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Case Study Summary Report

Year 1

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Steven Zwillinger,
Contracting Officer's Technical Representative

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by:

Macro International Inc.
11785 Beltsville Drive
Calverton MD 20705
Maureen W. Murphy,
Project Director

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Elaine Glover, consultant to Macro, is the Case Study Manager. Maureen Murphy is the Project Director. The site visits were conducted by Elaine Glover, Michelle Hearn, Sara Sullivan, Frank Nassetta, and Maureen Murphy. The report was prepared by Elaine Glover. The assistance of Cathy Olshefski in the formatting, editing, and production of the report is gratefully acknowledged.

Introduction

This Summary Case Study Report is part of the 5-year evaluation of the Federal Direct Student Loan Program (FDSLP) contracted by the U. S. Department of Education (ED) to be conducted by Macro International and Coopers & Lybrand. In this first year of the evaluation, case studies were conducted with five institutions participating in the first year of Direct Loan implementation. These sites were selected to represent diversity according to geographic region, institutional type, and control and loan volume. Interviews were conducted with the Director of Financial Aid and other administration officials, including the Bursar's Office, the Business Office, the Registrar and computer support staff; at four institutions, interviews were also conducted with a total of 23 student borrowers, only two of whom had obtained Direct Loans. Case study protocols were used to ensure consistency of questions asked and to facilitate cross-site summaries of information. Primary interview topics included:

- Extent to Which Services Met Institutional Needs
- Approaches to Implementing the Direct Loan Program
- Workload, Assignment of Responsibilities and Resources
- Institutional Satisfaction with the Direct Loan Program
- Institutional Satisfaction with ED-Provided Services

Extent to Which Services Met Institutional Needs

- *The timely delivery of all services satisfied the first criterion for meeting institutional needs. Institutions were enthusiastic in their praise for the technical support offered, the responsiveness of ED to inquiries and its commitment to resolving problems, and the quality of the training materials.*

Those institutions visited said their inquiries about the software were answered quickly and in sufficient detail by the servicing staff. ED initiated communication with the schools and solicited their feedback on training, counseling materials, and the Direct Loan software. Immediate actions were taken to improve the software and training. All institutions said that the training materials were comprehensive and easy to use.

- *Institutions' reactions to the delivery of the Direct Loan training, the EDExpress software, and major issues requiring policy specification were mixed.*

Specific suggestions for improvement in the training included: (1) targeting different levels of expertise among attendees; (2) offering additional training opportunities for those who could not attend the prescheduled sessions; (3) providing more interactive sessions among experienced and inexperienced institutional users of the software; and (4) making the servicer and ED policy staff available during training to address policy issues.

Chief among the numerous criticisms of the software were that it: (1) does not allow batch processing; (2) is loan based, and therefore does not allow for processing subsidized, unsubsidized, and PLUS loans for a single student in a single module; (3) has no quick-save capability, requiring each screen to be saved; (4) lacks fields assigned to local users to add information on a loan record; (5) is unable to sort and report data by school or report data by student; (6) is not easily used by institutions with multiple start dates within an academic semester; and (7) is not readily adapted by schools in a consortium or in a multischool corporate structure because it requires the same computer to be used in originating loans and drawing down funds.

Areas of concern that require further policy development are: (1) the treatment and definition of default rates in the two Programs; (2) the potential effect of consolidation on FFELP default rates; (3) crediting of PLUS versus Stafford Loan refunds to students or parents; (4) potential for congressional funding caps on student loan programs; (5) relationship of institutions with guarantee agencies, especially public institutions which are subject to State regulatory authority; and (6) potential institutional liability for borrower defense.

Overall, institutions' response to the transition year was positive. Most of those with specific criticisms believed that ED exerted remarkable effort, delivered on its promises, and is attempting to resolve identified problems as quickly as possible.

Approaches to Implementing the Direct Loan Program

- *Two primary planning approaches were noted at the case study sites—the "team approach," involving representatives from all offices with responsibilities for implementing the program, and the "directed approach," using a single office or person to plan for implementation.*

Not surprisingly, the team approach seemed to facilitate school-wide knowledge of and commitment to the Direct Loan Program. It also corresponded with more targeted resources expended on planning for the program.

