-year, level 1 institutions. One proprietary school financial aid administrator indicated that she was in training with people "who had never used a mouse before" and felt that it was hard to get to substantive issues when a lot of the training time had to be devoted to the basics. Another proprietary school said that the trainers "just read from the books."

Half of the case study schools had viewed ED's video teleconferences. Generally schools found them to be useful for general information but limited in scope and not to be used as a substitute for in-person training. Schools appreciated the fact that viewing the videotapes was an inexpensive and time-efficient way to provide training to a large number of staff.

[10] Regional Office training facilities attempt to schedule enough sessions to accommodate all potential trainees; however, it is not always possible to do so, because of space limitations.

[11] At the time that site visits were conducted, all but one Regional Office training facility were open. Schools in Region III were able to attend training in either the Region II or the Washington, D.C. training facilities.

In many cases, schools had suggestions specific to their own situations. For example, mainframe schools and level 3 schools both suggested that ED break out Direct Loan training into different sessions more relevant to specific administrative structures. It was suggested that ED more widely publicize various training opportunities and include agendas and other specific information prior to the sessions so that schools could better determine whom to send.

Counseling Material

Case study schools found ED-produced written counseling material to be useful. A majority of the schools that used the "Entrance Interview Brochure" and the "Exit Interview Brochure" said these materials were very useful. In addition, schools used other ED-produced publications such as "All About Direct Loans" and "The Student Guide" and expressed satisfaction with them. One FAO noted, "'The Student Guide' was the best thing ED has produced."

Reactions to both the Entrance Interview Video and the Exit Interview Video were decidedly less positive. Fewer than half of the case study schools used the Entrance Interview Video, and only three schools used the Exit Interview Video. Case study schools that chose not to use the videos cited the poor quality of the videos as the reason, commenting that the videos were overly melodramatic, did not contain enough substantive information, and were "embarrassing."

Technical Support and Customer Service

ED provides a variety of technical support and customer service to Direct Loan schools. Schools were able to contact ED officials (Direct Loan Task Force members, Regional Office Account Managers), and technical contracting staff (LOC, software contractor) for questions.

Software User's Guide

Of the four case study schools that indicated that they used the Software User's Guide, only one school indicated that it was very useful. The most frequently mentioned problem was that required steps were missing from the guide. One FAO said that "entire topics" were missing. Two schools felt that the guide was too technical. One school thought the format was not user friendly (although another felt that the format was good). One FAO would have liked to receive the guide earlier in the implementation process.

Loan Origination Centers (LOCs) and the Software Contractor

The LOC is now responsible for all Direct Lending activities up to reconciliation. This includes promissory note and loan origination processing, estimation and drawdown, disbursement, and loan changes. In addition to processing loans, they are responsible for fielding all school and borrower inquiries regarding the status of Direct Loans.

The Direct Loan servicer is currently responsible only for servicing loans, i.e., all loan activities occurring after a loan had been disbursed and reconciled. This primarily involves loan repayment. Prior to the change of loan origination contract in March 1997, the servicer had been responsible for all loan origination activities as well as loan servicing.

The software contractor is responsible for development of, distribution of, and technical support for EDExpress software.

As reported earlier, schools generally knew whom to contact with computer hardware and software questions and reported satisfaction with the technical support they had received. However, many schools qualified these opinions to indicate that they were referring to the period prior to the change of the loan origination contract in March 1997. Prior to that date, the former LOC had fielded all requests regarding loan processing and loan servicing issues. After that date, all loan origination operations, including technical support and customer service, were switched to the new LOC.

In general, case study schools were satisfied with the support they received from the LOC. Three of the seven schools that contacted the LOC for support rated their satisfaction with the LOC a 1 on a scale of 1 (very satisfied) to 5 (very dissatisfied). Two schools rated their satisfaction a 2, and two schools rated their satisfaction a 3. A typical FAO comment was "[the LOC] was very helpful and able to explain things. We were very satisfied with the services received."

Nearly all of the case study schools that contacted ED's software contractor were satisfied with the technical support received. Comments from schools regarding the software contractor ranged from "top notch" to "they're very defensive about what they've programmed. Often their solution to the problem is just to cancel the loan and start over; this is not satisfactory."

Technical support received from the current LOC was rated less highly than technical support from the former LOC. It should be noted that during the time that Macro conducted site visits, March through May 1997, most LOC operations were delayed or not functioning. Therefore, most schools were commenting on the assistance they were receiving in trying to ascertain the status of LOC operations rather than on more school-specific operational questions. Given these parameters, FAOs had three complaints about LOC customer service staff: 1) staff were not knowledgeable about financial aid operations; 2) staff failed to return the FAOs' calls on a timely basis; and 3) unprofessional treatment from LOC staff.

ED staff did address these issues with the LOC and made some changes to their technical service delivery, including 1) changing their voice response unit to ensure that schools were better able to reach a customer service representative on a timely basis and 2) establishing a special customer service hotline that provided a point of contact if a school believed that they had received unprofessional treatment. In addition, the Direct Loan Task Force sent out numerous Loan Origination Transition Updates to keep schools informed about issues and the status of the transition. Macro staff made followup phone calls to case study schools in June 1997 about the status of the LOC. Schools indicated that improvements had been made that enabled them to process loans through the LOC and that customer service staff had been helpful in assisting them with this process.

All four of the case study schools using commercial software products were satisfied with the technical support they received from their vendors.

Regional Offices

ED implemented the Regional Office Account Manager system in February 1995 to provide support to Direct Lending schools in the form of customer service, technical assistance, and training. Therefore, 1996-97 was the first full academic year of Account Manager operations. Case study schools that requested assistance from Account Managers at the Regional Offices were pleased with the customer service they received.

Interactions between case study schools and Account Managers ranged from a single introductory phone call to frequent interaction for technical assistance (daily communication, in the case of one school). Three of the 12 case study schools received onsite assistance from their Account Managers.

Most case study schools were satisfied with the usefulness and timeliness of the Account Managers' responses to their questions and inquiries. Case study schools were slightly less satisfied with the Direct Loan knowledge of the Account Managers.

When case study schools were asked what they thought the current role of the Account Managers was, their responses varied. Five schools indicated that their role was that of support on a range of issues, including policy; technical support; liaison among the school, the servicer, the LOC, and the software contractor; troubleshooting; and answering general as well as specific questions. One school "calls every day" with LOC and software contractor problems. Another school believed that the Account Managers' role was to make sure schools were "up on all their tasks." Two schools said that their role was primarily one of marketing the program. One proprietary school FAO thought their role was to "punish schools"; another FAO said they had no role, because they were too junior and not knowledgeable in financial aid. This person believed that schools would benefit more by dealing with other FAOs or ED staff instead.

Case study schools were also asked what they thought the role of the Account Manager should be. About half of the respondents thought the role should be that of an overseer for the whole process. Schools also used such terms as "facilitator," "troubleshooter," and "ombudsman." Three schools thought that Account Managers should make site visits to all schools.

Policy

Case study schools relied on several entities for questions regarding Direct Loan Program rules and regulations and policy guidance. The largest number of schools (five) called the Direct Loan Task Force. Schools also called the Regional Offices, the Direct Loan servicer, the LOC, and the software contractor. One school consulted the regulations and did not contact anyone. Although case study schools were generally satisfied with the usefulness and timeliness of responses to policy issues and questions from ED, they had suggestions for additional policy areas to be addressed. The following is a summary of specific policy issues that schools would like ED to look into:

Policy Issues Identified by Case Study Schools

Area	Issue
Direct Loan Servicer	There should be tighter controls on the servicer. Need more accountability and monitoring.
Audit Function	Direct Lending should require a general ledger as an audit function, so that it mirrors other Student Financial Aid Programs.
Loan Cancellations	The EDExpress software should allow for loan cancellations beyond 120 days.
Consolidation	Because only ED was allowed to purchase Direct Loans for consolidation, Direct Loan PLUS borrowers who had previously borrowed FFEL Loans and then took out Direct Loans had to consolidate FFEL PLUS into Direct Lending numerous times during the student's in-school period.
Loan Disbursements	Both the 30-day delay for first-time borrowers and the two-disbursements rule should be rescinded. FAO felt that such regulations punishes schools with low default rates.
Loan Grade Levels	Make students eligible for caps consistent across the board (grade level). Capping loan amounts for students based on year in school is an administrative burden.
Application Process	Eliminate signature requirement for the FAFSA.
International Students	For international students, references on loan promissory note should not have to be U.S. residents.
Institutional Participation Oversight Group	ED should not "assume the worst" regarding proprietary school oversight.

Quality Control

ED developed a Quality Assurance Planning Guide as a means of providing Direct Loan schools with a comprehensive approach to quality assurance (QA). The QA Planning Guide was organized in a workbook format, taking schools through an exercise identifying areas for improvement. The Direct Loan QA component is different from ED's Institutional Quality Assurance Program (IQAP).[12]

Half of the case study schools indicated that they used the Quality Assurance Planning Guide. Of those six, two schools had participated in IQAP prior to Direct Lending, and one school had also participated in the Experimental Sites[13] program. Schools reported that the primary benefit of QA was identifying areas to strengthen and improve. One FAO noted that "going through the exercise forces you to take a closer look at things you normally would not see."

Schools mentioned two drawbacks to QA. A few schools indicated that the level of effort involved in going through the exercise is high—one school said it was "daunting." One FAO also mentioned that the format is less than user-friendly. She felt that if ED put this component on disk, more people would do the exercise. The two schools that participated in both IQAP and Direct Loan QA both felt that there was overlap between the two programs and mentioned that ED should work to resolve duplication and discrepancies.

[12] The Institutional Quality Assurance Program (IQAP) addresses the application verification process. Schools enrolled in this program undergo a more rigorous data gathering and review process by ED. This program is open to both Direct Lending and FFEL schools.

[13] The Experimental Sites program allows institutions to submit applications for waivers for specific Departmental regulations. This program is intended to provide relief from regulatory burden. All Title IV schools were invited to submit applications to ED.

VII. Experiences With the FFEL Program

As part of the case study protocol, schools responded to a series of questions about their experiences with the FFEL Program in the year prior to implementing the Direct Loan Program. They were also asked to rate their relationships with lenders, guarantee agencies, and loan servicers[14] under the FFEL Program and to identify changes in these relationships after implementing Direct Lending.

In the year prior to implementing Direct Lending, case study schools had had varying levels of satisfaction with the FFEL Program. When asked to rate their satisfaction, four schools expressed satisfaction while three schools expressed dissatisfaction.

All of the case study schools that had participated in the FFEL Program had comments regarding the issues that influenced their satisfaction with FFEL prior to implementing Direct Lending.[15] Four schools commented that they thought having two programs improved the service provided under the FFEL Program. According to one school's director of financial aid:

> "Once [ED] had two programs going, it was great. It was something that should have been done a long time ago . . . competition keeps [the banks] on their toes."

Another director indicated that as a result of the competition between the two loan programs, the FFEL Program had improved to become more user-friendly and customer service oriented. She commented, "The existence of Direct Lending has made banks more responsible to schools and students."

When asked to comment on reasons for their dissatisfaction with the FFEL Program, four case study schools indicated that transmission of FFEL funds to students was often delayed, causing problems for both students and the schools. Three schools commented that the guarantee agencies were difficult to work with in that they had no common rules or manuals and did not always provide accurate or timely assistance. Others commented that under the FFEL Program, paperwork requirements were burdensome, loan changes and reimbursements were awkward, and by comparison Direct Lending allowed schools more control over the loan process.

Relationships With Lenders

Overall, case study schools reported good relationships with their FFEL Program lenders. In the year prior to implementing Direct Lending, nearly all case study schools considered their

[14] The two case study schools that reverted to the FFEL Program were asked to report on their relationships with lenders, guarantee agencies, and loan servicers both before and after participating in the Direct Loan Program.

[15] One case study institution did not participate in the FFEL Program in the year prior to implementing Direct Lending.

relationship with primary lenders[16] to be positive, with most schools commenting that their relationships were "excellent." Although many schools reported that these relationships did not change after implementing Direct Lending, one reported an improvement and two reported a worsening.

Schools reported a range of responses from their lenders after implementing Direct Lending. Three schools, including the two that decided not to continue to participate in the Direct Loan Program, commented that the lenders remained in close contact with them. One FAO said,

> "We continued to get calls and visits during the Direct Lending year. Lenders said they were always there for us."

As previously noted, two schools thought competition between the two programs had improved lender services. The FAOs at three other schools said they no longer had relationships with their lenders, and two schools reported that lenders tried to discourage schools from participating in Direct Lending. According to one FAO,

> "Lenders have been upset since Direct Lending [began]. They have set up meetings trying to talk schools out of it."

Relationships With Guaranty Agencies

Schools did not rate their relationship with their primary guaranty agencies[17] as highly as they did their relationships with lenders in the year prior to implementing Direct Lending. In considering their relationship with their guaranty agencies, four schools indicated that the relationship was "excellent," six indicated that it was "fair."

Eight schools reported they still maintained contact with their guaranty agency after implementing Direct Lending. Half of these schools reported that their relationship had worsened.

Schools continued to have contact with guaranty agencies for many reasons, including the most obvious—they still originated FFEL Program loans. Two schools had contact with their guaranty agencies regarding state financial aid programs. One school was still receiving mailings, even though the school had changed owners and they had not applied for reapproval for the FFEL Program. Two schools found that their relationship had become distant, but without notable problems. One FAO said that their guaranty agency had become less responsive:

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[16] Nine schools had 40 percent or more of their loan volume with a single lender.

[17] For 10 schools, 80 percent or more of their loan volume was handled by one guaranty agency.

> "They weren't pleased; they didn't want to lose their volume . . . they are less helpful now, without being blatant."

Relationships With Loan Servicers

Schools did not rate their relationships with loan servicers as favorably as they did their relationships with lenders and guaranty agencies. While most schools considered their relationships with loan servicers under the FFEL Program to be "fair," only one gave a rating of "excellent." In general, schools reported no change in this relationship.

Case study schools offered some comments related to loan servicer relationships. Two schools said they only worked with loan servicers if students requested assistance. Two other schools indicated that the secondary loan market created difficulties for students by splitting a loan up among servicers. One FAO said,

> "[The secondary market] probably makes the default rate higher than it should be . . . Students don't know who to pay or think they're paying [to the right servicer] and go into default."

One school reported that competition among the programs had improved the services provided by loan servicers; another school indicated a mixed response among loan servicers after the school had implemented Direct Lending. She said that as with guaranty agencies, loan servicers did not want to lose their loan volume and that one continues to be helpful, but many were less responsive. Two schools noted that some of the same loan servicers provided services under both Direct Lending and the FFEL Program.

VIII. Experiences of Schools That Reverted to the FFEL Program

As previously mentioned, Macro visited two institutions that began participation in the Direct Loan Program in 1995-96 but reverted to the FFEL Program in 1996-97. The following is an overview of their reasons for having participated in the Direct Loan program and for having withdrawn from it, their experiences with the FFEL Program, and lessons learned.

One of these schools is a 4-year public university with a total federal loan volume of approximately $12 million. The other is a 4-year private liberal arts college with a total federal loan volume of approximately $2.3 million for 1996-97.

Reasons for Participation

The primary reason for participating in Direct Lending was similar for both schools. They believed that Direct Lending was going to be the only loan program operating after the phase-in period and wanted to be an early participant to reap the anticipated benefits, including support services and training while they were strongest, during the early stages of the program. The director of financial aid at the public school noted that they felt they "wouldn't have a choice" and wanted to "get on the bandwagon" to be competitive with other schools. They were also motivated to switch to Direct Lending because they were dissatisfied with the FFEL Program and the many guarantee agencies they had to deal with.

Reasons for Withdrawing From the Program

The public university reported that they initially received active support from other university offices for participating in the Direct Loan Program. However, this support decreased considerably during the first year of implementation and by the end of the 1995-96 academic year, the FAO has made a decision to pull out of the program. Reasons given for withdrawing from the program include the following:

- There were problems with their computer system from the outset—missing promissory notes, problems with the software, and limitations to the system.

- Their contact with the previous LOC had been frustrating. Timeliness was a key concern (e.g., calls were not returned, batches were lost during transmission). They found varying levels of competency among LOC staff.

- FAO staff were having to work more hours to get the work done. In part, this was due to an ongoing internal struggle with the business office over reconciliation.

- The program had an uncertain political future. The FAO related that this had been right before the 1996 presidential election and there was much speculation that the announced phase-in schedule for Direct Lending would be capped or overturned, thus forcing schools out of the program. They felt that they "weren't that vested in the program" and decided to "cut their losses" rather than have their students get stuck borrowing under multiple loan programs 2 or 3 years down the road.

The director of financial aid also indicated that her staff were not adequately prepared and trained for their new roles. They needed more in-house technical computer skills and did not have the time to learn these new skills, given the increased workload and the lack of additional staff support. In the end, they felt that student service suffered.

The private school mentioned similar reasons for withdrawing from the program, including the following:

- They had numerous problems with the reconciliation process. These problems included a confusing explanation of codes and data entry requirements on the DOS version of the software, as well as the different reporting practices of the FAO and the business office.
- Administering Direct Lending was much more work than the FAO initially expected. This was exacerbated by the fact that the FAO was a small office and was shorthanded at the time Direct Loans were being administered.

Lessons Learned

The public school indicated that it was "moderately difficult" to make the transition from the FFEL Program to Direct Lending. The most difficult change had been in going from a manual system to an electronic system. They also experienced difficulty working with the LOC. The FAO indicated that their workload significantly increased when they entered the Direct Loan Program. With Direct Lending, the FAO became responsible for tracking the loans and felt as though they were the "servicer."

The FAO at this school offered several suggestions for improving Direct Lending. Prior to entering the program, prospective schools should be made aware of the technological demands that will be placed on them. Within the institution, roles and responsibilities need to be clearly identified and planned for. Given the possibly increased workload, schools should review their FAO staffing configuration and determine whether additional workers would be needed. The FAO also suggested that the employees at the LOC be better trained and become more customer service oriented.

In hindsight, the director would have liked to have some onsite technical assistance from people who were knowledgeable about implementing the Direct Loan Program. This could have improved operations by providing real-world "troubleshooting." She also wished that they had planned more for the transition. The planning process should have clearly identified the roles and responsibilities of the various staff members and offices. Finally, she would have liked at least one of her staff to be more computer or technically oriented. She advised schools considering entering the Direct Loan Program to work with the appropriate department for technical services to ensure they would have the necessary computer support to be successful.

The FAO at the private school indicated that Direct Lending entailed more work than expected. In hindsight, if they were to implement the program again, they would have gone 100 percent and would have had one person dedicated to the program full time. The FAO believed that devoting energy and resources to a single program was crucial to ensure its success.

The FAO believed that ED should not conceal problems. ED should keep schools informed when critical program issues (such as software and servicing) are not working and thus not allowing schools to effectively administer the program.

IX. Case Study Institutions' Advice to Other Schools Implementing the Program

Case study schools were asked to identify lessons that they had learned through their experiences planning for and implementing the Direct Loan Program. They also offered suggestions to other institutions regarding the best practices or procedures for implementing Direct Lending. Lessons learned and suggestions fell into several categories, including planning for program implementation, computer resources, and training. Case study schools also offered general advice to schools planning for program implementation.

Planning for Program Implementation

Overall, case study schools indicated that they would have preferred more planning time and advised new schools to allow 1 or 2 years for planning. One large 4-year school said that having additional planning time would have allowed them to construct a mainframe-to-mainframe system—which, in retrospect, they would have preferred. Another large 4-year institution suggested that prior to making the decision to participate in Direct Lending, prospective schools should put together a plan for implementation that included process mapping, resources, and commitments: "This [plan] would help [schools] identify which questions to ask ED and other schools, and avoid pitfalls."

