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

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

Volume One – Study Findings

1998

Direct Loan Evaluation

Case Study Summary Report:

Academic Year 1996-97

Volume One—Study Findings

Submitted to

U.S. Department of Education
Postsecondary Education Division
Steven Zwillinger,
Contracting Officer's Technical Representative

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by

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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

Type of Configuration	Level of Satisfaction					
	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

Type of Software	Level of Satisfaction					
	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.

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[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]

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[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

	Level of Satisfaction					
Loan Process	**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.

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[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:

[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.