- *Systems decisions were perhaps the most difficult and involved potentially the greatest impact on resources of all decisions made in the implementation phase.*

Schools using mainframes to process FFELPs and/or Pell Grants had to determine the most cost-effective way to integrate Direct Loan processing. Because EDExpress is designed for PCs rather than mainframe systems, two schools developed their own interface systems and wrote or purchased their own software.

Workload Assignment of Responsibilities and Resources

- *There were no dramatic changes predicted for staffing levels.*

Staff responsibilities for the Direct Loan Program were assigned primarily on the basis of existing FFELP and Pell responsibilities. Only one school hired additional staff to implement the new program.

Only one school said it would add several staff during its first year because it would be operating two loan programs. After 100 percent Direct Loan participation, this school predicted it would only need an additional .5 FTE staff.

- *Each school's estimate of resources expended in the transition to the Direct Loan Program was less than $26,000.*

Schools originating their own loans spent more on travel, training, and equipment than schools under alternate origination. This may have been due to the smaller size of institutions using the alternate originator. Two schools that spent more than $5,000 believed the investment would be repaid through the administrative allowance, but one school did not think its expenditures would be adequately compensated.

- *The schools noted that staff responsibilities are more likely to change within offices than across offices.*

For example, schools that said they were likely to spend less time following up on borrower inquiries involving multiple lenders and guarantors but that they would probably spend more time counseling students.

Institutional Satisfaction with the Direct Loan Program

- *Four of the schools believe that this program will provide substantially better service to their borrowers and that it will eliminate much staff effort and student time.*

Specifically, the schools mentioned that the delivery of loan funds to students will be faster and that students will not have to spend time waiting in lines to receive their checks. Similarly, they feel that this Program will considerably reduce institutional staff time spent in alphabetizing and disbursing loan checks.

- *One school did not believe the Direct Loan Program will offer any significant advantages over the FFELP with Electronic Funds Transfer (EFT).*

This school's administrators believe that the EFT transmission of loan funds provides the greatest benefits in terms of saving staff time and minimizing delays in loan fund receipt by students.

Institutional Satisfaction with ED-Provided Services

- *As stated under the Federal Administration highlights, schools praised the ED services received as timely and responsive to their needs.*

Training, software, the counseling materials, and the servicing system were delivered on time. Counseling materials did not, however, contain information on loan repayment options and consolidation.

- *Specific suggestions for software and training were offered by all schools visited.*

Software did not accommodate some schools' needs for: (1) sorting and reporting by students, (2) multiple starts within an academic semester, (3) batch processing, or (4) efficient processing of multiple loan records for a single student. Training delivery, although adequate, did not facilitate: (1) sharing of information by experienced school users, (2) needs for unscheduled training, or (3) accommodation of diverse levels of experience and/or backgrounds (i.e., business officers versus financial aid administrators).

Considerations for Schools and ED

Based on case study school comments, the project staff compiled a list of suggestions for schools entering the Direct Loan Program and/or ED to consider in planning for and implementing the Program. These suggestions represent the experiences of five different schools; therefore, not all items will be applicable to any given school.

Considerations for Schools

The following are project staff observations based on comments made by the schools during our site visits about lessons they learned in the transition to the FDSLP.

Planning

- Assign FDSLP responsibilities on the basis of past Title IV experience.
- Involve other offices in planning for higher levels of commitment and success.
- Involving others in planning may lead to increased workload sharing.
- Make use of other schools' experiences.
- Adapt and modify the practices of other schools to suit your own unique needs.
- Draw on knowledgeable personnel, especially computer literate staff.

Training

- Have more than one person attend ED training.
- Select the appropriate level of training for staff to attend.
- Staff members that will be working closely with the program should attend the training.

Operations and Resources

- State-of-the-art PCs improve the efficiency of Direct Loan operations.
- Computer literate FAO staff are assets and can offer immediate computer help.
- Utilize staff with relevant skills during the first and second year to develop your processes.
- The current software is DOS-based and may be inefficient for Macintoshes.
- Student accounts can be an efficient way of operating within the FDSLP.