Other suggestions included installing hardware, software, and other systems at least 9 months prior to program implementation. This lead time would allow for systems testing and modification. Also, it was suggested that prospective schools attend Direct Loan training for new schools far in advance of program implementation. According to one school, the training session came too late in the year (March or April) to be helpful in planning for the upcoming academic year.

Another recommendation concerned obtaining information from schools already participating in Direct Lending. It was suggested that visiting or talking to numerous participating schools would greatly aid new schools in the planning process. Two schools specifically mentioned selecting schools with similar hardware and software configurations. Schools also recommended that prospective schools ask very specific questions, e.g., implementation schedule, helpful hints, and advice.

Two schools also suggested that prospective schools talk to ED and/or the Regional Offices to obtain planning advice. One institution mentioned that they found it particularly helpful to visit the Regional Office as part of the planning process.

Computer Resources

Schools repeatedly suggested that prospective schools investigate and invest in "adequate" computer resources related to software, hardware, or technical expertise. One school that was no longer participating in Direct Lending said that each school needed to calculate their system specifications rather than rely on the general specifications ED provided.

Hardware: One proprietary school recommended that schools invest in the best (fastest) hardware they could afford in order to save staff time, and that schools install needed hardware prior to implementation. Another school also considered proper computer equipment important to successfully implement Direct Lending.

Software: A small proprietary school suggested that prospective schools research streamlined software that provides features not available through EDExpress. The FAO director said his commercial software consolidated steps that EDExpress performed separately, and he found it to be worth the investment. Two schools recommended that prospective schools carefully consider their financial resources for appropriate software.

Technical Support: Three schools encouraged prospective schools to develop an in-house technical support staff, experienced and familiar with the system. It was strongly recommended that they be trained on EDExpress or other Direct Loan software, as appropriate. At a 2-year institution, the FAO reported that the school's computer department could not provide the support they needed, and they suggested that schools send their computer staff to as much training as possible. A school that no longer participated in Direct Lending said that they would discourage schools from implementing Direct Lending unless they had adequate computer support.

Training

Three schools indicated that the more training staff received, the easier the implementation process would be. The same three schools emphasized the importance of obtaining onsite training, if possible, from the Regional Offices, ED's software contractor, and/or other specialists who understood the school's individual operating systems. Two out of the three suggested that new schools make use of ED-sponsored training, including training available at the Regional Offices. One school mentioned Title IV Wan and EDExpress training specifically as necessary for smooth implementation. One school's FAO director said that her lack of training made the implementation process more difficult than it needed to be.

General Advice

Case study schools offered some general advice to prospective schools to assist them in planning for and implementing Direct Lending:

- Three case study schools recommended fully implementing Direct Lending. A proprietary school reported that they phased in Direct Lending and let some second-level students finish under the FFEL Program. In retrospect, the FAO said, "It was hard for our school to process [two loan programs]. I would have switched everybody and had them consolidate. I think it would have been less confusing for students." At another school, although some staff recommended phasing in Direct Lending with new students for the first year, most staff felt that it was too confusing to operate multiple programs.

- Three case study schools suggested gaining "buy-in" from stakeholders, including educating staff and students well in advance of implementation, obtaining support from upper level administrators and the heads of all participating offices, and dedicating the financial aid office to the program.

- During the interviews, many schools indicated that they had initially expected some difficulties with the program, but these problems did not prevent successful implementation or outweigh the perceived benefits. One school's FAO suggested that the difficulties encountered were not as intimidating as some schools might think. She said, "Direct Lending was a good program . . . it was working [well]. As with anything new, there were bugs in the first year or two. Be prepared for that."

X. Case Study Institutions' Recommendations for the Department of Education

Case study institutions were asked whether they had any suggestions for improving the Direct Loan Program or advice for ED. Schools had recommendations in four areas: technical support and customer service, planning, training and technical assistance, and software.

Technical Support and Customer Service

- **Fix the LOC.** Send a group of financial aid administrators to the new LOC—give them a tour and provide an opportunity for financial aid practioners to voice their needs and concerns and share their knowledge.[18]

- **Don't change the LOC in the middle of the year.** This causes disruption of operations and hinders loan processing. In addition, one of Direct Lending's selling points was that loans would be held by one entity for the life of the loan. Although Direct Loans have not been sold, schools and borrowers must now deal with multiple contractors.

- **Improve the process by which loan changes are made.**[19] For instance, it would simplify the process if the federal government gave students a line of credit up to the full amount that they were eligible for. This would allow schools to make changes to loans without having to communicate the changes individually to the LOC and would drastically decrease the burden on the schools.

- **Improve the customer service provided to schools by the LOC.** Foster one-to-one relationships between schools and customer service representatives at the servicer.

- **Give schools read-only access to their files at the LOC.** Facilitate schools' access to up-to-date loan status information.

- **Give students more access to their loan information.** Let students interact directly with the LOC and the servicer and take the FAO out of the loop when it is just the middleman.

- **Ensure that Account Managers have real-world financial aid experience.** Assistance from Account Managers would be more valuable if they had hands-on experience with Direct Lending and other aspects of financial aid. They would benefit

[18] Following this year's site visits, representatives from the Direct Loan Coalition of Schools visited the new LOC facility to view the loan origination system.

[19] Although this is actually a recommendation for Congress, the respondent made the recommendation to ED.

from having more extensive apprenticeships[20] in different types of schools and would gain a better understanding of the impact that changes would have on schools.

Planning

- **Paint a more complete picture of what is involved in implementing Direct Lending.** Inform schools of what to expect and what will be expected of them in terms of program participation, such as anticipated changes in workload. Keep schools informed of the major issues as they occur, not after schools have already encountered and struggled to overcome them.

- **Increase awareness among schools entering the program about the importance of technology requirements.** Schools commented that ED's system specifications were not adequate to run the software and to efficiently process Direct Loans. Specifications should be customized for individual institutions based on the experiences of other schools.

Training and Technical Assistance

- **Create a Direct Loan policies and procedures manual for FAOs.** Helpful hints for program implementation would also be useful.[21]

- **Break out Direct Loan training into different sessions.** Schools should be further broken out by type and level of experience. For example, separate sessions should be held for clock-hour and term schools; schools with no computer experience need more basic computer training; some schools need only a refresher session, while schools that were new to the program need the basics.

- **Expand training sessions to include school owners and presidents.** Schools would do a better job of managing the Direct Loan process if there were program awareness at upper levels of the school infrastructure.

- **Provide onsite technical assistance.** Use a school's own screens and data to train and to solve problems.

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[20] Account Managers participated in externships at financial aid offices as part of their initial Direct Loan Program training.

[21] ED publishes a *Direct Loan School Guide* that provides information on program implementation and loan processing; the most recent version was published in June 1997.

Software

- **Improve and make modifications to EDExpress.** Suggestions included making the software more user friendly, incorporating an online help section so that everything would not have to be looked up in the manual, and increasing software speed. Schools also requested the ability to move from module to module for one student without having to leave the system, allowing staff to look at all of one student's information at once.[22]

- **Distribute fewer EDExpress updates.** Frequent updates are confusing and time-consuming for schools. Issue one version each year.

[22] This modification was incorporated into the 1997-98 version of EDExpress.

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Direct Loan Evaluation Case Study Summary Report: Academic Year 1996-97

Volume Two – Case Study Reports

1998

Direct Loan Evaluation

Case Study Summary Report:

Academic Year 1996-97

Volume Two—Case Study Reports

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This is the second of two volumes that make up the 1996-97 *Direct Loan Evaluation Case Study Summary Report*. The case study component is part of the evaluation of the William D. Ford Federal Direct Loan Program being conducted by Macro International Inc. (Macro) for the U.S. Department of Education. The case studies contained in this volume describe the on-site interviews conducted by Macro with financial aid office staff at 12 institutions that participated in the Direct Loan Program. To protect the confidentiality of the schools and all respondents, each school is identified by a number. The reader should refer to the *Direct Loan Evaluation Case Study Summary Report: Academic Year 1996-97, Volume One—Study Findings* for a summary of key findings from the site visits.

During the data collection phase of this year's case study component, March through May 1997, a new Direct Loan Program Loan Origination Center (LOC) began operations. Findings presented in these case studies, for the most part, relate to interactions with the original LOC. However, because many visits occurred during the transition to the new LOC, some of these schools also provided information regarding issues that resulted from the transition. Schools were often confused about the distinctions between the LOC and the servicer (in part because the previous LOC contractor was also, and continues to be, the servicer). In some cases, the text of these case studies was not edited so they reflect the case study schools' confusion regarding the roles of the LOC and the servicer.

Case Study Report

School 21

1998

School 21 was a private 4-year seminary college located on the West Coast. The school offered undergraduate academic programs and a graduate degree in theology. The graduate degree generally required 5 years to complete but extended to 6 for those students requiring "pre-theology" courses in philosophy.

A large proportion of the students were nontraditional in age. Many graduate students were sponsored by their local diocese. The diocese might contribute to the student's support or might repay the student loans upon graduation. All students were male.

Financial Aid

For the last 5 years, tuition and fees, and room-and-board costs, had increased at a steady rate; the costs were expected to continue to increase in the future. According to the Financial Aid Office (FAO), the costs at this school remained below those at other comparable institutions (1995-96 tuition was $6,420 undergraduate and $11,250 graduate; room and board was $9,870).

This was a single-campus school. Financial aid was centralized in a single-person office. Only subsidized student loans were offered at this school. Although eligible to originate Direct Loans according to the Department of Education (ED), the school had only offered FFEL Program loans, because the Direct Loan Servicer did not have them on record. Approximately 40 percent of these were with their primary lender, the state guaranty agency.

Reasons for Participation

The school's administrators decided to enter the Direct Loan Program because they believed it would make the FAO's responsibilities easier to manage. All Federal Family Education Loan (FFEL) Program processing was being done by hand, and Direct Lending was seen as requiring less paperwork. Direct Lending was to begin in fall 1997. At that time, the school was to begin using electronic funds transfer (EFT) for the remaining FFEL Program loans.

The school applied to participate in the Direct Loan Program's third year. They completed and submitted the application and were informed by ED that they had been accepted. However, when the school tried to run a test data exchange with ED's Direct Loan Origination Center (LOC), the LOC said that there was no record of their acceptance. The LOC said they had not received the appropriate paperwork from the U.S. Department of Education (ED). The school completed and submitted a second set of application forms but experienced the same problem. They submitted a third set of forms in December 1996 and decided to wait until fall 1997 to implement the program. As of April 1997, the FAO reported that they still had not been able to perform testing. The FAO director said that they would be receiving assistance in the future to resolve the problems encountered. S/he was not sure which agency would be assisting them, but said it might be the Direct Loan Task Force.

The director was frustrated by this experience; however, they intended to proceed with their planned phase-in of new students. Previous FFEL Program borrowers were to continue with that program, in part because the FAO director did not wish to alienate their lenders.

Implementation

The FAO director and the business manager had attended introductory Direct Loan training at the Regional Office and hands-on EDExpress training in another region. The FAO director said s/he might have to repeat the latter because of the delay in implementation. S/he reported that the training was very organized and professional.

Since the first site visit, the school had upgraded their computer system from two freestanding IBM-compatible 386 PCs to a Novell-based integrated PC system. This upgrade was not necessarily made because of Direct Lending; the decision to participate in Direct Lending had been, in part, affected by the prior decision to computerize school administrative functions. The school planned to use EDExpress to administer Direct Lending.

Experiences With the FFEL Program

Although the school retained excellent relationships with its lenders, the FAO director reported that there had been difficulties with processing student loans. Checks had been delayed, and the lenders had failed to notify the school of application problems in a timely manner. These problems had diminished in recent years. The director believed that the competition between the two programs had improved services.

Case Study Report

School 23

1998

School 23 was a public 2-year community college located in the midwest. The school had a main campus and two satellite campuses. Financial aid was administered at the central financial aid office (FAO) on the main campus. The school offered an arts and sciences curriculum, vocational/technical education programs, and continuing-education classes. School 23 had 872 full-time students and 356 part-time students in the 1996-97 academic year.

The academic year was based on a semester system. Tuition for in-state residents was $52 per credit hour and $78 per credit hour for nonresidents. In-state students who enter the vocational/technical program at this school payed $1,444 and out-of-state students payed $1,886 for the program. The FAO reported that tuition had remained steady during the past 5 years. They anticipated a $5 per credit hour increase in the 1997-98 school year.

Financial Aid

The FAO was headed by a director, supported by one assistant director.[1] At the time of the site visit, the director of financial aid was on extended medical leave. Nearly all financial aid operations were being managed by the assistant director. This individual worked in the FAO under the work study program and worked briefly at a nearby school that also offered Direct Loans.

Eighty-seven percent of the students received some form of financial aid during the 1996-97 academic year, as compared to 80 percent in the 1995-96 academic year. In 1996-97, 85 percent of the students received federal loans, compared to 75 percent the previous year.

The school originated its first Direct Loans in the 1996-97 academic year. Eight hundred subsidized Direct Loans, 248 unsubsidized Direct Loans, and 30 Direct Parent Loans for Undergraduate Students (PLUS) Loans were originated in 1996-97. While the percentage of students receiving financial aid had increased in the prior year, the assistant director could not identify any factors that affected this increase.

Reasons for Participation

The decision to participate in the Direct Loan Program was made by the former director, with the support of the assistant director. Both of these individuals came from another school that had implemented Direct Lending. They both felt that Direct Lending was easier to administer than the Federal Family Education Loan (FFEL) Program. Former staff had experienced difficulties managing the FFEL Program paperwork. Initially they did not receive any support from the business office, and the president of the school delayed final approval. Although the dean of student services had administrative oversight for this office, final approval of resources and policy changes

[1] It should be noted that this school had had three different FAO Directors in the past 7 years.

resided with the school's president and advisory board. Support for Direct Lending had increased since the program was implemented.

Approach to Implementation

With a two-person office, there was not much opportunity for planning a division of Direct Lending responsibilities. On the basis of Department of Education (ED) training materials, prior experience with Direct Lending, and some advice from the Regional Office, the FAO was responsible for all loan operations except drawdown, disbursement, refunds, and some aspects of reconciliation. These functions were administered by a new staff member in the business office.

Implementation

All FFEL Program administration was handled on paper. Direct Lending operations resided on a mainframe and an independent personal computer (PC). Data were double entered into these two systems. The school used EDExpress for all Direct Lending functions. The FAO purchased a Pentium PC, expecting it to be more than sufficient for Direct Loan needs. The PC, however, had run only sporadically during the last 9 months.[2] All problems and difficulties encountered in implementing and administering Direct Lending were directly attributable to the hardware failure.

The FAO received a grant to network their PCs on a Novell platform. The commercial software used to manage financial aid data on the mainframe was expected to have a module for mainframe-to-mainframe Direct Loan administration in the near future.

The networking of the PCs and the mainframe software improvements was expected to greatly enhance FAO operations. They hoped that it would also allow the FAO to access technical support from the school's computer center. The assistant director was very dissatisfied with the technical support s/he received from the school's computer services department. The programmers did not assist with PC operations and had no training on the technical aspects of EDExpress. The assistant director set up the system with step-by-step assistance over the telephone from ED's software contractor support staff.

Direct Loan Processes

Packaging of aid was performed on the mainframe. Subsidized loans were automatically included in the package after all other sources of aid. Unsubsidized loans were available if a student made a separate request. The amount a student was eligible for on the unsubsidized loan was not revealed;

[2] Initially the computer center thought that the problem was EDExpress and/or insufficient memory, but they now realize that the PC did not have sufficient memory to run EDExpress.

the student had to fill in the amount needed. The FAO could approve up to the maximum amount of eligibility. This policy was aimed at limiting borrowing and preventing default. The assistant director said that students did not know what they were signing and were surprised when they received a bill for interest on the unsubsidized loan. By requiring a separate request, the FAO staff could better inform the borrower about the nature of the unsubsidized loan. A parent might request a Direct PLUS Loan application.

Free Application for Federal Student Aid (FAFSA) data were used to create an origination record and print a promissory note for the subsidized loan. The note was mailed to the student with the award letter. Origination records were transmitted to the Loan Origination Center (LOC) *before* the signed note was returned by the student. When the note was signed and returned, its receipt was entered into EDExpress and a manifest was transmitted to the LOC. The FAO maintained a copy of the manifest, but no separate logging system was maintained. Depending on the time of year, between 10 and 20 notes were batched daily. The assistant director had not had any problems transmitting the batches.

The assistant director called the LOC for assistance if s/he did not understand the reason a record had been rejected. So far, only one origination record was rejected because the requested loan amount exceeded the grade-level limit. EDExpress' internal edits prevented other errors from being transmitted.

When the promissory note acknowledgment was received, the funds were disbursed to the student's account. The assistant director said that the new LOC slowed disbursements for up to 4 weeks because the acknowledgments were not transmitted. This LOC told the FAO to disburse funds for all loans with signed promissory notes, but the staff do not wish to disburse without the LOC's promissory note acknowledgment. The assistant director believed that this was just a transitional problem and that in the future promissory note acknowledgments would again be received within 7 days.

The business office was responsible for estimation and drawdown and for the disbursement and refund of excess funds to borrowers. The school did not experience any difficulty with these processes. In spring 1997, the business office combined all federal aid into a single calculation of disbursement and refund. The staff said that this was easier than separating loan calculations from other sources of aid. Under the FFEL Program, all disbursements and calculations had been performed by hand.

Generally, the FAO assistant director found that changing or canceling loans was an easy process. The only problem was when the LOC received a second loan record (for an increase in a loan amount) before the first one had been acknowledged. This led to a rejection of the second origination record. Once the first acknowledgment was received, the second origination record would be accepted.

Exit and entrance borrower counseling was conducted by the FAO. They used the Department of Education's (ED's) entrance and exit brochures and the entrance video. The brochures were judged to be excellent, but students do not find the video interesting. The FAO had the exit interview video, but had not yet used it. Upon graduation, the FAO counseled borrowers to consolidate their loans. The assistant director said that counseling was now easier than under the FFEL Program. In the past, the school had used handouts from multiple lenders, but these had not completely and systematically addressed all issues. In comparison, it was stated that the ED brochures were "really well put together." The FAO was now able to perform more counseling in a group format. In the past, because students had had to sign the loan check, counseling was conducted on a one-to-one basis.

EDExpress was used for reconciliation. Reconciliation records were transmitted monthly. If a record was rejected, the business office staff called the LOC for an explanation. If a disbursement record was rejected, the FAO was notified (in writing) by the business office. With the exception of one record, rejected records were usually reconciled in the next month. Most of the errors occurred in the loan detail report. At the time of the site visit (April 1997), the last reconciliation had been conducted in February 1997. The assistant director attributed the delay in reconciliations to the school's hardware problems and the new LOC.

The business office conducted an internal reconciliation between the data on the student accounts and the data on the financial aid record. Despite the time-consuming nature of this task, s/he decided to perform this on a regular basis as a result of discovering errors in Pell Grant data.

Department of Education

Training

Four persons attended EDExpress training—the FAO director and assistant director, one programmer, and one business office staff member. Because of the delay in the president's approval, the staff missed this training session in their region, but attended at another Regional Office. The training was rated useful and cost effective.

Materials

The FAO used the printed entrance and exit counseling materials and the entrance interview video. The assistant director found the brochures very useful and the video useful. Students did not find the entrance video very interesting. All material was received in adequate supply and on a timely basis.

Communication

When the assistant director had policy or regulation questions, s/he called the Regional Office. S/he said they gave her/his the answers s/he needed and s/he was very satisfied with their support. In comparison, s/he was dissatisfied with the support received from the new LOC.

The assistant director believed the Account Manager's role was "to make sure the schools were on task." The Account Manager called the FAO one time to "see if everything was OK." Neither s/he nor the business office staff was aware that the Account Manager was available for onsite technical assistance as well as other forms of technical support.

Experiences With the FFEL Program

The assistant director was moderately satisfied with the FFEL Program prior to Direct Lending.[3] S/he commented that there was "too much paperwork and checks were delayed." There was no "primary" lender for the school. The assistant director also noted that two local lenders closed after this school and another large, private 4-year school began Direct Lending.

All loans were guaranteed by the state guaranty agency. The school had an "excellent" relationship with this office. The relationship continues because the guarantor administered state aid. The FAO assistant director said that the guarantor had been "marketing" new FFEL Program services, but "they were too late. They should have made these improvements before they went to Direct Lending." The quality of this relationship deteriorated because the guarantor did not want the school to be a Direct Lending participant.

Lessons Learned and Best Practices

Two issues made the transition to Direct Loans a moderately difficult one. First, the hardware problems began early in the transition. Second, there was resistance at the school and from other FAO and business office staff to any change. An editorial in the school newspaper claimed that the FFEL Program was faster than Direct Lending. The assistant director replied to the editorial with proof that this was not the case. Those who resisted the change had now "come around."

It was difficult for the assistant director to compare the FFEL and Direct Loan programs. S/he had not been in this position for very long and there had been so much turnover in staff that comparisons were unfair. Generally, s/he said that Direct Lending required less effort than FFEL and that the decrease "freed up more time." S/he was very satisfied with all aspects of Direct Loan

[3] The FAO rated her satisfaction with the FFEL Program prior to Direct Lending a 3 on a scale of 1 (very satisfied) to 5 (very dissatisfied).

administration, but qualified this with, "if the computer would work." S/he said that s/he was very satisfied with all levels of support from the former LOC, but was somewhat dissatisfied with her/his interactions with the new LOC.

The assistant director recommended that FAOs considering implementing the Direct Loan Program start planning for it earlier. At School 23 they did not start the planning until July for an August start-up. S/he also recommended that FAOs attend as many of the ED training courses as possible. S/he would encourage the school's computer programmers to attend the EDExpress training. In hindsight s/he wished that the school had purchased computers that could handle the demands of the Direct Loan program. Onsite technical assistance from the software contractor would also have been helpful.

Case Study Report

School 24

1998

School 24 was a for-profit technical school located in the suburbs of a northeastern city. The school consisted of a main campus and a smaller, branch campus in a nearby suburban town. In 1987, the school was acquired by an education corporation owned by a single individual. The branch campus opened in 1989, the main campus in 1967.

The school applied during the winter of 1994-95 and was accepted to participate in the Direct Loan Program as a Year 3 school. However, as of April 1997 they had not originated any Direct Loans, having chosen to remain in the Federal Family Education Loan (FFEL) Program. Although there were a large number of factors involved in the decision to remain in the FFEL Program, the main reasons were their unfamiliarity with Direct Loan processes, their high level of satisfaction with their lenders and guarantors, and the reversal of a federal legislative mandate requiring all schools to eventually participate in the Direct Loan Program.

School 24 offered a variety of nondegree programs of study in computer-related courses that varied in length from 300 to 900 hours. Skills certificates were offered in the following areas: PC/Network technical support, business software systems, medical office administration, and systems approach to programming. All courses of study were not offered at both campuses. Day students completed the 900-hour program in 30 weeks, night students in 50 weeks. In both cases, the program consisted of 1 academic year, with students eligible for a single loan period.

Over the last 5 years, enrollment patterns have changed rather significantly. For example, as local unemployment rates soared in the early 1990s, a greater proportion of students enrolled as day students, which allowed them to enroll in a longer program of study, and as a result, borrow larger student loans. However, in the previous few years, this pattern had reversed itself, and the day student/night student balance returned more to historical levels. At the time of the site visit, about 400 students were enrolled at the main campus and 200 at the branch campus.

Tuition for the 1996-97 period had increased 10 percent from the previous year, to $8,500 for the 900-hour program, $7,150 for the 600-hour program, and $4,150 for the 300-hour program. According to the school officials, the increase was due to equipment upgrades.

Financial Aid

Each campus has its own Financial Aid Office (FAO), although the administration was centralized at the main campus. The total staff for both offices was 4.5 full-time-equivalents (FTEs), with 3.5 FTEs at the main campus and 1 FTE at the branch campus. The financial aid director at the main campus set financial aid policy for both campuses.

According to the director of financial aid, there had been no significant changes in borrowing patterns during the previous year, despite small changes in the composition of the student body and the 10 percent increase in tuition. Total borrowing for the 1996-1997 academic year was estimated to be in excess of $600,000 in subsidized Stafford borrowing and approximately $700,000 in unsubsidized loans. As had been true for the last few years, approximately half of all students at the school had federal student loans.

Reasons for Participation

The decision to participate in the Direct Loan Program was made jointly by the president of the school and the FAO directors. The two main reasons for wanting to participate in the program were the desire for access to more student loan borrowing options and the expectation that Direct Loan processing would operate more smoothly than the FFEL Program's paper check system. Also, at the time of application, the state guaranty agency's electronic funds transfer (EFT) was a new system and was not operating smoothly. The FAO directors had initially thought that elimination of the middleman might also decrease student loan fees, but came to realize this was not true. Both FAO directors said that the school's administrative allowance was not a consideration in the decision. Perhaps the most compelling reason was the expectation that Direct Lending would eventually be the only option for loan origination and that the schools would not have a choice of loan programs.

At the time of application, the state guaranty agency attempted to discourage participation, saying that the schools would require more staff or a third party servicer (TPS), because Direct Lending was complicated and required voluminous reporting.

Approach to Implementation

At the time of our last site visit, in March 1996, School 24 had been planning to phase in the Direct Loan Program until it represented 25 percent of their overall loan volume. The plan was to then evaluate the success of the program and either expand their participation or withdraw. At that time, the FAO directors were open-minded about Direct Lending, but expressed some concern that the workload would be more than the current staff could manage. They were also considering using the TPS that handled their Pell Grants to handle their Direct Loans.

As the staff began to develop their approach to implementation, a pivotal event came when the school received their Direct Loan participation agreement. Much to their chagrin, they were classified as a "standard option," or level 3 school, where the Direct Loan servicer was responsible for printing promissory notes for approved loan origination records and for drawing down funds. In addition, the school was told that they would not receive the $10 administrative allowance. At the time, the FAO director said that although s/he could not recall exactly what level the school had applied for, the designation they had received was "unfair." Furthermore, s/he said that their "standard option" designation might have been related to the school's 1993 cohort default rate, which had been incorrectly reported as 27 percent by the state guaranty agency. Even though it had long since been corrected to slightly over 18 percent, as of April 1997, the U.S. Department of Education (ED) had not updated its records, and so the school continued to retain the designation as a "standard option" school.

After the school received their designation as a "standard option" school, enthusiasm immediately began to wane for participation in the Direct Loan Program. When they tried to obtain information on Direct Loan training, the school was told that since the training center at their Regional Office was not yet open, they would have to travel to another region for training, a significant expense for a small proprietary school. When they finally did receive the EDExpress training, the FAO directors felt as if the training were geared almost exclusively to 4-year institutions, not proprietary schools. When the Regional Office training facility became operational, no one called or came out to visit; when the school called, they felt as if an adversarial relationship already existed—instead of offering assistance, the Regional Office wanted to know why no Direct Loans had been disbursed. When combined with the school's high level of satisfaction with both their primary lender and guarantor under the FFEL Program, little incentive seemed to exist to disburse their first Direct Loan. The death knell for their participation in the Direct Loan program came in 1996 from the federal legislative compromise that ended the 5-year, 100 percent phase-in of Direct Lending. Now that School 24 felt that they had a real choice between loan programs, they decided against disbursing any Direct Loans, and as of April 1997, they had yet to disburse their first Direct Loan.

Direct Loan Processes

Although School 24 had yet to disburse any Direct Loans, they were planning on using the same computer hardware for Direct Loans that they were using for the FFEL Program—a non-networked PC. As far as software was concerned, for years the school had used commercial software supplied by their guaranty agency, which they described as excellent in terms of both usage and support. For Direct Lending, School 24 was planning on using EDExpress or some other commercially available Direct Loan software. However, the school was quite disappointed when at their EDExpress training session, ED chose to focus on DOS-based environments rather than the Windows environment the school was accustomed to.

Department of Education

To prepare to implement the Direct Loan Program, the two FAO directors attended a 2-day EDExpress training session. Unfortunately, since their Regional Office training center was not yet up and running, the training session was held in a location outside their region, forcing the FAOs to spend additional funds on travel. During training, the FAO directors had two main complaints: the emphasis on DOS-based environments and the feeling that the entire session was geared towards 4-year institutions, not proprietary schools like themselves. Compared to the training provided through the FFEL Program, the FAO directors found the EDExpress training sorely lacking.

At the time of the visit, the school had not used any of the counseling materials supplied by ED, nor had they participated in or viewed videotapes of the ED-sponsored teleconferences. In addition, they had not made use of any of the financial aid electronic bulletin boards. However, when asked to comment on the role of the Regional Office, the FAOs had quite strong opinions. Specifically, they felt that the Regional Office was not reaching out to help them at all, and in many ways was acting adversarial. It was clear that the FAOs felt that anytime they needed a question answered, they were afraid to call the Regional Office, for fear of triggering a program review or a compliance audit. They commented repeatedly that they were never offered assistance and that no Account Manager ever came out to see them. In fact, when asked to rate the usefulness of the Account Manager's response to requests for assistance, the FAO director gave the Account Manager the lowest rating possible.

Lessons Learned and Best Practices

Although any comparison between the programs would be limited by the scope of School 24's participation in Direct Lending, one thing stands out: School 24 never really felt taken care of by ED. From the lack of local training to the focus during training on a DOS-based instead of a Windows environment to the perceived adversarial relationship with the Regional Office, it became clear that this school never really felt wanted by the Direct Loan Program. When coupled with their high level of satisfaction with the FFEL Program and their largely political decision to participate in Direct Lending, it comes as no surprise that they had yet to originate any Direct Loans.

Case Study Report

School 26

1998

School 26 was a 4-year public university located in a small city. The university facilities included a main campus and a satellite facility in another city within the state. The school had a centralized financial aid office (FAO). This school originated Direct Loans during Year 2 of the program (1995-96), but reverted to the Federal Family Education Loan (FFEL) Program in the following year.

School 26 offered 34 different undergraduate majors and 13 master's-degree programs. In academic year 1996-97, this school had 4,952 full-time students and 1,161 part-time students.

The academic year was based on a semester system. Undergraduate tuition for full-time in-state residents was $2,624 per semester and $6,100 per semester for out-of-state students.[1] In-state master's-degree students paid $159 per credit, and out-of-state students paid $184 per credit. The FAO reported that tuition had increased approximately 5 to 6 percent per year during the previous 5 years.

Financial Aid

The FAO was headed by a director who was supported by two assistant directors. There were 4 additional permanent staff members and 12 student assistants.

Eighty-seven percent of the students received some form of financial aid that academic year, as compared to 85 percent in the 1995-96 academic year. In 1996-97, 35 percent of the student body received federal loans, versus 34 percent the previous year.

In the 1995-96 academic year, this school originated 1,714 subsidized Direct Loans, 841 unsubsidized Direct Loans, and 312 Parent Loans for Undergraduate Students (PLUS) Direct Loans. The FAO director indicated that the loan volume for PLUS and unsubsidized loans had increased in the prior year. The director attributed the change in borrowing to increases in tuition as well as changes in federal loan limits.

Reasons for Participation

The decision to participate in Direct Lending was made by the FAO with encouragement from the business office. This school was accepted for Year 2 of the Direct Loan Program. Several factors led to the decision to move to the Direct Loan Program in 1995-96. First, the FAO was dissatisfied with the FFEL Program and the many different guaranty agencies they had to deal with. Second, at the time they made their decision they felt they "wouldn't have a choice" and wanted to "get on the bandwagon" to be competitive with other schools. The $10 administrative

[1] Full time is considered 12 credits or more per semester.

allowance was also an important incentive, making it possible for the FAO to purchase much-needed computer equipment.[2]

School 26 reported that initially they received active support from other university offices for participating in the Direct Loan Program. However, this support decreased considerably during the first year of implementation and by the end of the 1995-96 academic year the FAO had made the decision to pull out of the program. Reasons given for withdrawing from the program included the following:

- There were problems with the system from the beginning—missing promissory notes, problems with the software, and limitations to the system.
- Their contact with the Loan Origination Center (LOC) was frustrating. Timeliness was a key concern (e.g., calls were not returned, batches were lost during transmission). They found various levels of competence among the staff they worked with at the LOC.
- FAO staff were having to work more hours to get the work done. There was an ongoing struggle with the business office over reconciliation.

The director also indicated that her/his staff were not adequately prepared and trained for their new roles. They needed more technical skills (i.e., computer skills) but did not have the time to learn these new skills, given the increased workload and lack of additional staff support. In the end, they felt that student service suffered; they could not respond to students'/parents' questions in an authoritative and timely manner.

Implementation

After School 26 decided to implement Direct Lending, they established a committee that included the business office and the computing office to help guide their implementation. The director reflected, however, that not enough planning and assignment of responsibilities took place at that time. Members of the committee visited a Year 1 Direct Lending school of similar type and characteristics. They received student information software from that school. Much of School 26's approach to implementation was based on how that Year 1 school had implemented the Direct Loan Program.

The FAO implemented the Direct Loan Program using two 386 and two 486 personal computers (PCs) and a laser printer that were purchased specifically for the program. These PCs were networked to the business office for drawdowns. The FAO processed all Direct Loans using EDExpress. No commercial or in-house software, other than an interface program that linked the FAO to the business office, was used.

[2] Prior to Direct Lending, the FAO had had one old PC (labeled "a dinosaur").

The FAO indicated that adapting and implementing the computer system for Direct Lending required a moderate level of effort. In hindsight, the FAO wished that they had purchased Pentium computers and that the U.S. Department of Education (ED) had designed a more "user friendly" system. The FAO was not at all satisfied with the software configuration used under Direct Lending. They had numerous complaints about EDExpress software, including the fact that there was no online help and staff could not customize reports.

The FAO contacted the ED LOC with questions, but was dissatisfied with the technical support the school received and found they often received conflicting information. They were very dissatisfied with the Title IV Wide Area Network (WAN); data routinely were lost. School 26 was satisfied with the technical support they received from their own school (although it was limited) and from the Direct Loan software contractor.

Direct Loan Processes

The front-end processes—packaging, loan application process, and origination—went smoothly. This school did not have any policies limiting student borrowing and used software to calculate the full amount of unmet need. The FAO sent the award letter and waited until they had received a signed promissory note before originating the loan. Approximately 85 percent of the offers for financial aid were accepted at this school. School 26 reported experiencing problems in approximately 25 percent of the batches they transmitted to the LOC. Most of the time they would receive an error message, but at times the LOC did not acknowledge receiving the batch and the school had to re-generate and transmit the batch again. They used a manual system for tracking batches.

The business office was responsible for estimation and drawdown as well as the disbursement and refund of excess funds to borrowers. The school did not experience any difficulty with these processes. The FAO handled loan changes at this school and had to manually go into each record to make the changes before they were batched to the LOC. As a result, the school experienced problems when canceling loans. They would have liked to be able to resurrect a canceled loan to make sure that each step of the loan process was done in sequence.

At School 26, students were counseled about repayment options during their exit interview. The school was very pleased with ED's materials and continued to use them even after returning to the FFEL Program. Upon graduation, the FAO counseled borrowers about consolidating their loans if they had a large debt.

Reconciliation was the formal responsibility of the FAO because that office retained all of the student loan records. They entered all the disbursement data into the computer. The business office transmitted the records and received acknowledgments from the LOC. When the data did not reconcile, the business office would go back to the FAO, because they had the records that had to be manually reviewed. It should be noted that the FAO tried, without success, to formally move reconciliation to the business office.

Reconciliation records were transmitted monthly. For those records that required resubmission, it sometimes took five resubmissions before the records were resolved. The majority of problems occurred when attempting to complete the cash summary report. The school's beginning and ending cash balances sometimes did not match the LOC's. The school also had problems with the loan detail record report. Upon receipt of an error report, the business office sent the report to the FAO. FAO staff manually reviewed each student's file to resolve the problem.

The individual responsible for reconciliation in the business office acknowledged that they did not have a complete understanding of why records were rejected. S/he indicated that the LOC was not very responsive to her/his calls for assistance. Because the LOC did not assign one customer service representative, the school ended up talking to many different people, none of whom were familiar with this school's particular problems. Typically, records for a semester were resolved in a month or two. However, at the time of the site visit, the school had received a 30-day warning report with 98 names from the 1995-96 academic year.

Department of Education

Training

Eight staff members representing this school's FAO, business office, and computer services department attended Direct Loan training offered by the Department of Education. Overall, the FAO found the training to be useful. The FAO staff were able to apply what they learned at the training and developed their own step-by-step procedures, which they then shared with other staff. The FAO suggested that future ED training include more examples of potential problems that schools might encounter when implementing the Direct Loan Program and possible solutions to these problems. Additionally, this school recommended that ED provide onsite "hands-on" technical assistance.

This school did not participated in any ED-sponsored teleconferences, but viewed a Pell payments video. They did not find the video at all useful and felt that the subject matter did not lend itself to teleconferences and/or videos. In general, they commented that "live" training helps keeps people more engaged in the training.

Materials

The FAO used the ED-printed entrance and exit counseling materials but not any of the counseling videos. S/he found the brochures very useful and continued to use the exit counseling brochure after they returned to the FFEL Program. All material was received in adequate supply and on a timely basis.

Although this school used the EDExpress Software User's Guide, they did not find it very useful. They felt you had to figure out too much on your own, and they wound up writing their own set of instructions. According to the FAO, the guide appeared to be written by a "technical person" and what was needed was a simplified guide that anyone could use (as "basic and elementary as possible"). The suggestion was made that the FAO contribute to developing a manual that would walk a person through the process step by step.

Communication

When School 26 had a question about the Direct Loan Program, they contacted the Direct Loan Task Force rather than the Regional Office or the ED Hotline. They were satisfied with the usefulness and timeliness of responses from the Task Force. The FAO indicated that they were somewhat satisfied with ED's responsiveness to their questions about policies, rules, and regulations. They noted that most of their issues were at an operational level, and they did not think that ED had tight enough control over the LOC. They would like to see more accountability.

This school had minimal contact with their Regional Office Account Manager and felt this individual was "too junior and only knew the rules, but not how to apply them." The Regional Office Account Manager called the school once or twice, but never visited. They would have liked someone who could have been the overseer of the whole process and could have intervened when there were problems.

Experiences With the FFEL Program

Prior to the implementation of Direct Lending, this school had not been very satisfied with the FFEL Program.[3] The guaranty agencies had been difficult to deal with; there were different sets of rules and no common procedures across lenders; everything was done through the mail, and they had to wait for things. Since this school returned to the FFEL Program they have been very satisfied. They believed that the FFEL Program was "much better for their students."

Prior to implementing Direct Lending, the school reported it had had an "excellent" relationship with its primary lenders. During the year that School 26 was in the Direct Loan Program, representatives from the lending institutions met with the director of financial aid to see what they could do for the school to encourage them to return to the FFEL Program. The director of financial aid commented that the lenders did a lot of "public relations" during that year. The school continued to have an "excellent" relationship with its lenders after returning to the FFEL Program.