Student Counseling

- Explain repayment options and payment methods soon after admission.
- Do not assume one explanation will suffice. Repeat and repeat again.

Considerations for ED

The following are project staff observations based on comments made by the schools during our site visits that ED may want to consider for Year 2 and subsequent years of the Direct Loan Program. Please note that some of these suggestions have already been implemented or are under consideration.

Training

- Plan separate training sessions based on loan and ED software experience.
- Schedule training time or special regional sessions for schools to exchange information.
- Encourage trainer involvement during hands-on practice.
- Develop a clearinghouse of implementation information.
- Establish a school referral system for schools to exchange information.

Software

- Consider working with major commercial vendors of mainframe software for postsecondary institutions in order to develop needed system interfaces.
- Set up an EDExpress testing process of origination and drawdown procedures for schools with limited experience.
- Consider converting the current software from a loan-based system to a borrower-based system.

- Allow an unsubsidized loan record to be automatically generated using the subsidized loan record for the same borrower.
- Design a save-screen override so the user does not have to save each screen when exiting.
- Add fields to the loan record to allow for unique student information or identifiers.
- Allow school access to the EDExpress programming code for individual software modification.

Customer Support

- Ensure adequate ED and servicer customer support staff and equipment during Year 2 and beyond.

Loan Servicing

- Provide schools with online query functions of their origination activity and loan status information.

Policy Guidance

- The cohort default rate under the FDSLP needs to be defined.
- Define how consolidations of FFEL loans with Direct Loans will affect the FFEL default rate.
- Improve conformity and compatibility of regulations for FDSLP with those in other Title IV programs.
- Clarify regulations regarding the timeline for considering a PLUS loan denial as final.

Based on the experiences of the five case study schools, there are numerous planning approaches that can be taken to implement the Direct Loan Program. The information collected during the case studies allowed the project team to develop Direct Loan implementation suggestions for schools and ED. We hope that this report will provide schools and ED with useful information in planning for and/or implementing the Direct Loan Program.

I. Introduction

A. The Evaluation of the Federal Direct Student Loan Program

This Summary Case Study Report is part of the evaluation of the Federal Direct Student Loan Program (FDSLP) commissioned by the U. S. Department of Education (ED). The FDSLP has been called "the first major alternative to the guaranteed loan programs available to college students in 30 years." The FDSLP was enacted as part of the Student Loan Reform Act of 1993 with the intent that it would streamline the student loan process and save the taxpayers money by eliminating Federal subsidies to guarantors and private lenders. The program is planned to account for 5 percent of new loan volume in its first year, 40 percent in the second year, at least 50 percent in years 3 and 4, and up to 100 percent by the fifth year.

This new program consists of Federal Direct Stafford Loans (subsidized and unsubsidized) and Federal Direct PLUS (Parental Loans for Undergraduate Students) loans. The loan capital is provided by the Federal government and the funds are delivered to the student through the school. All loan repayments are made to a loan servicer under contract to the Department of Education, instead of to banks and credit unions. In the 1994-95 academic year, a school originating Direct Loans will be in one of two levels of origination.[1] Schools in the "first level" are those that have demonstrated a capability to fully administer the FDSLP. These schools assume full responsibility for loan origination functions and drawdown of funds. Schools in the "second level" are required by ED to use a servicer, under contract to ED, as an alternate originator.

The purposes of the 5-year evaluation of the FDSLP to be performed by Macro International and Coopers and Lybrand are to:

- Determine whether the FDSLP results in improved administration of student loans at the Federal and institutional levels;
- Assess the total cost savings to the Federal government;
- Determine the cost differences between the two major loan programs—FDSLP and the Federal Family Education Loan Program (FFELP);

[1] There will be three levels of origination beginning in 1995-96.

- Assess institutional and borrower satisfaction with:

  - Ease of FDSLP administration, and
  - Services provided by the ED and its contractors; and

- Assess student loan borrower understanding of the FDSLP and loan obligations.

B. Goals and Objectives of Institutional Case Studies

Institutional case studies have been included as one element of the evaluation plan. Case studies provide the opportunity to describe in detail the diversity of approaches used by the schools in planning for and implementing the FDSLP. They are conducted to gain a reliminary understanding of a variety of issues and are not assumed to be representative of all schools. These latter functions will be fulfilled in another element of the Macro study—the surveys of institutions and student loan borrowers. The case studies allow for the early identification of the exemplary practices and recurring problems in implementing the new program, which may assist other institutions by suggesting ways they can benefit from the experiences of those who have come before them. Annual data collection will also provide opportunities for early feedback to ED and institutions to be used in program improvement.

The objectives of these case studies are to:

1) Describe the schools' implementation process for FDSLP, including:

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

   - Identifying the most difficult and common problems experienced by institutions in administering the FDSLP; and

   - Identifying and highlighting the exemplary practices at institutions;

2) Describe the schools' workload (anticipated workload for the transitional period) under the FDSLP as compared to the FFELP; and

3) Assess the schools' satisfaction with the timeliness and quality of the services and support provided by ED.

The first group of case studies addresses these objectives with a detailed exploration of the processes in planning for and initiating the implementation of FDSLP. In other words, these are pre-implementation case studies. Case study schools in their transitional period will assist other schools in planning their implementation. At the time of the site visits, only one of the five schools had originated any FDSLP loans.

C. Case Study Methodology

For the program's inaugural year, five sites were selected from the first cohort of 104 institutions participating in the FDSLP. These sites were chosen to represent variety in institutional type and control, size, and region of the country. In each subsequent year, additional sites will be visited and these same five sites will be visited again, to obtain a longitudinal view on program implementation and changes in perceptions.

A two-person team from Macro International visited each of the five schools to obtain needed data. Site visits took place between the first week of June and the last week of July, 1994. Interviews at the school were conducted with key administrators and students. All of the schools were called back for clarification of specific points during the writing of the individual case study reports. Some additional information was obtained during these callbacks and is incorporated in this report.

II. Schools' Characteristics

A. Type & Control

The site visit sample size permitted each category to be represented by one school. In future years, larger samples will permit more variation within categories. (Table 1 summarizes the characteristics of the five schools selected.)

Table 1

Type, Control, Location, and Size of Study Schools

School Type-Control	Location	Size: Enrollment	Size: 1992-3 Loan Volume
1 Public 4-year	Northwest	11,000	$16.0 million
2 Private 4-year	Northwest	18,400	$29.4 million
3 Proprietary Cosmetology	Midwest	111	$380 thousand
4 Public 2-year	Southwest	2,700	$846 thousand
5 Proprietary Technical	Northwest	380	$2.02 million

B. Recent Changes in Enrollment and Tuition: 1992-93 to 1993-94

The size of the student enrollment at all five schools has remained relatively stable for many years. Since the 1992-93 academic year, tuition has been rising at all five schools at a rate higher than inflation (the national average inflation rate was 4.2 percent in 1991, 3.0 in 1992, and 3.0 in 1993). Table 2 summarizes the tuition or program costs at each of the five schools for 1992-93 through 1994-95.

Table 2

Program Costs or Academic Year Tuition for 1992-93, 1993-94, and 1994-95, and Percent Increase at Site Visit Schools

School		Tuition Rates 1992-93	Tuition Rates 1993-94	Tuition Rates, % increase from 1992-93 to 1993-94	Tuition Rates 1994-95	Tuition Rates, % increase from 1993-94 to 1994-95
1	Resident	$1,850	$2,002	8.1%	$2,250	12.5%
	Nonresident	5,562	5,978	7.5	6,300	5.4
2	Undergraduate Endowed	17,220	18,170	5.5	19,000	4.6
3	Average of both campuses	5,727	5,999	4.8	NA	NA
4	Resident	360	456	26.7	456	0
	Nonresident	840	840	0	840	0
5	Average Program*	13,611	15,000	10.2	15,852	5.7
	AA Degree	5,890	6,360	8.0	6,689	5.2
	Certificate					

C. Institutional Financial Aid

Student borrowing increased between 1992-93 and 1993-94 at all five site visit schools. The rate of loan volume increase ranged from 10.5 percent at School 3 to 75.5 percent at School 4. Table 3 summarizes the loan volume and percent change at the five schools.