[3] The FAO rated their satisfaction with the FFEL Program prior to Direct Lending a 4 on a scale of 1 (very satisfied) to 5 (very dissatisfied).

The director of financial aid reported s/he had had a "fair" relationship with the guaranty agencies and loan servicers prior to Direct Lending. A typical problem that would occur was that the FAO would send requests for changes in the loan to the guarantor, but the changes often were not made and the checks would be made out in the wrong amount. Since returning to the FFEL Program, the school had gone through Sallie Mae and had not experienced any problems.

In summary, this school's director of financial aid said that the "FFEL Program is more customer service oriented." Recently both the vice president of student and educational services and the business office acknowledged that the school had had "its best opening yet."[4] The FAO concluded by saying that "competition has been a plus for improving FFELP."

Lessons Learned and Best Practices

School 26 indicated that it was "moderately difficult" to make the transition from the FFEL Program to Direct Lending. The most difficult change was going from a very manual system to an electronic system. They also experienced difficulty working with the LOC. The FAO director indicated that her/his office's workload significantly increased when they entered the Direct Loan Program. With Direct Lending, the FAO was responsible for tracking the loans, and felt as though they were the "servicer."

Specific functions in which the school reported a significant increase in workload under Direct Lending were the following: loan application process; disbursement of loan funds and receipt and distribution of paper checks; borrower counseling; and Student Status Confirmation Reports (SSCRs). Refunding excess loan funds was the only function in which the school saw a significant decrease in its workload under Direct Lending.

With the new responsibilities the school had to perform under Direct Lending, they felt that their workload would permanently increase in relation to the PLUS loan application process and the reconciliation function. They believed that these changes had a negative impact on FAO operations, and that as a result they did not meet their students' needs as effectively as they had under the FFEL Program.

The FAO at this school offered several suggestions for improving the Direct Loan Program. Prior to entering the program, prospective schools should be aware of the technological demands that will be placed on them. Within the institution, roles and responsibilities need to be clearly identified and planned for. Given the possibly increased workload, schools should review their FAO staffing configuration and determine whether additional workers are needed. The FAO also suggested that the employees at the LOC be better trained and become more customer service oriented. Having a specific customer service representative assigned to each school might improve interactions.

[4] They were referring to the 1996-97 academic year, when the school returned to the FFEL Program.

In hindsight, the director would have liked to have some onsite technical assistance from people who were knowledgeable about implementing the Direct Loan Program. This could have improved operations by providing real-world "troubleshooting." S/he also wishes that they had planned more for the transition. The planning process should have clearly identified the roles and responsibilities of the various staff members and offices. Finally, s/he would have liked at least one of her/his staff to be more computer or technically oriented. S/he advised schools considering entering the Direct Loan Program to work with the appropriate department for technical services to ensure that they will have the necessary computer support to be successful, as the Year 1 school they visited has been.

Case Study Report

School 27

1998

School 27 was a proprietary technical institution located in a small town outside a major metropolitan center. It had a single campus with a centralized financial aid office and only one half-time financial aid staff member. School 27 first originated Direct Loans in 1996-97 (Year 3 of the program).

The school offered three certificates in business and computer skills. The office assistant certificate required 45 weeks to complete, at a cost of $5,500. The computer technology and legal secretary certificates both required 68 weeks to complete, at a cost of $7,900. New programs started every 5 weeks. The school had recently added more course hours to its requirements, which increased tuition. Courses became more technical and included more computer work.

The student body was composed mostly of women and had remained stable in size over the last several years. The student characteristics have been changing, with more dependent students, single mothers, Aid to Families with Dependent Children (AFDC) recipients, Job Training Partnership Act (JTPA) participants, and shelter populations attending. Part of this change was due to the intentional recruitment practices of the school.

The school was a Level 1 school handling all loan processes. It offered Direct Loans to 100 percent of its students in academic year 1996-97, Year 3 of the Direct Loan Program.

Financial Aid

The financial aid office (FAO) had one half-time professional staff member. Two staff members from other departments contributed on a part-time basis to help out with computer functions and reconciliation. The financial aid director, who was also the owner, worked less than half time on financial aid.

Approximately 76 percent of the student body received some form of financial aid in 1996-97, compared to 67 percent in 1995-96. The total federal loan volume (excluding Perkins) was approximately $330,000 for 1996-97. This was a significant increase over the prior year's volume of about $125,000. The director indicated that there had been an increase in unsubsidized loans resulting from a loss of JTPA funds.[1] The previous year, the school had had about 40 students participating in JTPA; in the 1996-97 year there were only about 4 students participating in JTPA.

The director met with each student individually to review the promissory notes and the financial aid packages, which offer students loan funds for tuition and fees and an option for up to $3,000 in excess funds. The director encouraged students to borrow the minimum amount they needed

[1] The state did not approve the county's workforce development program.

to attend school. Parent Loans to Undergraduate Students (PLUS) loans were packaged separately on the basis of needs analysis.

Reasons for Participation

The former owner had decided to participate in the Direct Loan program, with strong encouragement from the new owner who made it part of sales agreement. There were three motivations. First, Direct Lending gave the school more control that the Federal Family Education Loan (FFEL) Program. Though the school had a low default rate, the director said that proprietary schools in general were being cut out of the federal loan programs. Lenders did not want to serve proprietary schools because they did not make money on such short-term loans. Second, the Direct Loan Program provided more repayment options.[2] Third, Direct Lending provided more flexibility in scheduling disbursements.

The other administrative offices at School 27 had been very supportive of Direct Lending, particularly the director of admissions, who had worked in the Financial Aid Office (FAO) at a Year 1 Direct Loan school. In addition, the FAO director owned another business, which provided third-party services to higher education institutions participating in both Direct Lending and the FFEL Programs. S/he had both an understanding of, and enthusiasm for, the Direct Loan Program.

Implementation

The strong financial aid background of key staff made the transition to the Direct Loan program from the FFEL Program very easy. The staff did not seek advice or assistance from other schools. The FAO director took primary responsibility for designating functions among existing staff on the basis of relevancy to their area of expertise. However, s/he also used the previous experience of the director of admissions.

The FAO director attended Year 1 training even before s/he purchased the school, and also attended reconciliation training. S/he had recently attended a Title IV WAN Update training. Other staff, who process promissory notes, maintain manifests, and reconcile accounts, had attended reconciliation, EDExpress, and client services training at the Regional Office. The director said that this training had been very useful and cost effective.

School 27 purchased new personal computers (PCs) with Pentium processors for implementing Direct Loan functions. The school used a Windows NT operating environment. Previously financial aid functions had been performed on paper. For Direct Lending, the school used software developed in house for maintaining the general ledger and tracking cash drawdowns, and used EDExpress for other functions. The in-house software was developed by a systems consultant. The director said

[2] The FFEL Program now offers similar options, at the lender's discretion.

it was easy to adapt and implement the computer system for Direct Lending because s/he and some of the staff had done this type of conversion for other institutions.

The school had encountered an unanticipated difficulty during implementation involving their U.S. Department of Education (ED) identification (ID) number. The school had changed owners about the same time the decision was made to implement Direct Lending. After a change of ownership, ED would automatically discontinue a school's access to financial aid and related electronic processes. At the time of the visit, the school was planning to send its first electronic records under its own ED ID number.[3] The director said a large part of the delay had been caused by a disconnect between the ED contractor processing the Free Applications for Federal Student Aid (FAFSA) and ED. The servicing center had had to tell the contractor to put School 27 on the electronic system.

During the implementation process, the director also discovered some glitches in their computer system. First, using EDExpress for transmissions and the in-house software for processing created batching difficulties. The director also said they purchased good, fast hardware to accommodate Direct Lending, but the software had thrown them out of the system. For example, when originating or importing Institutional Student Information Records (ISIR), her/his system sometimes locked up.

School 27 reduced the number of staff performing financial aid functions after implementing Direct Lending; the full-time FAO position was eliminated. This resulted in an ongoing savings of $18,250 annually in salary. The school spent a one-time amount of $2,273 on computer equipment.

Overall, the level of effort required to implement Direct Lending was minimal, with some unanticipated problems with software which the school continues to work on. The larger issue of losing access to ED's electronic systems as a result in the change of ownership did not prove difficult because the director transmitted the school's files through their servicing company.

Direct Loan Processes

The director met with students in an initial interview and provided a financial aid application. S/he said that nine times out of 10 they could do full packaging at that initial interview because the admissions office was very good at informing students of what they needed to bring. The student did a FAFSA on paper and then staff would input it. Staff ran the needs analysis and packaged them on the basis of tuition costs and an option for excess funds. Loans were originated by inputting the ISIR information into the PC. ISIR information was never input manually unless there was a problem with the ISIR. The staff uses the packaging information to determine subsidized and unsubsidized loans, and generated the origination record. Records were not sent to the LOC until after new students had attended an entrance counseling session.

[3] The FAO's third-party servicing business had been transmitting School 27's records along with its other clients.

Pell Grants were distributed on the first day of classes to students who attended. Three weeks after classes began, the school required new students to attend an entrance counseling session using the ED videotape followed by a question-and-answer period. At that time, a student signed her/his promissory note, which never left the building. Staff would input the signature date into the origination record. Records were batched and sent to the LOC every 5 weeks. The manifest was then updated. The director said that this system provided two benefits. First, they were working on loans for students who were more likely to continue to attend school. Second, they knew where the student was in the loan process.

School 27 encouraged the parents of dependent students to attend the initial interview. Parents interested in PLUS loans received a transmittal form from the school delivered via the student. They had 5 days to return it. At the time of the visit, only three parents had applied for PLUS loans, and two had been denied.

As already mentioned, School 27 had had transmission difficulties as a result of the change in ownership. At the time of the visit, the director anticipated that these problems would be resolved within days. S/he said that the LOC had been very helpful and that ED's software contractor was part of the problem. S/he said that s/he had been unable to actually speak with a person who entered schools into the system.

The first drawdown occurred 27 days into the term and was deposited into the federal account; the school floated a student's tuition until then. Then the money was transferred by check into the school's account. A copy of the master check was placed in each student file and a receipt was issued. Disbursement information was entered right off the check into the general ledger and then into EDExpress. The school kept a paper account card for each student. In order to refund excess funds to students, the school would cut them a check. At the time of the visit, the school had experienced a problem in matching their cash refund records with the LOC's refund records.[4]

School 27 only had to increase loan amounts for their students because they only package tuition and the option for excess funds. The staff would produce another promissory note if the student opted for additional funds.

At the time of the site visit, the school performed paper reconciliation monthly, but because of the problem with their ED ID number, they had not submitted the data electronically. They used bank statements to verify their records.

Every 3 weeks, exit counseling sessions were available for students completing the program. Students also worked out a budget during their exit interviews. At the time of the visit, no students had consolidated loans; however, the school encouraged students to consolidate. The financial aid staff had experience in consolidations and was available to assist students in this process.

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[4] This problem was encountered by several schools served by the director's third-party servicing business and affected School 27 because it was being processed with these schools until the problem with its ED ID number was resolved.

The school planned to make some changes to their processes. The director anticipated that they would continue to improve their customized software and would notify students of disbursements using an e-mail system. S/he also planned to add a midcourse counseling session reminding students that they would have to repay their loans regardless of whether they had received their certificate. The school received two letters of complaints that the FAO had not made that clear. S/he also said that they planned to add new software that would automatically enter disbursement records into EDExpress.

Department of Education

Training

On the basis of their job functions, staff at School 27 have attended Direct Loan training at the Regional Office, including Direct Loan training for new schools, reconciliation, EDExpress, and Title IV Update training. The director rated the training highly. S/he suggested that the Regional Office separate the experienced and the inexperienced computer users, since a lot of training time was spent on basics, e.g., how to use a mouse. The director conducted an in-house training for staff, but s/he preferred to send them to ED training. Staff had also received training from several financial aid associations, as well as the state association.

The school had not participated in or viewed videotapes of ED-sponsored teleconferences. The director said they would have liked to participate, but they only received one notice and it required investigation to find a viewing location.

Materials

The director had used all of the ED counseling materials and rated them highly, though s/he said the exit interview brochures were hard to obtain and the repayment booklet had been discontinued. S/he used the booklet "All About Direct Loans" extensively. The staff did not use the Software User's Guide.

Communication

The school relied on the Direct Loan Task Force to respond to questions on policy and on rules and regulations, and usually received a reply within 24 hours. The director said s/he never asked the Regional Office those types of questions, though s/he communicated with them on training. S/he also said that their new phone system was very inconvenient. "You can't get through to them," s/he said, "then, their voice-mail gets full and kicks you out of the system."

The Regional Office Account Manager had called the school to offer assistance. The director said that the Regional Office called too much at first, to make sure they were doing well. S/he thought that the Account Managers should focus on training and develop more experience in the field, e.g., physically originate loans themselves, and develop more expertise in how Direct Lending impacts different types of schools.

Occasionally the director would use electronic bulletin boards to find regulations and *Federal Register* announcements. S/he thought that these services were useful and would become increasingly so as more people come to use the Internet.

Experiences with the FFEL Program

According to the FAO director, students received better service under Direct Lending than under the FFEL Program. First, under the FFEL Program loan, checks would frequently arrive 10 to 30 days after students were entitled to receive them. Second, the secondary loan market created confusion for students when their loans were sold multiple times or broken up among servicers. The director said s/he thought that it contributed to defaults because students would lose track of who was holding the note on their loan. Under the FFEL Program, the school also had difficulties. The director said the school had finally established a post office box just for loan checks because the banks would send checks that never arrived. In addition, the school had to fight banks to stay in the program. S/he said one of their two primary lenders was bought out by a large chain that would not serve programs of less than 2 years.

The director said s/he still had a good relationship with lenders and that s/he might reapply to the FFEL Program, though s/he had no plans to make loans under this program. The school worked with the state guaranty agency under the FFEL Program because proprietary schools had no other choice.

Lessons Learned and Best Practices

The director strongly supported the Direct Loan Program. S/he said that other schools should expect a few bugs in their initial year, but s/he thought it should be the only loan program available. S/he said it really benefited the students.

The director also suggested that schools implementing the Direct Loan Program obtain the best hardware they could and put it in place prior to implementation. S/he also felt that trying to provide both loan programs was confusing to the students and increased the workload for staff.

The director had suggestions for ED. First, s/he recommended that ED develop a streamlined process so that other schools do not experience the problems School 27 experienced. S/he also said there was a lot of misinformation regarding Direct Lending in the higher education community and that lenders encouraged schools to stay in the FFEL Program by means of "perks" such as lunches and free consulting.

In order to increase accessibility, s/he said ED needed to send out reminders with viewing locations of the ED-sponsored teleconferences. S/he also recommended that ED offer more information regarding the Direct Loan Program during the training required of new school owners. S/he also said that owners and presidents of participating schools needed to attend Direct Loan training because of the liabilities that could occur. Finally, s/he suggested that ED send well-labeled updates of the Software User's Guide regularly.

Case Study Report

School 28

1998

School 28 was a multiple-campus technical proprietary institution with a centralized Financial Aid Office (FAO). The school first originated Direct Loans in 1996-97 (Year 3 of the program).

The school offered a technical certificate in welding, which takes 900 clock hours (9 months) to complete, at a cost of approximately $9/hour, for a total of $8,029 for tuition and related costs. Tuition decreased slightly during the past few years. The FAO director said that over time they had discovered what tools and instructional materials were most useful to the students, and as a result, some tools and instructional materials were dropped altogether. Students tended to be older, independent, and employed in unskilled or low-skilled jobs. They were required to have a high school diploma or an equivalency in order to be accepted into the certificate program.

Applications were accepted on a rolling basis every month. In 1996-97, the school had 397 full-time students enrolled, which was a significant increase over the last few years. The director attributed this to an improvement in the local economy and an increased demand for skilled welders in the area.

Financial Aid

For 1996-97, School 28 had three professional staff, four full-time support staff, and two student staff performing financial aid functions. The director allocated resources and assigns responsibilities. The school expected to have one computer dedicated to financial aid next year (they did not use a computer for financial aid at the time of the visit).

The school owners decided to participate in the Direct Loan Program soon after they heard about it. They felt the Direct Loan Program offered more flexibility in disbursing funds, which suited the school's rolling enrollment. Also, it requires fewer steps than the state-administered Federal Family Education Loan (FFEL) Program. The school had to use the state's program as a lender of last resort, because they were a proprietary school and commercial lenders would not provide services to them.

The director also said that they had no parent borrowing, because the students were overwhelmingly independent from their parents—about 90 percent. Student borrowing trends have remained fairly constant over time. Approximately 98 percent of the students received some form of financial aid in 1996-97. This was almost identical to 1995-96. The total federal loan volume (excluding Perkins) was approximately $3.3 million dollars at the time of the site visit. The school did not limit student borrowing.

Reasons for Participation

Both the owner and the director perceived the Direct Loan Program as being easier to administer than the state-run FFEL Program and wanted to implement it for that reason. The state-administered FFEL Program required more steps than the Direct Loan Program. The director said that Direct

Lending only required one short application for each student. The application was then sent off to the third party servicer and was processed. The state-run program involved significantly more communication between the school and the state administrators. In addition, repayment options for students were inflexible under the state-run FFEL Program, while Direct Lending offered a number of flexible options. For this reason, the director and owners thought Direct Lending served the students better.

School 28 originated Direct Loans for the 1996-97 academic year to 95 percent of incoming students, about 359; the remaining borrowers, about 30, received FFEL Program loans.

Initially, Direct Lending enjoyed support from all the administrators, and it continued to receive a high level of support. However, the director said that during the startup process both s/he and the business manager encountered some difficulties that caused mixed feelings towards the program. "It was an adjusting, learning process," s/he said, "for the first 6 to 7 months I did have questions and [the business manager] did have some problems with the [Direct Loan] servicer." As s/he and the business manager gained expertise, their level of support for the program increased again.

Implementation

The director relied heavily on materials provided by ED, particularly the Title IV Direct Loan school guide, to plan the transition to Direct Lending. S/he did not attend training or receive assistance from other schools in the program during planning. The director identified and assigned Direct Loan responsibilities using the guide and ED bulletins. "We haven't had any trouble [setting up the system]," s/he said.

The school applied for level 1 origination, but was only approved for level 2. They chose to contract with a third party servicer (TPS) for some of the Direct Lending functions because of the small size of their staff and the lack of computer resources. The director said that working with the TPS was more cost-effective for them. The school still offered FFEL Program loans to a small percentage of students in order to maintain a relationship with the state guaranty agency that serves as a lender of last resort.

At the time of the site visit, the school had just recently acquired a single personal computer but did not use it for any of the Direct Lending functions. The director planned to dedicate a computer to financial aid the next year. The director also wanted to begin using the Title IV Wide Area Network (WAN) to transmit student application information to the TPS and to add another staff member to support computer functions. The TPS performed loan origination, estimation and drawdown, and reconciliation, while the financial aid and business offices performed disbursement/refunds of excess cash, loan changes, and borrower counseling.

The director anticipated a one-time cost for computer equipment and an ongoing cost for the added computer staff person. However, School 28 was unable to estimate the costs related to implementation at this time. The director indicated s/he would have taken more training prior to implementation if s/he could do it over again. S/he "self-taught" herself/himself most of the procedures and altered the school's paper reporting systems to accommodate Direct Loan requirements. S/he said implementation went well but the lack of training caused unnecessary uncertainty.

During implementation, the director frequently communicated with another FAO director in a similar school to get assistance with troubleshooting and understanding the system. The business office experienced a small, but permanent increase in workload, which was mostly offset by a small decrease in the financial aid office's responsibilities. According to the director, these changes in workload did not change operations overall. In fact, the process had gone so well, the director said, "We worried we were doing something wrong; but nothing has changed."

Direct Loan Processes

Under Direct Lending, the director forwarded the student's application to the TPS, which handled all the steps until the Loan Origination Center (LOC) wired loan funds to the school's federal account. The school transferred these funds to a holding account. The business officer checked that a student met all the eligibility requirements, including at least 30 days of attendance for the first disbursement and attendance for at least half the program hours for the second disbursement. The business officer credited the student's paper file with the loans funds and generated a letter to notify students of the amount. The business officer wrote checks for excess cash from the holding accounts, and students were called in from class to receive their checks.

The school did not always receive the roster from the LOC as quickly as they would have liked. This left money in the federal account that was "hanging out there." The director said representatives at the Task Force were very helpful in getting a better response from the LOC and in understanding that s/he had 3 days to disburse funds. S/he would like to have had 10 days to disburse loan funds. This would better accommodate the roster delays and also accommodate the internal systems of checking student eligibility.

Another problem occurred occasionally when changes to promissory notes did not get made; it was not clear why. The school and the LOC were working to resolve this issue.

Department of Education

Training

The director did not attend any ED training, because s/he said the owners did not like her/him to be out of the office. S/he said one of the owners had gone to Direct Loan training for new schools and that soon both owners would be attending another training on Title IV WAN. The owner had not found the training all that useful, rating it a 4 on a scale of 1 to 5, with 1 being very useful and 5 being not at all useful. He had said the training went too fast, covered too much, and did not provide enough one-on-one assistance. He would have liked to have seen more roundtable discussions. He also said that the training was not designed to meet the needs of a school using a TPS and that a majority of the attendees at the training were representatives from TPSs rather than from participating schools. He liked the hands-on work done on the computers and said the trainers were helpful and knowledgeable.

Materials

School 28 did use ED's printed counseling material, but not the entrance and exit counseling videos—though the director might begin to use the videos soon. The school received an adequate supply of all materials on a timely basis. The director considered the Direct Lending materials much better than those provided for the FFEL Program because they were self-explanatory and helped the students understand their responsibilities. The school also used another form, which students sign during entrance counseling. The director said it helped the school follow up with students after they left school.[1] Counseling was conducted in a one-on-one setting with the director upon enrollment and when the loan is received. Students also met with the director prior to completing their certificate for exit counseling.

Communication

The owner identified the Task Force as the school's main contact. He said they were very helpful with the information they had, but that the rules and policies changed constantly. He preferred to ask questions of the Task Force, because he got information as fast as calling the Regional Office. The school had very little contact with the Regional Office, and did not use the ED Hotline or the ED-sponsored teleconferences/videotapes. The school had not received a visit from a Regional Office representative.

Experiences With the FFEL Program

The packaging and awarding processes were different for the FFEL Program than for Direct Lending. Under the FFEL Program, it was a three-step process to apply with the state guaranty agency, while Direct Lending only required one step to apply. Also, under the FFEL Program the school frequently received rejects that the director believed should not have been rejected. When the director attempted to identify the cause of these problems, s/he said, representatives at the state guaranty agency gave different answers or were less knowledgeable than the director about a procedure. The director said s/he also had to submit the same paperwork repeatedly because the state guaranty agency lost refund checks. The director has had very limited contact with the state guaranty agency since implementing Direct Lending.

[1] The school follows up on students that are defaulting on their loans because default rates can affect the school's eligibility to participate in federal loan programs.

Lessons Learned and Best Practices

School 28 had a very positive experience participating in the Direct Loan Program. In retrospect, the director said s/he would have attended more training prior to implementing the program.

Both the director and owner recommended policy or procedure changes to ED. The director would like to receive the roster from the Direct Loan Servicer more quickly and see the time allotted for distributing students loan funds from the federal account extended to 10 days.

As previously mentioned, one of the owners suggested that the Direct Loan training for new schools needed revising in the following ways:

- Give more time to each topic
- Cover fewer topics in a session
- Provide more one-on-one assistance
- Feature more roundtable discussions
- Provide training designed to meet the needs of schools using a TPS.

S/he also would like guidelines from ED on how to effectively monitor a TPS, and he said that the frequent policy changes generated confusion. S/he wanted to receive more information regarding what stage of development the program was in and where it was going. S/he also wanted to know how his school could originate loans as a Level 1 school. S/he suggested that this type of information be made readily available to schools.

Case Study Report

School 29

1998

School 29 was a 4-year public university located in a small midwestern city. The school had a single main campus with a centralized financial aid office (FAO). The university's medical center was located in a nearby city and did not participate in the Direct Loan Program—it had a separate FAO. School 29, a Year 3 school, first originated Direct Loans in 1996-97, after 2 years of planning. The school was an experimental site and was exempt from several Direct Loan regulations, including entrance and exit counseling, the 30-day delay in disbursement for freshmen, loan proration, multiple disbursements, mandatory loan fees, and tolerance. They had also participated in the Institutional Quality Assurance Program (IQAP) for 2 years.

The university was made up of 11 schools offering more than 100 undergraduate degrees and an additional 3 schools that admitted only graduate students (the graduate school, the school of law, and the school of medicine).

The academic year was based on a semester system. The cost of tuition was approximately $1,890 per year for in-state students and $7,950 per year for out-of-state students. Total tuition and fees for on-campus students, including room and board, was $6,842 for in-state and $12,902 for out-of-state students per year. Although in-state tuition had remained fairly constant, out-of-state tuition had risen significantly during the previous few years, with an average increase of 7 to 8 percent per year.

Enrollment for academic year 1996-97 was approximately 19,120 full-time and 5,754 part-time students, comparable to the previous year's enrollment. The student body was described by FAO staff as being "very traditional," with the majority of students coming from within the state.

Financial Aid

The FAO was staffed by 11 full-time professional staff: the director, 2 associate directors, 6 assistant directors (with counseling responsibilities), 1 loan processor, and 1 computer support staff person; 9.5 full-time support/administrative staff; and 6 full-time students during the academic year (9 full-time students were employed during the summer). The administration of Direct Lending was supported by a .25 full-time-equivalent (FTE) staff person in the accounting office, a .10 FTE staff person in the business office, and 2 full-time staff persons in the university computer center.

Approximately 48 percent of the student body received some form of financial aid and approximately 34 percent received federal loans[1] during the 1996-97 academic year. The total Direct Loan volume for 1996-97 was $47,239,364, as compared to $46,469,611 under the Federal Family Education Loan (FFEL) Program in 1995-96.

The director of financial aid indicated that there had been an increase in Parent Loans for Undergraduate Students (PLUS) borrowing in recent years. S/he attributed this in part to Direct

[1] Including Perkins, Federal Health Professions Student Loans (HPSLs), and LDS.

Lending, under which it was easier to complete the loan process, making it more likely for parents to pursue the loans. S/he also noted that unsubsidized borrowing continued to increase as the Direct Loan Program grew. School 29 had no policies related to limiting student borrowing. PLUS loans were not included in the initial award letter; the student award letter had a section for parents interested in further information about PLUS loans.

Reasons for Participation

The FAO decided to participate in Direct Lending because they were seeking a more efficient way of delivering services to students. The FAO was very happy with the FFEL Program but was seeking a way to draw down funds that was non-student-specific. Before entering the Direct Loan Program, the FAO had met with six of their major lenders to discuss what options the lenders could offer to better meet the needs of the school. For the FAO, the ability to draw down non-student-specific funds and to use a master promissory note was critical for lenders to meet the Direct Loan Program standards. Although the incentives private lenders were able to offer students (i.e., great rewards) were compelling reasons to stay with the FFEL Program, the University still decided to become a Direct Lending School, hoping that these incentives would become available to students borrowing through the Direct Lending Program after Reauthorization. School 29 decided to become a Direct Lending School despite the fact that the school would lose the income generated on electronic funds transfer (EFT) funds float (almost $45,000 annually).

Other hurdles that had to be resolved included internal university concerns from the Comptroller's Office regarding financial and program integrity and concerns about crediting money before the promissory note was approved by the Loan Origination Center (LOC). Much time was spent addressing these issues, and a system was designed to provide the financial/program protections demanded by the Comptroller and the service standards desired by the FAO.

Finally, the director indicated that the initial level of support for participating in the Direct Loan Program had been mixed. Much of the reluctance was political—Senators from this state exerted a considerable amount of pressure on the university not to participate in the program. There was a great deal of negative publicity in local newspapers, and the school received a number of reports on why participating in the program would not be beneficial. In addition, the school felt loyalty toward their primary lenders, many of whom supported the local community.

Approach to Implementation

School 29 fully implemented Direct Lending as a level 1 school in the 1996-97 academic year. The director felt very strongly about this, saying that they would not have phased in the program. S/he commented that it would have been "the worst of both worlds" to maintain both the FFEL and Direct Lending systems.

During the 2-year planning process, School 29 used a Total Quality Management (TQM) approach and created cross-departmental teams to look at, and flowchart, all of the processes involved in financial aid administration. The FAO was looking into participation in the IQAP at the same time, so the TQM process was advantageous for that as well. The team developed goals to achieve, charted all processes (this took 1 year), and set ground rules. It was the job of the different offices to come up with an approach and ultimately get the sponsor's approval. A representative from the Vice Chancellor's office served as the TQM sponsor and had the responsibility for setting the parameters and goals for the TQM project.

The Direct Lending functions and assignment of responsibilities were identified by the director through a two-part process. First, they came up with processes that met the goals for the students; second, they decided which staff needed to be assigned to which processes. The director relied heavily on manuals from the U.S. Department of Education (ED), information gathered at ED training, and advice from other Direct Lending schools. When consulting with other schools, the FAO looked at their flowcharts, talked to staff, and ultimately took the pieces that they could use and developed their own plan for the program and software development and implementation.

Implementation

The FAO was a Macintosh-based office.[2] Under the FFEL Program, School 29 used a homegrown mainframe system developed in-house to process loans. Approximately 25 percent of their FFEL lenders process loan applications electronically, and nearly 80 percent of their loan volume was transmitted electronically through EFT.

When planning for program implementation, the FAO recognized that it would not be feasible to do all Direct Loan processes on the mainframe and that they would have to use PC-based EDExpress software to participate.[3] School 29 was using a mainframe to originate Direct Loans with a PC interface to transmit Direct Loans. They used a combination of EDExpress and in-house mainframe programming they had used under the FFEL Program.

Financial aid packaging, award letter generation, recordation of award information, and batching of records for origination are all handled on the mainframe. The batched loans were transmitted via the school's local area network (LAN) to the computer center's PC, where they were imported to EDExpress and then originated and transmitted to the LOC. When the computer center received the loan origination acknowledgment from the LOC, it was transmitted via LAN to the mainframe. At the same time, the promissory note status was set to "ready" on the PC, and promissory notes were printed and sent to students. Completed promissory notes were sent to the comptroller's office, where they were registered as received on the mainframe and a file of promissory note receipt was

[2] School 29 was in the process of converting to a PC environment. At the time of the visit, the FAO had three PCs; an additional PC was located in the comptroller's office.

[3] Performing loan origination using the EDExpress would have required staff to hand-enter all of the data and would have been labor-intensive and time-consuming.

created. This information was then transmitted via LAN to the computer center, where it was imported into EDExpress. The promissory note manifest was printed and mailed, with the promissory notes, to the LOC. The disbursement file was transmitted to the PC and imported into EDExpress, where the disbursement records were batched and transmitted to the LOC. Drawdowns were also recorded in EDExpress and transmitted to the LOC.

The FAO and computer center staff indicated that a moderate level of effort was required to adapt and implement their systems for Direct Lending. In part, this was due to the fact that the computer center staff (i.e., the programmers) were predominantly experienced in mainframe programming. Another issue for the programmers was that they began developing the Direct Loan system using 1996 specifications, knowing that ED would be releasing new specifications in 1997 requiring further programming on their part. Staff also had to develop detailed instructions on the daily procedures to facilitate use of the system.

School 29 was very satisfied with its Direct Loan hardware, i.e., their mainframe system. Staff gave their software configuration a rating of 3 on a scale of 1 to 5, with 1 being very satisfied and 5 being very dissatisfied. They were very satisfied with their in-house mainframe (rating it a 1 on the same scale), but noted several problems with EDExpress and the way it interfaced with their mainframe system. Staff were very dissatisfied with EDExpress' ease of integration and compatibility with their system. They also were very dissatisfied with the software's processing efficiency. The biggest problems they experienced involved importing and exporting data—EDExpress is very slow and time-consuming, requiring a large amount of manual processing. School 29 had large files, and the importing and exporting of files took a long time; their first disbursement took more than 24 hours to import from EDExpress. There were also a lot of problems with the software itself, problems that the school felt ED was aware of and should have informed schools of, saving days of work and a considerable amount of frustration.

Overall, since implementing Direct Lending, the FAO experienced a small increase in workload. Staff attributed this increase to the amount of work involved in the promissory note process and the high number of promissory notes that needed to be returned to students for correction (as many as 40 percent of all promissory notes had to be sent back to students). School 29 experienced decreases in level of effort for the following Direct Loan processes: loan application process (including the PLUS loan application process), decreasing loan amounts, canceling loans, loan servicing, and reconciliation. According to staff, the reconciliation process is "really compact under Direct Lending" because funds were not borrower specific.

Direct Loan Processes

School 29 was very satisfied with each of the processes involved in Direct Lending. The only processing problems that they encountered during their first year of implementation were centered on the import and export of data to and from EDExpress—the process is very slow and time-consuming. They were most satisfied with the loan origination process—under Direct Lending, staff knew exactly what they had done and the status of each student's loan.

In general, the front-end processes—packaging, loan application process, and origination—went smoothly. Staff noted that they had experienced problems with students and parents not completing promissory notes successfully. To improve the promissory note process, the FAO set up a table in the student union during fee payment completion where students could complete and sign promissory notes, allowing FAO staff to review them and have them corrected in a more timely manner. Staff experienced problems with headers and trailers when originating summer session loans. Their system batched all of the school's loans together, but the software would not allow them to put loans from two different academic years in the same batch. To overcome this, staff separated the loans by academic year when batching.

Prior to the transition to the new LOC, School 29 had not had a lot of records rejected during loan origination. The majority of the rejections that they did have were due to a student's having a Direct Stafford or PLUS Loan that was originated at another school with information (such as date of birth) that did not match the information submitted by this school. Following the transition to the new LOC, all loan origination records were rejected. They were able to remedy this situation once the new LOC realized that School 29 was an experimental site and did not have two disbursement dates.

The comptroller's office is responsible for estimation and drawdown and the bursar's office is responsible for disbursement of funds to students. Because the school had used EFT under the FFEL Program, the only significant change in disbursement procedures is the addition of the promissory note process. The FAO noticed a big difference in lines because they no longer handed out paper checks to non-EFT students. The FAO handled loan changes. Changes, both prior to and after disbursement, required staff to make changes on the PC and on the mainframe. Staff found it easier to alter the second disbursement than to change the actual award. On several occasions, School 29's PC software (EDExpress) was out of sync with the LOC in terms of dollar amounts, although the software contractor told FAO staff that this is not possible. To rectify this discrepancy, staff had to make loan adjustments so that they were in sync with the LOC; if they did not do this, their changes would get rejected by the LOC for not matching their recorded loan amounts.

Because School 29 was an experimental site, they were not required to conduct borrower exit and entrance counseling. They provided counseling to students upon request. Information was readily available to students through the FAO. If students requested it, the FAO presented them with individualized information from the LOC. At the time of the visit, School 29 had not encouraged students to consolidate their loans, because the LOC advised them to wait until the end of the summer. The FAO planned to advise students to consolidate, including students who had both The FFEL Program and Direct Loans. The FAO had a "hands-off" approach to consolidation, but did make students aware of the options. They felt it is a good idea for students to deal directly with the servicer.

Reconciliation is handled by both the FAO and the computer center. At the time of the site visit, School 29 had not performed a reconciliation since the transition to the new LOC. Prior to the transition, they had been performing reconciliation on a monthly basis and had very few errors in any of their reports—their system did not allow them to make many mistakes. According to one staff member, reconciliation is really easy and is the "least time-consuming" aspect of the Direct Loan process.

Department of Education

Training

Most of the FAO staff, as well as staff members from the comptroller's office and the computer center, had attended ED-sponsored Direct Loan training. Staff attended training in the Regional Office, as well as in Chicago, Illinois, and Washington, DC. Sessions they attended included Direct Loan Training for new schools, reconciliation, EDExpress, loan consolidation, and Title IV Update training. In addition, staff from the Direct Loan Regional Office provided reconciliation training at the school. Staff participated in many of the ED-sponsored videoconferences; the financial aid director felt that this is an effective way to deliver training to a large number of staff. The FAO provided in-house training to staff on Direct Loan functions such as promissory notes, drawdowns, and the software.

In general, staff were very satisfied with the training they received. In particular, they liked the loan consolidation training held at the Regional Office, the initial EDExpress training, and the training they attended at Lake Tahoe. Suggestions for improvement included offering separate sessions for clock-hour and term schools and separate sessions for brand-new Direct Loan schools and those needing a "refresher." Staff mentioned that the training was often held too late to be useful to the school; that is, they were already performing the function that the training was being held on. It was also suggested that a more specific agenda be provided for the videoconferences so that the appropriate staff would attend. This would also allow participants to prepare questions in advance.

Materials

School 29 used several of ED's counseling materials, including the entrance interview brochure, the exit interview brochure, and "All About Direct Loans." Staff had found the materials to be very useful but felt that the repayment sections should have more extensive tables—they used an FFEL Program table to supplement the Direct Loan materials. The FAO experienced considerable problems in getting adequate supplies in a timely manner from ED. Staff said that ED did not let schools know the status of their orders—schools were not informed when there is a back order or a problem with the delivery. One staff member said that the ordering and delivery process is "very frustrating," and that if ED had informed them of the status of their order they could have gone to another school to pick up the materials that they needed while waiting for their delivery.

School 29 used ED's Software User's Guide. Although they said it had improved since Year 1, staff rated it as "middle of the road" in terms of usefulness. The programmer said that the guide is not as detailed as s/he would like it to be and is sometimes hard to understand. Suggestions for improvement to the guide included getting it to schools earlier and elaborating on the fields that were needed—that is, providing the different values.

Communication

When School 29 had a question regarding program rules and regulations and policy guidance, they called their Regional Office, the LOC, or ED's software contractor. Staff were somewhat satisfied with ED's responsiveness to their questions, rating their satisfaction in this area a 2 on a scale of 1 (very satisfied) to 5 (very dissatisfied). Although it had sometimes taken "a little bit of time" to get responses, ED staff always responded with appropriate answers. They added that the ED staff were more responsive than the contractors, singling out two Account Managers as being problem solvers and as having developed "a really nice relationship" with the school.

The FAO staff felt that the role of the Account Manager is "to give [them] support for all ranges of issues," including policy and technical support. If staff could not get answers from the contractors, they went directly to their Account Manager, whom they relied on as a troubleshooter. They suggested that ED extend the Account Manager model to all other services at ED. In fact, this school had entered the Quality Assurance Program as a means of getting this type of support from ED.

Staff at School 29 were not as satisfied with their interactions with ED's software contractor; they rated the usefulness of their responses to questions and requests as a 4 on a scale of 1 (very useful) to 5 (not at all useful). One member of the FAO staff said the contractor treated the caller "like a moron" and said that they were "so laden with attitude that it was hard to get through to them." Staff resorted to using a conference call to communicate with them, so that the Account Managers could understand what they were going through.