While the Director of Financial Aid at the Central Office of School 2 reported that there was not a substantial change in student borrowing, the Director of Graduate School Financial Aid reported that over the past 5 years the number of graduate students had increased 21 percent, while graduate student loan volume had increased 48 percent.

Table 3 Loan Volume and Percent Change				
School	Loan Volume 1991-92	Loan Volume 1992-93	Loan Volume 1993-94	% Increase
1	—	$16.0 million	$22.0 million	37.5%
2	—	$29.4 million*	NA	—
3	—	$380 thousand	$420 thousand	10.5
4	$412 thousand	$724 thousand	NA	75.5*
5	—	$2.02 million	$2.5 million	23.8

* exclusive of Perkins Loans

Increased tuition may account for some of the increase in student borrowing, but other factors were also perceived as causing the reported changes. Each Financial Aid Administrator interviewed contributed a different perspective on the increase in student borrowing at his or her school. The Director of Financial Aid at School 4 partly attributed the increased loan volume to increased borrowing limits. She felt, however, that the primary reason was that the students have learned "how to use the system" to obtain student loans for living expenses. The Director of Financial Aid at School 3 attributed some of the increase in borrowing to an increase in the enrollment of single mothers who could not work while attending school and were borrowing at maximum eligibility levels for childcare and living expenses. Another factor was the change in rules defining dependency status. School 5 reported that this resulted in a drop from 75 percent to 50 percent of enrollees being Pell eligible. According to the Director of Finance, the difference had to be made up with additional student borrowing.

III. FDSLP Participation

A. Initial Decision Processes

1. The Decision to Participate

For Schools 1 through 4, the decision to apply for participation in the FDSLP was a cooperative effort of the top administration and the school's Financial Aid Director. Offices that would play a part in implementing the program were sometimes involved as well. At School 5, the Corporate Administration made the decision and informed the school after it had been selected as a Year 1 participant. Administrators of four of the schools mentioned some contact with members of ED staff encouraging participation.

Financial Aid Administrators told the site visit team that the concerns expressed by top administrators were: (1) possible institutional liabilities, (2) making an investment of staff and equipment in a program that may not continue, and (3) at the two public institutions, objections from the State guarantee agency. Once these concerns had been addressed satisfactorily, the applications were submitted.

With the exception of School 5's Corporate Offices, the primary reason(s) for the decision to participate was to improve service to the students. The Corporate Administrator at School 5 felt that most of the benefits to the student and school were already being realized by its existing EFT and student account system under FFELP. At School 5, as well as the other schools, the desire to "be in on the ground floor" and thereby have input into the program's development and to be an "innovator" were also motivating factors. Only School 3 mentioned that it wanted to avoid uncertainty over obtaining loans through lenders under FFEL.[2]

School 2 provided the site visit team with a list of anticipated benefits as well as possible disadvantages of participation for both the school and the students. The administrators of the other schools echoed many of these statements. Table 4 summarizes these anticipated advantages and disadvantages.

2. Level of Participation

Once the schools decided to participate, they had to decide whether to phase in the new program or to fully implement it in the first year. School 2 was the only school in the site visit sample to implement Direct Lending 100 percent.[3] School 1 had wanted to fully implement the FDSLP in the first year, but objections from the State guarantee agency led to the decision to phase in new students in Year 1, then fully implement the program in Year 2. The Treasurer at School 2 estimated that phasing in the program, which required the simultaneous administration of two loan programs, would cost substantially more than full implementation. In addition, the Financial Aid Directors at both Schools 1 and 2 preferred full implementation because they did not want to confuse borrowers by offering two loan programs and did not want the complexity of administering two programs simultaneously.