Staff were very satisfied with their interactions with the former LOC, saying that although they had not always had the answers, they "were great and always very timely." Since the transition, they had not had good interactions with the LOC. However, the week before the site visit, School 29 was assigned a new school relations person. Staff said that this new person was great and in addition to returning calls promptly, s/he initiated calls to the school.

The FAO staff were very concerned about the problems with the new LOC and the status of the transition, commenting that the current situation is "very alarming." Staff said that things needed to be taken care of quickly and that ED "can't afford to have this perception out there" because this "really reflects poorly on [ED]." They felt that their school was losing credibility due to data exchange issues with the new LOC—parent borrowers were able to get information directly from the LOC that they were not capable of transmitting to the school. One staff member commented that the Direct Loan Task Force "thinks things were taken care of when they were not."

School 29 used several financial aid electronic bulletin board system (BBSs). They suggested that ED monitor the listservs and BBSs as a means of following the issues and schools' concerns and responding to them.

Experiences With the FFEL Program

Prior to implementing Direct Lending, School 29 had been somewhat satisfied with the FFEL Program, rating their satisfaction a 2 on a scale of 1 (very satisfied) to 5 (very dissatisfied). Things that they had not been satisfied with included the following: every bank had slightly different lending practices; the school had to process paper applications and paper checks; the transmittal system was not as automated as they would have liked; they had student-specific disbursement; loan changes and reimbursement were difficult; and some FFEL lenders did not provide effective customer service.

Staff characterized their relationship with their primary lender as "wonderful," saying that it made it difficult for them to enter the Direct Loan Program, because they knew that it would have a significant impact on their business. There was no change in this relationship since implementing the program. The school's relationships with both their primary guaranty agency and their primary servicer were characterized as "fair." Both relationships had deteriorated since the school entered Direct Lending.

Lessons Learned and Best Practices

Overall, School 29 was pleased with its Direct Lending experiences. When asked what they would do differently if they were to implement the program again, the FAO indicated three things:

- Develop a mainframe-to-mainframe system, rather than a combination of mainframe and PC
- Begin programming their system earlier, thus facilitating a mainframe-to-mainframe system
- Keep all Direct Lending functions within the FAO.

The school stressed the importance of allowing adequate time for planning for program implementation, including attending Direct Loan training well in advance of implementing the program. They recommend a 2-year approach to planning and implementation.

The FAO suggested that ED improve EDExpress, commenting that it is too slow for schools that process large records. Most important, they recommended that ED resolve its political issues and fix the problems at the LOC. Staff said that they would not have been able to successfully implement Direct Lending if the problems at the new LOC had existed when they first implemented the program.

Case Study Report

School 30

1998

School 30 was a 4-year private liberal arts college located in a small town. The school had a single campus with a centralized financial aid office. School 30 originated Direct Loans in 1995-96 (Year 2 of the program). They withdrew from the program and offered students only Federal Family Education Loan (FFEL) Program loans in 1996-97.

The school offered bachelor of arts and bachelor of science degrees in more than 30 fields of study. The academic year was based on a semester system. The cost of tuition was approximately $16,800 per year. Total tuition and fees for on-campus students including room and board were approximately $21,400 per year. Tuition had remained stable over the past few years.

The spring 1997 enrollment was approximately 700 students, reflecting a decrease over the past few years. Optimal enrollment was 1,000 students. The student body was described by the acting director of financial aid as "very traditional," with 90 percent of students residing on campus.

Financial Aid

The Financial Aid Office (FAO) had a staff of two professionals, one clerical employee, and one student employee. At the time of the site visit, the director of financial aid had recently left the school. Therefore, the associate director was serving in the capacity of acting director.

Approximately 89 percent of the student body received some form of financial aid in 1996-97, up from 82 percent in 1995-96. The total federal loan volume (excluding Perkins) was approximately 2.3 million dollars for 1996-97 to date at the time of the site visit.

The acting director of financial aid indicated that there had been an increase in Parent Loans for Undergraduate Students (PLUS) Loan borrowing and alternative loan borrowing. S/he attributed the increased PLUS borrowing to parents taking advantage of these loans to assist in budgeting and attributed increased alternative loan borrowing to more students having to finance their education without their parents' assistance. Most students borrowed the maximum loan amount offered. The FAO did not attempt to limit Stafford Loan borrowing. PLUS Loans were not included on the initial award letter but were offered upon parental request.

Reasons for Participation

The decision to participate in Direct Lending was made by the director and the associate director of financial aid. They put together a proposal that was accepted by a committee consisting of the school president, the dean of students, and the vice presidents of finance and admissions. School 30 was accepted for Year 2 of the Direct Loan Program. The decision to participate in the program was primarily motivated by the perceived political future of both FFEL and Direct Lending. They believed Direct Lending was going to be the only loan program after the phase-in period and wanted to be an early participant in order "to get a head start."[1] Financial aid staff anticipated that the support from the Department of Education (ED), including training, would be strongest in the early stages of the program. Prior to Direct Lending, the FAO manually processed loans under the FFEL Program. They anticipated that not dealing with paper checks was going to be one of the largest benefits of Direct Lending.

School 30 originated Direct Loans for the 1995-96 academic year to new students—both incoming freshmen and transfer students. Approximately 120 Direct Loans were originated. In November 1995, the decision was made to return to the FFEL Program. The FAO continued to process Direct Loans for new students for the remainder of the 1995-96 academic year.

There were two main factors that contributed to the decision to leave Direct Lending and return to FFEL. One factor was the uncertain political future of the Program. The FAO director related that this had been right before the 1996 presidential election and that there had been much speculation that the announced phase-in schedule for Direct Lending would be capped or overturned, thus forcing schools out of the program. S/he felt that they "weren't that vested in the program" and decided to "cut their losses" rather than have their students get stuck borrowing under multiple loan programs 2 or 3 years down the road. Another factor contributing to the return to the FFEL Program was the level of effort required for Direct Lending. The FAO indicated that it was much more than they expected, particularly in two areas: paperwork and reconciliation.

Implementation

A number of tools were used by the acting director to assist in planning the transition to Direct Lending. General discussions were held with a Year 1 Direct Lending school of similar type and structure. Staff at this school were very positive about the program. If they had not been positive, they might have waited an additional year before participating or, in hindsight, not participated at all.

The former director and the acting director attended the 2-day initial Direct Loan training. The acting director also attended reconciliation training. S/he indicated that training was helpful. S/he reasoned that having implemented EDExpress to draw down Pell funds the academic year prior to Direct Lending gave her/him and the business office a good understanding of the basic structure of the software. Because the Financial Aid Office is a PC-based operation with the acting director performing all loan functions, it was the FAO's perception that adapting their processing environment to Direct Lending would be a matter of installing the software and then processing Direct Loans in a manner similar to performing Pell drawdowns using EDExpress.

While School 30 operated on a networked system, the Financial Aid Office ran on a stand-alone 486 PC that was not networked to any other administrative office, including the business office. The

[1] At the time of the decision to participate, Congress had passed a statute authorizing the 5-year, 100-percent phase-in of Direct Lending.

FAO processed all financial aid using a commercial software product for packaging, EDExpress, and word- processing programs. There was an interface between their software and EDExpress that enabled data to be transferred electronically. Data were also transferred to the school's mainframe for business office use.

The FAO indicated that adapting and implementing the computer system for Direct Lending required a moderate level of effort, mostly due to the installation of the software. This was what the FAO and the school's computer staff expected. The computer staff was able to work "a couple of hours at a stretch" in order to install the hardware and software. Even though the FAO was able to use the transition to Direct Lending to get the central administration to commit to purchasing new computers for the office, the FAO recommended that schools that are implementing the program pay careful attention to the hardware requirements specified by ED. Their system parameters were slightly below ED's required hardware specifications (even with the computer upgrade), and by the time they discovered that this was an issue, their budget had been depleted.

During implementation, the FAO and school systems staff had frequent contact with their Regional Office Account Manager. Most of their communications regarded software questions and how to set up the program on her/his computers. During the implementation process, they were dissatisfied with the software manual. The FAO indicated that it was easy to follow but that there were installation steps missing and that it was not helpful for troubleshooting. This was compounded by the fact that they could not get through to the software contractor on the phone on a consistent basis. Instead, their questions were answered through networking with other in-state Direct Lending schools with similar system configurations. The school did indicate higher satisfaction with the Loan Origination Center (LOC).[2] They had frequent interaction with the LOC and indicated that LOC staff were very helpful. Overall, the software was given a rating of 3 on a scale of 1 to 5, with 1 indicating very satisfied; the manuals were rated 4 on the same scale.

Because the FAO was essentially a two-person operation, staffing was not a consideration in the decision to participate. It was not anticipated that expenditures would rise, other than the previously planned computer upgrade. Initially, it was thought that the level of effort to process Direct Loans would not increase. This was partially based on their experience with Pell drawdowns on EDExpress.

Direct Loan Processes

The packaging and awarding process were the same for both FFEL and Direct Lending. Under Direct Lending, the maximum Stafford Loan eligibility was listed on the award letter. When the FAO received a completed promissory note, they began the origination process. They sent transmission batches to the LOC at least once a week. Problems were initially experienced during origination, due to the "fine-tuning" of their internal system. As a result, the acting director needed to re-generate batches and resend them. The school implemented a manual tracking system, which

[2] School 30 interacted with the original LOC.

worked for them because of the relatively few loan records involved. There were very few errors in the acknowledgment reports—about one or two per batch. These corrections were usually a result of incorrect graduation dates and were easily rectified. The front-end processes of packaging, awarding, loan application, and loan origination were described as having no problems. The drawdown process was described as being the same as for Pell, other than having to set up a separate account.

The major problem that the FAO had with the Direct Lending process was with reconciliation. Prior to actually implementing the program, s/he had attended reconciliation training and had performed reconciliation on the PC during the practice training exercise. At that time, the process and procedure made perfect sense to her/him. However, when s/he attempted the first reconciliation, s/he found the process both very confusing and very time consuming.

There were a few reasons for her/his difficulty. The DOS version of the software, including the explanation of codes and data entry requirements, was confusing. The majority of reconciliation problems occurred when attempting to complete the cash summary report. Problems occurred because of the different reporting practices of the FAO and the business office. The FAO dealt with gross loan amounts on their system, while the business office dealt with net loan amounts. Additional difficulties were caused by the different dates entered in the system by the two offices. The cash transaction report and the loan detail record report processes were thought to be reasonable, despite having to occasionally resend batches to the LOC.

Although the acting director found the LOC to be very helpful in walking her/him through the process, s/he felt that it "just never clicked." Eventually, s/he understood that the nature of their reconciliation problems were due to timing. Other than a small reconciliation batch completed during the first semester, they did not concentrate on it until the second semester. Currently, they had one loan that was not reconciled, and they understood that this was due to a double-entry problem. The FAO indicated that it was just a matter of finding the time to work on it.

S/he compared reconciliation to the FFEL Program procedures in which "once it (the loan process) was done, s/he did not have to worry about it." S/he felt that reconciliation under Direct Lending was much more work than s/he anticipated. When asked how long it took to reconcile all of the records for the semester, s/he replied, "it seemed like months." S/he believed that ED glossed over the reconciliation process to prospective schools.

Department of Education

Training

The FAO indicated that the ED training sessions s/he attended were very useful. They were comprehensive, and the small enrollment fostered good interaction with the trainers and enabled specific questions to be answered. An added benefit was interaction with other Direct Loan institutions. S/he suggested that ED keep the size small and the format hands-on, to enable participants to work on the networked PCs at the training facilities. Other than attending a session at a state association meeting that generally compared the two loan programs, School 30 did not attend any additional Direct Loan training.

The FAO viewed the ED-sponsored videoconferences and found them to be useful in obtaining general information. S/he did not think the videoconferences were as useful as other training offered by ED but thought them a good option if unable to travel to in-person training. S/he appreciated the fact that s/he was able to participate without a large time commitment.

Materials

The FAO did use the printed counseling material but not the entrance and exit counseling videos. S/he felt that the entrance interview brochure was useful and contained "almost too much information." The exit interview brochure was also useful to her/him. All material was received in adequate supply and on a timely basis. Entrance and exit counseling were conducted on an in-person basis in order to provide a more personal approach, and therefore s/he did not use ED's videos.

Communication

The FAO singled out her/his Regional Office Account Manager as being her/his contact person for policy guidance and other communication. The Account Manager did visit the school, and the FAO appreciated having a name and a face to contact. He was helpful in both answering general and specific questions and, if necessary, relaying them to the proper source of information. S/he rated the usefulness of the Regional Office in responding to her/his questions and requests as a 1 on a scale of 1 to 5, with 1 indicating very useful. S/he rated the timeliness of the Regional Office's responses and their knowledge of Direct Lending as 2 on a similar scale.

The FAO was generally satisfied with Direct Lending policy issues but had a big problem with the consolidation regulations. Only ED could purchase Direct Loans for consolidation. This affected PLUS borrowers who borrowed under Direct Lending. Since the school returned to the FFEL Program, the only option that these parents had was to consolidate their FFEL Program loans into Direct Loans each time they borrowed additional funds under the FFEL Program.

Experiences With the FFEL Program

Having gone back to the FFEL Program, the FAO was in a position to evaluate both key differences between the two loan programs and changes that had occurred in the FFEL Program since the inception of Direct Lending. The main differences between the two programs involved the paperwork and reconciliation under Direct Lending. The FAO described the FFEL Program as having a "different mindset" than Direct Lending. This was chiefly because there was less paperwork to track, particularly back and forth from the lender, and they did not have to perform reconciliation.

From the standpoint of service to schools, the FAO had seen a difference since Direct Lending began. The FAO indicated that her/his primary lenders and her/his guarantor were providing better, more responsive customer service. Even when the school announced it was switching to Direct Lending, lenders kept in communication with the school and the tone was always positive.

Lessons Learned and Best Practices

The FAO indicated that Direct Lending was more work than anticipated. In hindsight, if they were to implement the program again, they would have gone 100 percent and would have had one person dedicated to the program full time. The FAO believed that devoting energy and resources to a single program was crucial to ensure success.

The FAO indicated her/his dissatisfaction with the manuals produced by ED. S/he suggested that a better proofreading process be performed before they were released. S/he also took issue with the way the loan consolidation regulations were written. Finally, s/he felt that ED should not conceal problems. ED should keep schools informed when critical program issues (such as software and servicing) were not working and thus not allowing schools to effectively administer the program.

Case Study Report

School 31

1998

School 31 was a 4-year public university located in a small southern city. There were approximately 8,000 students enrolled, with 75 percent attending full time. The school offered degrees in more than 100 courses of study. The school had a single campus with a centralized Financial Aid Office (FAO). They started originating Direct Loans in July 1996.

Tuition for in-state residents was approximately $1,900 per year for undergraduate students and approximately $2,300 per year for graduate students. Approximate out-of-state tuition for undergraduates was $6,000 for undergraduates and $6,500 for graduates. Room-and-board rates began at $1,600 per year.

There were approximately 2,500 subsidized Stafford Loan borrowers. Reflecting the fact that School 31 was a state school with relatively low tuition and fees, there were only 1,000 unsubsidized Stafford Loan borrowers and 800 Parent Loans for Undergraduate Students (PLUS) borrowers. The total federal loan volume for 1996-97 was around $9,000,000. Seventy-five percent of students were receiving some form of financial aid.

The FAO was staffed by a director, an associate director, and eight "clerical" staff. The clerical staff processed financial aid operations, loan applications, scholarships, and other financial aid.

Reasons for Participation

The decision to participate in the Direct Loan Program was made by the FAO. Prior to implementing Direct Lending, they had been one of the few state schools still processing loans manually under the Federal Family Education Loan (FFEL) Program. The school was seeking a more efficient way of delivering loans to students. They researched both Direct Lending and electronic funds transfer (EFT) under the FFEL Program. After consulting with two Direct Loan schools, their systems staff, and their software vendor, it was decided that Direct Lending would "mesh better with their current computer system." They thought that EFT was geared exclusively to PC-only operations, while Direct Lending was better suited for mainframe operations. For the FAO, benefits included the ability to receive payments at the beginning of the semester, accuracy in disbursements because FFEL loan funds were dependent on individual lenders, and decreased emergency loan traffic. The only reservation the director of financial aid had going into the program was about the possible reaction of the FAO staff, who had grown accustomed to doing things a certain way.

The director of financial aid indicated that support on campus for participating in Direct Lending was positive. The president of the university did not apply pressure on them either way, and the business office was supportive of the switch. The director of financial aid indicated that the FAO, business office staff, and computer systems staff all felt that this was a great opportunity to work with each other and improve financial aid operations.

Approach to Implementation

The director of financial aid and the associate director of financial aid made the final decision to participate in Direct Lending after attending the Year 3 Direct Loan training sponsored by the U.S. Department of Education (ED) in March 1996. After receiving this training, they implemented all aspects of the program in 3 months.

The philosophy of the FAO was to keep operations as similar to prior operations as possible. They received advice from two other schools and onsite implementation assistance from their software account manager (who was an alumna/us of the school). The director of financial aid indicated that sitting down with other schools was helpful in planning for the program. They also attended a yearly state users group meeting sponsored by their commercial software vendor. The director of financial aid invited that company's Direct Lending expert to campus for two dates to train all offices involved in administering the program on the use of the Direct Lending modules. The director described this person as "one of the best in the country" regarding Direct Lending system knowledge.

It was decided to implement at 100 percent participation, except for PLUS. They were originating as a level 1 school in order to control all processes on campus.

Implementation

School 31 operated on a mainframe system and used an integrated commercial software package for all administrative functions. Because the commercial vendor provided all Direct Loan processing modules, no change had to be made to the existing system. The only in-house modifications that were made to the system were customizing disbursement dates and other school-specific data and programming a few "table screens," which were used for system setups. The associate director of financial aid was an experienced programmer and was able to program these screens with minimal assistance from in-house computer staff. In addition, four state schools got together and requested some new screens from the software vendor in order to fix specific problems. For example, these schools found that they were not able to cancel records on the mainframe system as schools can do with EDExpress. Their approach was that it is hard to get problems fixed, so they like to do it right the first time. They found that working with the vendor was better than dealing with the new Loan Origination Center (LOC), which they found to be somewhat inflexible.

All financial aid functions were performed on the mainframe except transmitting loan origination records. Prior to awarding, the school performed 100 percent verification on all applications. Eligible subsidized Stafford Loan amounts were packaged on a separate form along with the financial aid award. The student needed to indicate on the form if they wished to receive the loan and then send the form back. The majority of loans packaged were subsidized Stafford Loans. The promissory note was then mailed to the student. Once the promissory note was returned, a loan clerk would check the loan screen online to make sure that all the information was accurate. As an additional quality control procedure, the loan clerk would also fill out a manual checklist with all of the student's information. After the student's information was checked as accurate, the loan was posted on the screen account. This process triggered the loan origination function.

Origination records were downloaded from the mainframe to a PC for transmission to the LOC via Title IV Wide Area Network (WAN). This program was run twice a week and batched overnight. At the same time as the origination records were batched, a paper record was created and the promissory notes were printed. The next morning, they imported the origination records back from the LOC and loaded them back into their mainframe, along with the codes indicating whether the records had been accepted or rejected.

Because of the extensive review process of loan origination records and promissory notes prior to origination, they received very few errors on the loan acknowledgment report from the LOC. The director of financial aid indicated that loan origination was the easiest process.

The FAO did relate one problem with the transmittal of promissory notes after the change in the LOC. The school sent transmitted batches of promissory notes by mail and electronic origination records at the same time. The new LOC reported not receiving the promissory note from the old LOC. The FAO gave the batch number and the Social Security numbers to the new LOC, but there were still a few promissory notes that could not be tracked down.