[2] School 3 students had encountered difficulty obtaining FFELP student loans after the school had made the initial FDSLP application. This difficulty arose when local lenders discontinued FFELP loans to students at proprietary schools in response to the Federal Trade Commission passing the Holder Rule. According to the school's owner, the rule essentially said that, under certain conditions, students could sue lenders if they felt that they "did not receive the education they wanted" from a school.

[3] All students except those at an off-campus medical school will participate in the FDSLP.

Table 4

Anticipated Advantages and Disadvantages to Students and Schools of FDSLP Participation

Advantages and Disadvantages for Students	
Advantages	**Disadvantages**
FDSLP will provide "tremendously better service." With the elimination of lenders and guarantors, the student will communicate with only two bureaucracies—the school and the servicer. Each student will have only one servicer to deal with. There will be no waiting lines for picking up and signing checks. There will be no long delays in obtaining funds while waiting for checks to be sent to the school. Freeing up staff time to better counsel students.	Students will not have personal contact with their local lender. The application process may be too easy. Students may not realize they are signing a promissory note. Borrowing is being made too easy and will lead to unnecessary debt.

Schools 3, 4, and 5 were phasing in Direct Loans by offering the program only to new student borrowers.[4] Previous borrowers at School 4 could obtain a Direct Loan, but most had already applied for FFELP loans. The administrators at these schools felt that they did not want to confuse borrowers who already had FFELP loans with the introduction of a new loan program. The administrators at School 5 wanted to delay full commitment until ED had more experience and operations were fairly routinized in the new program; they wanted to implement the program on a small group before committing the entire institution and other corporate-owned schools.

The three schools eligible to originate the loans and print the promissory note (level 1) chose to do so because they wanted as much institutional control over loan processing as possible. Schools 3 and 4 were not eligible to originate loans in Year 1 because they had no prior Perkins Loan program experience—a requirement that has been dropped for Year 2 schools.

[4] Because of the short length of the program of study, students at School 3 are only eligible to borrow once. Thus, phasing in of new students is full implementation.

Table 4(2)

Advantages and Disadvantages for the School	
Advantages	**Disadvantages**
The school will have control over the financial aid process and will not be dependent on lenders and guarantee agencies for the loan processing. FDSLP will be much easier than FFELP to manage. Many more problems will be solved in-house because of the school's increased control. Less labor is required in FDSLP than FFELP. There will be an improved cash flow at the school. Over time, administrative costs will be less than origination fee revenues. Costs will be recaptured and eventually budgetary savings will be realized through the $10-per-borrower administrative allowance.	Students will perceive that the loan is from the school. When a loan problem occurs they will come to the school, not the servicer. The school is concerned that it will not have great influence with the servicer, being 1 of 104 schools.

B. Planning Approaches

Three models for planning FDSLP implementation were reported by the schools: (a) team approach, (b) directed approach, and (c) a combination of the two. The particular approach used may be due, in part, to the size of school, number of administrative staff, and degree of separation of functions.

The Team Approach:

The team approach was used by Schools 1 and 2. The Directors of Financial Aid assembled work groups of administrators from all offices that would participate in the FDSLP. The teams worked together to identify the tasks, responsibilities, and processes which would be performed under the new program. Each group developed the list of responsibilities without the aid of outside materials.[5] Task definition was a "learn as you go" effort, and adding tasks and

[5] Lists of Direct Lending tasks for schools are included in the papers by Elizabeth Hicks and Kay Jacks, "Comparison of Administrative Functions for Schools Under the Stafford Loan Program and the Direct Loan Program," (1991) and "A Continuing Discussion Comparing the Proposed Direct Loan Program with GSLP" by Joseph Russo and Courtney McAnuff (1991).

functions was part of the refining process. The work groups held numerous regularly scheduled meetings and continued regular informal interaction as well.

At these schools, the site visit team observed a high level of interaction among administrators from different offices and the respondents reported improved communication and substantial administrative support. Also, in both schools, the Director of Financial Aid was held in high esteem by members of other administrative offices and carried a strong leadership role in the team process.

The team approach appeared to have the following effects:

- It generated overall enthusiasm and commitment from other personnel toward the new program.
- There was a distribution of task responsibility and level of effort across school offices/personnel.
- There was a higher level of administrative commitment of resources such as additional staff and equipment.

The Directed Approach:

In comparison, Schools 3 and 4 used a "directed" approach. In this model, a single person assumed the primary or complete responsibility for planning, identifying tasks, and developing procedures. One would expect that at very small schools this method would be the only possible approach due to the limited number of school administrators. At School 3, the school's owner assumed this role; at School 4 it was the Director of Financial Aid. At both schools there were noticeably less communication and involvement with other administrative offices/staff, with key Business Office or FAO personnel left out of most Direct Loan communications.

The Combination Approach:

School 5, because of the structure and philosophy of the corporate ownership, represented a mix of the team and directed approaches. At the corporate level, the administrators functioned as a team, identifying tasks to be performed and making policy decisions and assigning responsibilities. These decisions were then communicated to School 5's Director of Financial Aid, who was minimally consulted in the process.

Both academic and financial functions in schools owned by this corporation operate under the mixed approach model. The administration will commit whatever resources will be needed and responsibility for specific tasks will be assigned, as needed, across school and corporate offices.

C. Systems Decisions: PC and/or Mainframe

Perhaps one of the most important decisions the schools faced was the choice of computer environment to be used in the FDSLP. The schools first had to decide whether to (a) only use the EDExpress software designed for DOS-based personal computers (PCs); (b) develop a unique mainframe program to interface between EDExpress and their existing mainframe software; or (c) write origination programs for their own mainframe system. Second, if they decided to design a mainframe-to-PC interface, systems personnel also had to determine the extent to which the operations would depend on each system (EDExpress or mainframe software). This decision had to be made early in the planning process, because, as one Systems Administrator said, "it would impact almost all other FDSLP issues."

Under the FFELP, three of the five schools (Schools 1, 2, and 5) maintained their student financial aid data records on a mainframe computer. All fiscal operations at School 3 operated in a PC environment, but FFELP and Pell Grant operations were paper-based. While School 4 used a mainframe for a student database and billing, student aid packaging and FFELP processing were paper-based operations. Of the five schools, only School 5 used EFT for student loans; all other schools received paper checks from the various lenders.

The case study schools with mainframe systems maintained their systems with various modules purchased from commercial vendors. The capacities and functions of existing mainframe systems differed across the four schools with a mainframe environment,[6] depending upon which commercial system was in use and which of the vendors' modules had been purchased. All four schools' systems integrated student registration and billing records. Two of the schools' mainframe systems handled student aid packaging, printing of award letters, and a student debit card system. Schools 1 and 2 developed their own interface software so that they could adapt Direct Loan processing to their existing systems. Two of the schools had computerized student account systems whereby financial aid and direct payments were automatically disbursed to the individual students' accounts for credit toward direct school expenses. Commercially developed mainframe systems also have modules available with the capacity to manage the Pell Grant and other Title IV programs.

Two of the schools chose to remain in a primarily mainframe environment, and two were using primarily EDExpress. For Year 1 schools, the systems decision had to be made based on knowledge of Phase I of the Direct Loan software. To assist in the decision process, the systems staff at School 2 developed the list of advantages and disadvantages associated with using EDE software (1) as little as possible or (2) as much as possible. Table 5 presents a summary of these perceived advantages and disadvantages. A detailed description of the system design approach appears in Appendix A of this document.

[6] School 3 operated exclusively in a PC environment and used the EDExpress to communicate with the servicer for alternate origination.

Table 5

School 2's Assessment of Systems Choices in Developing an Interface Between a Mainframe and EDExpress

Alternative 1: Use EDE Software as Little as Possible

Advantages and Disadvantages for Students	
Advantages	**Disadvantages**
1. Operationally simpler for FAO staff - Fewer Steps - Less uploading and downloading - Conceptually easier to understand - Operational mistakes less likely 2. Uses a familiar mainframe system 3. School has complete control of the software that creates the origination database	1. Programming is more complicated 2. Higher program maintenance costs 3. Program may be more error prone: - EDE programs more heavily tested - School dependent on accuracy of own understanding of ED servicer's system requirements 4. Will need to create new mainframe system screen to manage loans