Student accounts were credited when the completed promissory note was entered on the system. The director of financial aid indicated that the school floated funds until the promissory note was accepted by the LOC but indicated that they felt that this method provided better service to students and were comfortable with the fact that they had very few errors, so they were able to receive funds on a timely basis.

Estimation and drawdown was performed by the fiscal/grants accounting office. Drawdowns were estimated so that the school received less money than they were entitled to on the basis of the actual drawdowns. This reflected the school's conservative fiscal approach. Despite the fact that they had never "bumped up" their account to zero (thereby drawing down all funds from ED as they disbursed them to students), the FAO was satisfied with this process because they were able to receive loan funds much faster than they did under the FFEL Program. The director of financial aid estimated that the school received an additional $20,000 to $30,000 a year in interest because of timely student payments as compared to the old paper check process.

All loan changes were processed by the associate director of financial aid. Most loan changes were because of 1) student-initiated changes or 2) the awarding of additional aid. Twice a week a report was run listing all changes. The associate director simply reviewed the roster, made the loan changes, ran the updated batch at night, sent it to the LOC, and received the changes back the following morning. S/he indicated that there were no problems with this process. S/he did mention that once a Direct Loan was originated, it was "cast in stone." Therefore s/he was not able to go back into the original record when s/he made changes; rather, s/he had to do that on a new record. S/he indicated that in this respect, Direct Loans were not similar to other federal programs such as Pell Grants, Perkins Loans, and Supplemental Education Opportunity Grants (SEOGs). S/he emphasized the importance of being careful when making changes, because once they had been made, one could not go back into that record.

School 31 used all of ED's counseling material. The FAO found them easy to understand and not overly simplistic. The repayment options were outlined clearly. They were concerned about the fact that ED will be going from one Direct Loan servicer to five in summer 1997. One of their problems with the FFEL Program was that often students did not know where their loans were being held. They were worried that this would also happen under Direct Lending.

When asked to describe the procedures they followed to conduct reconciliation, the FAO indicated that the process was as simple as running a program on the mainframe, downloading the information to the PC, and sending the file to the LOC. If there were errors, they just corrected them and repeated the process. At the time of the site visit, School 31 was up to date with reconciliation through January 1997. They were not able to process reconciliation records after that, owing to the data conversion problems at the new LOC. A followup phone call was made in May and the FAO indicated that they were finally receiving reconciliation data and were just starting to catch up with this process. The director of financial aid said they "have a semester's worth of work to do." At the time of the followup phone call, reconciliation was the only unresolved issue with the new LOC.

Department of Education

Training

Both the director of financial aid and the associate director of financial aid attended ED-sponsored Direct Loan training for new schools at their Regional Office. Overall, the usefulness of training was rated a 2 by the director and a 3 by the assistant director on a scale of 1 (very useful) to 5 (not at all useful). They indicated that the training was good for general concepts and "planting some seeds to seek additional information." However, since they were not using EDExpress, they found the training somewhat confusing, since it was geared to schools that were using EDExpress. They related that schools using a custom or commercial software product should not expect details from this training. They also suggested to ED conducting joint training sessions with the commercial software vendors, focusing on the specific needs of mainframe schools using custom software.

In addition to the Direct Loan training, the associate director attended Title IV training every year and FAO staff viewed ED's videoconferences to keep current on rules, regulations, and changes in procedures. They rated the usefulness of the videoconferences a 2 on a scale of 1 (very useful) to 5 (not at all useful). They indicated that by the time they viewed the videoconferences they had often already heard the questions, and felt that they were not comprehensive because of the lack of questions and clarifications. The usefulness of Title IV training depended largely on who the trainers were; some ED or Regional Office staff were better than others.

School 31 used several of ED's counseling materials, including the entrance interview brochure, the exit interview brochure, and the "All About Direct Loans?" booklet. Staff were very satisfied with the materials, rating the usefulness of both the entrance interview brochure and the exit interview brochure a 1 on a scale of 1 (very useful) to 5 (not at all useful). Their opinion of the entrance and exit interview videotapes was on the other end of the spectrum. The FAO rated the usefulness of both tapes a 5 on the same scale, saying they "aren't professional" and were "embarrassing."

The FAO went into Direct Lending with the idea that the rules and regulations for this program were going to be essentially the same as for the FFEL Program. They maintained that opinion after implementing the program, noting that policy issues were more of the "how-to" variety than changes in statute or regulation. They did comment on a few current regulations. They felt that the 30-day delay for first-time borrowers and the two-disbursements rule should both be rescinded, because they caused an undue administrative burden and did not streamline the financial aid process for students.

Communications

Financial aid staff did not receive substantial support from the Regional Office Account Manager when implementing the program. The extent of interaction with the Account Managers was a welcome call and a few followup calls. The director of financial aid did not think that the role of the Account Manager was well defined. Her/his perception was that the Account Managers primarily performed a marketing function. S/he also did not think that the Account Managers were as knowledgeable as they should be—s/he rated their knowledge a 3 on a scale of 1 (very knowledgeable) to 5 (not at all knowledgeable). S/he cited systems and financial aid office operations as two areas in which the Account Managers did not have adequate knowledge.

Experiences With the FFEL Program

Prior to implementing Direct Lending, the school had been satisfied with the FFEL Program. They indicated that they had an excellent relationship with both their primary lender and their guarantor. As outlined above, their reason for leaving the FFEL Program was that they felt Direct Lending would be more compatible with their operating system. The director of financial aid indicated that their relationship with their primary lender and their guarantor had not changed since they went to Direct Lending, although their lenders were "disappointed" that the school left the FFEL Program.

Lessons Learned and Best Practices

The director of financial aid said that they had never had any problems that had not been easily fixed. They cited some other positive effects of the change, including the following:

- Improved cash flow
- More efficient FAO operations
- A huge step up in service to students.

Their main concern with the program was the new LOC. Besides the operational problems with the LOC, the director of financial aid was alarmed by the lack of communication from them. Specifically, s/he cited the need for bulletins from the LOC regarding the delivery of 30-day warning letters and regarding the status of reconciliation records. S/he hoped that their problems could be worked out. S/he suggested that ED send FAO personnel to the LOC to assist the LOC and foster the establishment of relationships.

Overall, School 31 said that Direct Lending was the "best thing that ever happened to us." They were satisfied with all aspects of loan delivery and said that Direct Lending had eliminated a large amount of manual processing that used to be necessary under the FFEL Program.

Case Study Report

School 32

1998

School 32 was a public 4-year college located on the West Coast. The school included a main campus and one 500-student offsite teaching center, which was expected to become a full college in the state university system. Financial aid for both sites was being administered centrally through the Financial Aid Office (FAO) on School 32's main campus. Schools in the state system operate as separate entities, with their own president and budget; but budgets were ultimately controlled by the board of trustees of the system and the State legislature. The director/chairman of each of the school's departments submitted his/her own budget to the school's administration. Within limitations, the FAO director was allowed to allocate his/her approved resources to staff or technology.

School 32 was a level 1 school and first originated Direct Loans in the academic year 1996-97, Year 3 of the Direct Loan Program. During the prior 5 years, there had been a dramatic increase in the use of financial aid, from 35 percent of students to 55 percent. The director attributed this increase to a severe recession, a high proportion of local residents living below the poverty line, and an influx of immigrant populations. In addition, the school recruited heavily among minority groups to increase student diversity.

Full-time tuition/fees cost $1,800 per quarter. Most loans were made to students; only 32 PLUS loans were originated at this school. Because of the small number of PLUS loans requested, the school did not offer Direct PLUS loans.

Reasons for Participation

The FAO director was responsible for initiating the decision to participate in Direct Lending. S/he met with much resistance from the accounting and computer services directors. There were two primary reasons for her/his desire to implement Direct Lending. The first was to eliminate the use of paper checks. The second was to integrate student loans with other sources of aid. The school was on the quarter system and distributed non-loan aid three times per year. Loan checks, however, were received in two disbursements and had to be handled separately from other types of aid. Under Direct Lending, the school was able to pool all sources of aid each quarter, credit a student's account, calculate the total remaining money due from all sources of aid, and cut a single check to the student for non-tuition expenses. The director did not consider electronic funds transfer (EFT) a solution to the problems, because the state controller prohibited EFT, and Federal Family Education Loan (FFEL) Program check disbursement could not be integrated into other Title IV aid disbursements, effectively requiring additional labor to handle separate FFEL Program transactions.

Implementation

The director developed detailed responsibilities and procedures and presented them in a report to the school's administration. After some delay, the administration approved the school for participation in Direct Lending for Year 3. The director used the school's model for processing

Perkins Loans as well as discussions with other Direct Loan schools in the development of her/his plan.

The director believed that staff responsibilities had shifted. The Student Accounts Office added one full-time equivalent (FTE) and assumed promissory note collection, all disbursement of funds, and entrance and exit counseling. The new employee devoted approximately 25 percent of his time to the Direct Loan Program. The FAO staff assumed responsibility for correcting, modifying, and/or canceling original Direct Loans. The school experienced one-time costs associated with training staff on software, program regulations, and changes in responsibilities; sending staff to ED training; and explaining the changes to students. Ongoing costs included printing and mailing costs for additional inserts explaining Direct Lending in the award letters, increased computer transmission time for increased loan activity, increased staff time to explain Direct Loan consolidation processes, and increased staff time to maintain Direct Lending materials. The FAO indicated a one-time savings for the school in that it did not have to automate the FFEL Program process.

The school used a mainframe and personal computer (PC) system with local area network (LAN) interface. Data were entered directly onto the mainframe; the PCs were used for data transmission to the Title IV Wide Area Network (WAN). The school was online with the state guaranty agency for FFEL Program loans, using the guarantor's software. For Direct Lending, the school used a module created by their commercial software vendor. This module had many options to choose from. The FAO's assistant director worked with the school's systems analyst to set up their option choices for processing Direct Loans. The main difficulty encountered was the short timeframe between the decision to participate in the program and the implementation. Because of the late decision by the school's administration, the FAO staff did not attend training offered by the software vendor, and therefore, did not have a thorough understanding of their options.

The school experienced two problems that affected the level of effort involved in implementing the program. First, the school was ready to begin testing but the former Loan Origination Center (LOC) kept telling them that the paperwork had not arrived from the Department of Education (ED) and that they were "not on the system." Eventually this problem was resolved. Second, ED changed the LOC contract midyear, which was problematic. Data that had been accepted and acknowledged by the former LOC were not transferred to the new LOC. Also, data for first disbursements had not been processed by the former LOC, so second disbursement records were being rejected. In addition, batches of data that included promissory note changes for at least 200 loans were transmitted during the transition and acknowledged as received, but had not been processed by the new LOC. Since the transitional difficulties, the director said that "everything has been fine."

Direct Loan Processes

If a student requested loans on the Free Application for Federal Student Aid (FAFSA), the school automatically sent a promissory note for maximum subsidized and unsubsidized loans with the aid award letter. This procedure automatically created a loan origination file. The director noted, however, that many students frequently borrowed less than the maximum and loan decreases were frequently processed.

When the signed promissory note was returned to the school, the Student Accounts Office entered the data into the system. The computer program automatically checked the student's eligibility, changed origination record codes, batched the origination record, and created a promissory note manifest. The Student Accounts Office maintained promissory note records using a report of completed notes generated by the FAO.

Initially, the school had selected the option to disburse funds when a signed promissory note was received. The director had anticipated a delay of weeks between origination and receipt of funds. Upon discovering that funds were received in 2 to 3 days, they changed the system to disburse after the LOC's acknowledgment of the promissory note was received. According to the director, the change reduced the school's liability. Future changes desired by the director were implementation of mainframe-to-mainframe communication with the LOC and further refinements to reduce data entry.

When the promissory note acknowledgment was received, the FAO credited the loan funds to the student's account and transmitted the information to the business office. (Student Accounts and billing data were maintained on a system separate from the FAO's student aid data.) When the student's account had been credited with loan funds, the business office pooled all aid. The necessary money was applied to expenses (tuition, room and board), and a single check for any remaining funds was cut and mailed to the student. This process was repeated three times each week and was regarded by FAO staff as a tremendous improvement over the FFEL Program. Disbursements were made three times a year, following the school's quarter system.

Due to internal edits on their software, the school had had very few loan origination records rejected by the LOC.

The Accounting Office checked the cash balance for subsidized and unsubsidized loans daily. When the balance was negative, this office requested a drawdown of the amount disbursed. The money was wired to the state treasurer, who transmitted a confirmation number to the school's mainframe. There had been no problems with this procedure beyond a 1- or 2-day delay in receipt of funds.

Changes to loan records under Direct Lending were considered "much easier" than under the FFEL Program. The only problem encountered was related to changing the anticipated graduation date. The LOC rejected new graduation dates if they were prior to the original loan period, so it was not possible to enter the actual graduation date if a student graduated early.[1]

The school performed monthly reconciliation for ED and an internal weekly reconciliation procedure. In order to perform monthly reconciliation, the school would stop processing disbursements for 3 days. The software generated the reconciliation reports. Generally, the school had had very few records rejected. The Student Accounts Office performed a weekly reconciliation between billing data and student accounts data and the data in the FAO's student aid system. Any mismatches were reported and required followup for resolution.

[1] For subsidized loans, the government paid interest longer than it should have, because the grace period was also inaccurate.

The Student Accounts Office assumed the new responsibility of borrower counseling under Direct Lending. In addition to ED's brochures, the school prepared a one-page supplement describing state-based aid. Students were informed of repayment options at the entrance interview and received more detailed information at the exit interview. The school used servicer-generated individualized data for the exit interview. At the exit interview, consolidation was discussed and was recommended to all borrowers who might have benefited. The Student Accounts director believed that consolidation was beneficial to most borrowers, because it reduced overall monthly payments.

Through the efforts of the FAO, the school developed an entrance interview for their home page on the World Wide Web. They used the ED entrance interview materials as their model for the information to be presented. Students who used this had questioned the Student Accounts Office about 1) the difference between unsubsidized and subsidized loans, 2) early repayment options and/or penalties, and 3) how they would know when the grace period ended and payments were to begin. On the basis of these questions, the FAO revised the Web page.

Since implementing the program, the directors of the other offices and the administration decided that implementing Direct Lending was a good choice. Students received their money faster, there was greater satisfaction, and by integrating Direct Loans with other aid, students were better able to manage their budgets. Additionally, the school experienced an annualized enrollment increase of 300 full-time students without a corresponding increase in admissions applications.

The FAO staff were extremely satisfied with all aspects of administering Direct Lending. In particular, staff mentioned the significant improvement in the application process and the effort required for changing loan records. They attributed the improvement to the in-house control over these processes and the fact that they had become completely automated.

The FAO experienced problems in the following three areas of loan administration:

- The new LOC was sending erroneous error messages, causing records to be rejected. Prior to the transition to the new LOC, correcting rejected files had been no problem. The computer software had converted the rejection codes to understandable messages.

- The FAO, when using a previous software release, had records rejected because of incomplete dates for the anticipated graduation date. (They used the FAFSA for these data, and students did not enter the complete date.) A new release of the vendor's software contained an internal edit that prevented transmission of the records with incomplete data in this field, so this was no longer a problem.

- Multiple loans for a single student had previously had the same loan identification number, creating an error that was difficult to fix. At the time of the site visit, subsequent loans had been numbered sequentially to eliminate this error.

Department of Education

Training

FAO administrators, the director of Student Accounts, computer programmers, and the FAO loan coordinator had attended various Direct Loan training sessions appropriate to their area of operations. The only sessions not attended were the EDExpress training, because the school used a commercial software for Direct Lending. The training was considered "very good."

Since most prior training for student aid had been in-state, the availability of training at the Regional Office had little effect on the FAO approach to participation. In fact, many training sessions had previously been held in a nearby city, and the Regional Office was less convenient and more expensive, because it required air travel.

The FAO participated in all ED teleconferences and considered them an excellent means of transmitting information.

Materials

The Student Accounts Office considered ED's entrance and exit interview brochures to be excellent, though delivery had been delayed because of back orders.

Communication

ED's responsiveness to questions about policies and rules was judged to be "much better than it had been in the past." Generally speaking, the FAO staff called the Regional Office for policy information and called the LOC or Task Force for resolving loan processing difficulties. The director considered all three resources excellent in terms of usefulness and timeliness of their response.

The director said s/he did not think her/his staff had extensive contact with the Regional Office Account Managers, though they might have occasionally called regarding policy questions. S/he did note that they were the only ones who answered their telephones, and they assisted with problems with the new LOC. S/he said that ideally the Account Manager would serve as an ombudsman who would help with all stages of Direct Lending.

Experiences With the FFEL Program

The director was quite dissatisfied with the FFEL Program, for a number of reasons. S/he said that there were too many "actors"; there was a lack of control of the process at the school level; handling checks was too labor intensive; the refund policies (for dropouts) differed from those of other Title IV programs; and the procedure for canceling loans was awkward. Although students at this school used as many as 10 different lenders, approximately 40 percent of the loans were with the school's primary lender. Relationships with this lender were categorized as "good." In comparison, 98 percent of the loans were handled by the state guaranty agency, and the school's relationship with them was "sometimes poor." The school had contact with this guarantor because it administered other state aid programs, but since Direct Lending the relationship has become "more distanced." The director said that the school had little contact with loan servicers, but noted that they were the same organizations still involved with servicing Direct Loans.

Students, FAO staff, and school administrators were very satisfied with Direct Lending. The transition to the new program was seen as very easy, considering the lateness of the decision to implement the program. Much of the level of effort was judged as being different from, but equal to, the FFEL Program administration. Some areas, such as no longer handling paper checks and processing loan changes/refunds, entailed a significant permanent decrease in effort, while reconciliation and the volume of loan changes increased the level of effort. The Student Accounts Office experienced an increase in effort due to the new responsibility for student counseling, but the integration of loans with other aid sources simplified that area of work. Additionally, the extra work involved in deferment of school fees caused by delayed loan checks had been all but eliminated.

The director also noted that a student borrowing from the federal government might be less likely to default on a loan because of the perceived power of the government.

Lessons Learned and Best Practices

The FAO staff regarded ED's decision to change LOCs midyear as a poor one. The associate director suggested that in the future, contracts should begin with the fiscal year and that a dual system should run until the new system was operating smoothly. The staff expressed a very high level of satisfaction with the service and technical support provided by the former LOC. In comparison, they had encountered some difficulties with the new LOC because of time zone differences. Because the new LOC operated solely in the Eastern time zone and the school was in the Pacific time zone, there had been delays in obtaining answers to problems with data transmitted by the school in the afternoon. The director noted that the former LOC had assigned representatives by time zones, so that someone would always be available during the school's working hours. In addition, the new LOC had not assigned a specific technical representative as the former LOC had. Subsequent to the onsite visit, a number of changes occurred with the new LOC, much to the satisfaction of the FAO.

The director had many suggestions for ED on a wide variety of topics. S/he recommended the following:

- The law designating different dollar caps for each grade level should be simplified, only differentiating caps for undergraduates and graduate students because it was difficult to administer. Students could change their grade level at various points during the school year.

- More onsite technical assistance was needed.

- The FAO directors needed a Direct Lending manual.

- The Internet should be used more for exchanging information among schools, ED, and borrowers. ED might issue "action alerts" to differentiate Direct Loan information from other types available.

- More information about the content of training sessions should be entered on the Direct Loan home page on the Internet. S/he said that this would allow him/her to make better decisions regarding the appropriate person(s) to attend.

- Students should have online access (read-only) to the servicer to obtain information about their loans, deferments, and what actions a student could take to prevent default.

- ED should use automatic deductions/direct pay via the Internet and reward students with reduced fees for using this option (which would be less costly than processing monthly paper checks for repayment).

- ED should pursue the idea of using a line of credit for student aid. This would greatly simplify the whole system.

- The private lending sector should be examined for ways to speed up and simplify the promissory note process.

- Acknowledgment of each loan procedure should be sufficient for reconciliation.

The director also had two specific suggestions for training. S/he recommended that ED separate EDExpress training from other topics, since many schools did not use EDExpress. S/he also said that ED should to develop training on how to plan the system for Direct Lending, including the following:

- Optimal timing/sequencing of activities

- The resources needed, including the approximate costs for different levels of technology and the areas of expertise needed
- How to avoid pitfalls.

Case Study Report

School 33

1998

School 33 was a historically black college or university (HBCU), a 4-year private comprehensive university located in a large city. There were approximately 7,000 undergraduate students enrolled full time and 1,000 undergraduate students enrolled part time. School 33 offered courses leading to B.A. and B.S. degrees as well as a number of professional and graduate degrees in a variety of academic majors. The school was located on a single campus.

School 17 made no distinction between in- and out-of-state students with respect to tuition and fees. The tuition was approximately $8,700 per year. Room and board was approximately $2,300 per year. Tuition had been rising at a rate of 3 to 7 percent annually in recent years. Each school set their tuition rates independently. The FAO indicated that student borrowing had increased in recent years. This was attributed to rising off-campus housing and living expenses. School 33 was able to accommodate only 25 percent of its population in on-campus housing and there had been a rise in out-of-state and international students who had to reside off campus.

Financial Aid

Financial aid operations were divided between two offices, financial aid and student financial services. Financial aid was governed by enrollment management and performed awarding and packaging. The undergraduate Financial Aid Office (FAO) administered aid for all undergraduate schools. There were separate aid offices for each graduate and professional school. Student financial services was under the auspices of business and fiscal services and performed student loan collections and student account activities for all schools.

Reasons for Participation

School administrators had been interested in participating in the Direct Loan Program since its inception. A task force set up in November 1993 was chaired by the vice president of business and fiscal affairs. Initially, they expected to become a Year 1 school. Participation was postponed until Year 2 because of a change in school Presidents. Then, because of "turmoil in Congress" and downsizing at the school, they postponed participation again and put the task force on hold. They received a Year 3 training announcement from the U.S. Department of Education (ED) in February 1996. At this point, it was decided to move forward with the program for Year 3. They were obliged to "gear up and run" at that point and implement all aspects of the program, including hardware and software, by July 1996.

The reasons stated for participating in the program included increased institutional control, advantages to students, including being able to use the Free Applications for Federal Student Aid

(FAFSA) as a loan application; the ability to solve student problems in a compressed time span; faster loan fund delivery; the administrative loan fee;[1] and an overall reduction in paper.

The level of support from school administrators was generally supportive; no one was against Direct Lending. However, some people were leery of switching programs. However, "key people"—the President and the Vice President of Business—were very supportive of Direct Lending from the outset.

Approach to Implementation

A task force was formed in November 1993 to determine what needed to be done to implement Direct Lending. The philosophy of the task force was to include all student service administrators, not just those who worked directly in financial aid. Staff from financial aid, records and articulation, student accounts, student loans, enrollment management, housing, information systems, and the professional schools were represented.

FAO staff identified tasks and developed Direct Loan policy and procedures by attending ED-sponsored conferences and training sessions and by gathering flowcharts and other information from three other Direct Loan schools. Although they had collected a lot of information regarding various implementation strategies, they felt that most procedures for Direct Lending were already in place on campus via the Perkins Loan delivery model.

School 33 was an Option 2 school, performing all Direct Loan functions themselves. They began the program in the fall of 1996 by originating Direct Loans for all new students—approximately 25 percent of the student population. They planned to continue to phase in students and hoped to be 100 percent Direct Lending by 1998. They decided to phase in the program primarily because of the short timeframe in which they had to implement. They did not feel that they could adequately train all of their staff members. There were also some delays in the delivery of material (promissory notes and entrance and exit interview counseling material) from ED. At the time of the site visit, they were not participating in the Direct Parent Loans for Undergraduate Students (PLUS) program because they heard from other schools that there were "bugs" that needed to be worked out.

Implementation

School 33 operated in a mainframe/PC environment. For the Federal Family Education Loan (FFEL) Program, batch programs are used to transfer data, while for Direct Lending, information was uploaded and downloaded via a local area network (LAN). They used a commercial software product to process FFEL loans (prior to implementing Direct Lending, they processed 80 percent

[1] School 33 first thought about entering the program for Year 1 when schools received an administrative cost allowance of $10 per loan. After Year 1, the payment of these fees was prevented by language included in annual appropriations.

of their FFEL volume via electronic funds transfer (EFT)). For Direct Lending, they used the same software for packaging and disbursement and the creation and batching of loan records. They then downloaded these records to EDExpress for export to the Loan Origination Center (LOC).

FAO staff indicated that adapting and implementing the computer system for Direct Lending required a moderate level of effort. They indicated that it was not difficult to implement but that EDExpress would not operate under the Windows 95 operating platform (although ED staff did warn them of this).

Overall, FAO staff were not generally satisfied with EDExpress or with their own hardware and software configuration. One problem was the slow processing speed that resulted from running out of space on their server and their LAN. They expected to implement a new commercial software package as well as a new server within the upcoming 2 to 3 years to alleviate this problem. Satisfaction with their hardware was rated a 4 on a scale of 1 to 5, with 1 being very satisfied, mainly because of the slow processing. They rated both satisfaction with software and ease of integration and compatibility with their existing system as 3. This was mainly due to the incompatibility between their commercial software system and EDExpress. Their commercial software system reported gross loan amounts, while EDExpress reported net amounts. This affects reporting functions such as reconciliation. There was also a glitch in the disbursement process using the commercial software. Loan funds were supposed to be disbursed directly into students' accounts on line, but this did not work, so they had to process them manually.

One suggestion for ED concerning EDExpress involved the ability to toggle between loan screens. They would have liked the ability to go to each loan for each student without having to constantly open and close records.

When asked if they knew whom to call for hardware and software assistance, they indicated that "they just call everybody" until they got the right person to correct the problem. They were not very satisfied with either the ED LOC (a rating of 4 on a scale of 1 to 5, with 1 being very satisfied) or the software contractor (a rating of 3). They felt that the LOC was always trying to blame someone else for problems, including the school, and could be condescending. The software contractor, while nice, was not knowledgeable and could be "hard to get a hold of."

Direct Loan Processes

Student's loans are packaged with commercial software. Maximum subsidized and unsubsidized Stafford Loans were listed on the award letter. Direct Loans were only packaged to first-time borrowers. They were not participating in the Direct PLUS program in the year of the site visit, because they had heard about problems with getting parents to sign the promissory note and with data entry.

Once a student returned the signed award letter and their file was complete, a loan record was created in their software and imported to EDExpress for loan origination. This was done daily in batches of 50. This action triggered the printing of the promissory note, also done on a daily basis.

The promissory note was then held until the student made an appointment with a counselor to sign the note and receive loan counseling. Finally, the signed promissory notes were manifested and transmitted to the LOC, in batches of 50 at least three times a week. Batches were tracked via a manual log. They had encountered transmission difficulties when the LOC was switched, on February 28. The new LOC asked the school to re-generate batches and resend them. At the time of the visit, they are having major problems with their EDExpress database: They could not import or originate, and their system was locking up. This covered data for the entire second semester to date. They were not able to fix this problem inhouse, so they had to zip the whole database to the software contractor to repair and restore.

They did not feel they had many problems with rejected records from the LOC—approximately 6 or 7 out of 50. At first they had had problems understanding the nature of these errors, because the codes sent from the LOC did not match their codes. By the time of the visit, they had come to understand them; they are mostly due to date-of-birth errors. They also had some internal problems between their commercial software system and EDExpress—with loan amounts exceeding the year in school, addresses not being accepted, and second disbursements not being allowed after first disbursements are approved. They indicated that they were sometimes able to correct these problems easily but sometimes are not.

Estimation and drawdown procedures had gone smoothly (they drawdown actual loan amounts). The disbursement process was supposed to occur electronically, but they had had to conduct this process semi-manually because different systems on campus did not "talk to each other." They hoped to rectify this when they switched to an integrated campus system.

Loan changes were described as an involved process because of the system configuration at the school. There are four systems that needed to be addressed when changing a loan: EDExpress, the financial aid commercial software system, the general ledger, and the business office system. Most problems with loan changes occurred after funds have been disbursed and the school needed to refund loan funds. The FAO who performed loan changes expressed frustration over the nature of loan changes; they could happen at any time, and some students had to have three or four loan changes done each. They hoped to change this process but are not sure how to do this. They had set up a meeting with ED personnel to discuss this.

They were using all of the ED counseling materials and are satisfied with them. For current students who had loans from both programs, they were strongly encouraging consolidation into Direct Lending right away.

The accounting office from the student financial services division performed reconciliation. This was described as "the easiest part of the [Direct Loan] process." Reconciliation was performed internally, on a daily basis, and all problems are rectified before they are sent to the LOC. Therefore, no errors generally came back to the school. The only problems had occurred at the LOC's end. The LOC had delayed up to 2 weeks in sending back the acknowledgment report. This time delay could cause problems internally.

FAO staff indicated that the transition to Direct Lending had been moderately easy. Getting staff and students to get used to the change in loan programs had been the most difficult aspect of implementation. They felt this would become easier as the program became standardized on campus. The actual usage of their system for Direct Lending had been easier than expected. Overall workload increased temporarily. This was attributed to working on both loan programs simultaneously and the fact that FAO staff are still being affected by a schoolwide downsizing a few years ago. It was anticipated that the workload would get better when the school was administering only Direct Lending and installed an integrated school database. Overall, FAO staff felt that Direct Lending had led to better services for students because staff knew where problems are so they are able to give better answers to students. The highest level of dissatisfaction involved reconciliation. They believed that there was no reason for a 2-week delay in receiving an acknowledgment of data from the LOC.

Department of Education

All staff members had attended training. They had attended most ED training sessions, including the Direct Loan kickoff meeting, beginner Direct Loan training, EDExpress, reconciliation, and cash management. Overall, usefulness of training was rated as 4 on a scale of 1 to 5, where 1 was very useful and 5 was not at all useful. There were numerous complaints, including the following: the trainer reading straight from the training material thus making the FAO staff wonder how much they actually knew about the material, sessions being boring, not changing training for the last 3 years, and not being responsive to their specific school's needs. They also encountered difficulties receiving information on training (and sometimes receiving notices after training was past). They did not begin to understand the Direct Loan processes until they actually implemented the program. They would have preferred that a trainer come out to their school and work with them using the school's own data and issues. As the training was constructed at the time, they felt they could get more out of it by reading the material on their own. They did conduct in-house training for Direct Lending and other issues on an ongoing basis, using some ED material.

They did use ED-produced counseling brochures and videotapes. All were rated as 2 on a scale of 1 to 5 in regard to usefulness, again with 1 being very useful. They singled out the entrance interview brochure as being very thorough. There were some delays in receiving supplies of this material and the promissory notes. The Software User's Guide was rated 5—not at all useful. FAO staff felt that this guide did not go into any detail or explain any of the functions and that they needed to call for any clarification.

They had received substantial support from their Account Manager when implementing the program; s/he had been onsite at the school for a week and continued to be very accessible. They had used their Account Manager for general support, troubleshooting, training, and technical assistance. They rated their interaction with their Account Manager very highly; usefulness, timeliness, and knowledge were all rated as 1 on a scale of 1 to 5, with 1 indicating very satisfied.

Experiences With the FFEL Program

Prior to implementing Direct Lending, FAOs had had mixed satisfaction with the FFEL Program. While they had had a good relationship with their primary lender and indicated that their lenders were always very responsive to them, they had had problems with the structure of the program. In comparison to Direct Lending, they indicated that they did not have as much control of the program, funds were not delivered as quickly, and FFEL disbursements under EFT were not student-specific. Another advantage to Direct Lending: if there are problems, they knew where they are occurring in the process.

Since School 33 had partially implemented Direct Lending, they maintained regular contact with their primary lender. FAOs felt that lenders might have a negative effect on students' perception of the FAO, due to misinformation. While lenders are responsive to FAOs, when a student called with loan problems, lenders sometimes blamed problems on the school.

Lessons Learned and Best Practices

FAOs at School 33 had suggestions and best practices for both ED and other schools in implementing and improving the program. Suggestions for ED included:

- When conducting training sessions, make sure specific direction was given so schools know what to expect.
- Do not lump all schools together in regard to their needs concerning training, systems, etc.
- Provide more realistic system specifications for hardware and software operating systems. School 33 felt that ED underestimated what they would need causing the school to already upgrade their server once and still need a new server the following year.

Suggestions for other schools implementing the Direct Loan Program included:

- Make sure you have support from upper administration and heads of all participating offices, monetary resources, and proper equipment.
- Obtain onsite, hands-on training from knowledgeable people who understand the operating system.
- Educate students and the entire university community far in advance on the program.

- Visit more than one school of similar type and configuration and ask a lot of questions (they felt that one would not uncover problems if dealing only with ED).

- Make sure you build in adequate lead time for implementing the program. They recommend at least 1 year (and for a large mainframe school, 15 to 20 months optimally). Make sure hardware and software are installed at least 9 months before implementation, because everything flows from this.

Case Study Report

School 34

1998

School 34 was a small proprietary school located in the mid-Atlantic region. It offered three certificate courses of study: cosmetology, manicuring, and teacher training. Students in cosmetology were eligible for financial aid. In academic year 1996-97, this school had 63 full-time students and 14 part-time students.

The Financial Aid Office (FAO) was located in the school. The school began offering Direct Loans in 1996-97 (Year 3 of the program). No loans—neither Federal Family Education Loan (FFEL) Program nor any other loans—were offered prior to the 1996-97 school year.

This school had an open enrollment policy. A new student could enter classes at the beginning of each month. Tuition (including registration and kit fees) was $7,000 per student for the course of study. Tuition had steadily increased, about $500 per year, during the past 5 years. Most of the students who attended this school were classified as independent, so their parents could not apply for Parent Loans for Undergraduate Students (PLUS) loans.

Financial Aid

The FAO was staffed solely by a financial aid officer. About two-thirds (67 percent) of the students received some form of financial aid that academic year, a slight increase from the 63 percent the previous year. Nearly half of the student body (49 percent) received federal loans. This included 38 subsidized Direct Loans and 19 unsubsidized Direct Loans.

In the school's first year of participation in any federal lending program, the financial aid officer noted that Direct Loans were allowing more students to remain in school. In previous years, students had often dropped out of school because of financial considerations.

Reasons for Participation

The decision to participate in the Direct Loan Program was made by the financial aid officer, with the full support of the school's owner. The primary reason the financial aid officer decided to enter the Direct Loan Program was to be able to provide students with an additional source of funding for their education.

The financial aid officer had been with the school since May 1996 on a part-time basis and since December 1996 on a full-time basis. Prior to that time, s/he had worked as a financial aid officer at other proprietary schools, where she participated in loan programs.

Implementation

The financial aid officer implemented the Direct Loan Program with a personal computer (PC). S/he used commercial software provided by a private firm. S/he indicated that adapting and implementing the computer system for Direct Lending was easy. The financial aid officer bought very "user friendly software" and had gone to Department of Education (ED) software training. When s/he had any questions, she called the commercial software vendor. S/he was pleased with their service: "The vendor talks to me. They know that like the majority of their customers, I am not a computer person."

Direct Loan Processes

The financial aid officer reported that the financial aid packaging, loan application processes, and loan origination processes all ran smoothly. The school encouraged their students to request the minimum amount needed to attend. If a student borrowed additional funds for living expenses, the school disbursed the money over time. When the financial aid officer disbursed the funds all at once, some students would not return to school after receiving their money.

Students were required to sign the promissory note after they had been in school for 30 days. The financial aid officer instituted the 30-day delay to refrain from having to cancel loans for students who dropped the program within the first month.

Because this school had a small loan volume, loans were not batched for transmission to the Loan Origination Center (LOC). Rather, each loan was handled individually. The financial aid officer commented that while s/he had not encountered any transmission difficulties, s/he had noticed that the new LOC was slower than the old one.

The financial aid officer did the estimation and the business office was responsible for the drawdown of loan funds, disbursement, and refunding excess funds to borrowers. The school had not experienced any difficulty with these processes.

Students at this school were counseled about repayment options during their entrance and exit interviews. During the interviews, the financial aid officer handed out ED materials. Since this was the first year the school had participated in the Direct Loan Program, and since the school did not participate in the FFEL Program, the financial aid officer did not have to counsel students about consolidation.

At School 34, reconciliation was the financial aid officer's responsibility. Reconciliations were done on a monthly basis until February 1997. At the time of the site visit in April 1997, the financial aid officer still had not received an acknowledgement from the new LOC. To date, the only problem the financial aid officer had had with reconciliation was a timing issue: Sometimes the reports that the LOC sent to the financial aid officer did not reflect the latest information the financial aid officer had sent to the LOC.

Department of Education

Training

The owner of School 34 attended Direct Loan Training for new schools at the Regional Office. The financial aid officer attended Title IV Update training at another location. S/he indicated that s/he planned to attend all future trainings offered by ED. S/he reported that the training s/he had attended was not very useful or cost effective: "The trainers read from their books for 2 days; they could have mailed us the books instead of having 2 days of training." The financial aid officer recommended that future workshops cover information beyond that included in participants' books.

Materials

The financial aid officer used the printed entrance and exit counseling materials but not any of the videos. S/he found the brochures to be somewhat useful. The supply of brochures had been adequate, but not always timely: students would have finished their program before exit brochures became available. The financial aid officer stated that s/he liked the entrance materials but not the exit materials. The latter did not have a place to record the students' loan summary.

The financial aid officer did not use the EDExpress Software User's Guide. Instead s/he used a guide provided by her/his commercial software vendor.

Communication

When this school had a question regarding Direct Lending rules, regulations, or policy, the financial aid officer contacted the Direct Loan Task Force. On a scale of 1 to 5, with 1 indicating very useful or very timely, the financial aid officer rated the Task Force's responses to her/his questions a 2 in terms of usefulness and a 3 in terms of timeliness.

This school had minimal contact with the Regional Office. The only contact with the Regional Office had been at training. School 34 did not use any financial aid electronic bulletin boards.

Experiences With the FFEL Program

School 34 did not participate in the FFEL Program.

Lessons Learned and Best Practices

The financial aid officer reported that it was very easy to implement the Direct Loan Program. Since this school did not participate in the FFEL Program, the financial aid officer did experience a small, permanent increase in workload (from one half-time staff member to a full-time staff member).

When asked about specific Direct Lending activities, the financial aid officer said s/he was very satisfied with the loan application process, loan origination, estimation and drawdown, disbursement and refund of excess funds, and loan changes. S/he was least satisfied with reconciliation, because s/he was still waiting to hear from the new LOC. In general, the financial aid officer expressed satisfaction with the former LOC and dissatisfaction with the new LOC.

The financial aid officer noted that s/he was particularly pleased with the software the school had purchased from a commercial vendor. S/he also recommended that institutions interested in implementing the Direct Loan Program do so fully, rather than phasing it in. "It makes record keeping so much easier."

S/he suggested that ED revise the exit materials to provide a place for financial aid officers to record the students' loan summary. In addition, s/he suggested that the training offered go beyond the trainers reading from the manuals distributed to participants.

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