Alternative 2: Use EDE Software as Much as Possible

Advantages and Disadvantages for the School	
Advantages	**Disadvantages**
1. No maintenance responsibility for 2. Possibly less errors in the 3. May be able to use EDE screen to manage loans at a later date	1. Operationally more complicated and software updates error prone for FAO 2. Less total program logic, but will origination file. Take same amount of time to develop as any EDE interface

Both Schools 1 and 2 decided that the advantages of using existing mainframe systems (easier and less error prone) outweighed the disadvantages (substantial time and effort in developing and maintaining their own software to interface with EDExpress). A half-time Systems Analyst was needed at School 1 and a full-time analyst at School 2. Loan volume and the potential for recuperation of expenses invested in system development and maintenance through the administrative allowance were also considerations. In both instances, the schools handle 5,000 to 6,000 student borrowers each year. Using the existing student database was more efficient than re-entering or uploading and downloading the data on the PC.

The interfaces designed by these schools did not have all the "bells and whistles" one could desire. They were designed as temporary systems to deal with the 80 to 85 percent of loans that conform to standard system operations and could be handled in a batch mode. Atypical loans will be handled on an individual, manual basis, with double entry of data into each system. Both schools anticipated a commercially available mainframe system module for FDSLP, designed for integration with their existing system, within 2 years.

In comparison, School 4 had relatively small loan volume (under 400 borrowers), did not have access to substantial computer support and was, therefore, not able to consider interfacing the two systems. Many of the Financial Aid Director's records are maintained on a Macintosh. She had purchased a DOS interface for this computer, but the system was too slow for her to use for loan origination. This school will double enter student loan data—once to the mainframe and once to EDExpress. All FDSLP functions will be handled with the expEDIte system communicating with the alternate origination servicer.

Because of the corporate configuration of centralized record keeping and fiscal operations, School 5 had the most difficulty with the system decision. The corporation works in a mainframe environment and the school(s) have PCs; however the PCs and mainframe are not networked. FFELP loans and other Title IV funds had been drawn down using EFT and were automatically disbursed to student accounts on the mainframe. The only additional data needing key entry were cash payments made by students. Paper records of student accounts were generated on the mainframe at the Central Office and sent to the school and student on a monthly basis.

Initially, the FDSLP plan at School 5 was to build on the FFELP model. The corporate administrators wanted the data entry of the loan record and promissory note printing functions performed at the school using EDExpress, and drawdown and disbursement to student accounts performed on the corporation's Central Office mainframe. Essentially, the corporate headquarters would have operated as a servicer for the school(s). The ED system, however, could not support this model; drawdown must be from the same computer originating the loan.[7] Another issue was that in Year 1, the number of FDSLP borrowers at this school was small—approximately 6 percent of the total number of borrowers at Schools 1. School 5 is phasing in the program with new students and other corporate-owned schools will also be phased in future years. Thus, a substantial investment in developing and maintaining an interface between the mainframe and EDExpress was not as easy a decision as at the other schools; they had neither the volume nor the expected recuperation of developmental costs through the administrative allowance. With the smaller loan volume, the administrators decided that they could rely—at least for Year 1—on the EDExpress software and enter the data for loan origination at corporate headquarters.

[7] These problems may occur for other schools with multiple branches or campuses, other corporate-owned chains of schools, and FDSLP consortia planning to centralize loan operations.

D. Assignment of Responsibilities in FFELP and FDSLP

During the site visits, administrators from the Business Offices and FAO at each school were asked to complete an extensive listing of student loan activities (derived from the list by Elizabeth Hicks and Kay Jacks). For each task, they were asked to record the office(s) responsible under FFELP and FDSLP.

There was surprisingly little change in functional responsibilities. Generally speaking, if an office had experience in a function (e.g., drawdown of Pell), it assumed that function under FDSLP. At Schools 1 through 4, the majority of new responsibilities, such as printing and obtaining signatures on promissory notes, fell to the FAO. Other new functions, such as disbursement of funds to student accounts or reconciliation were assigned on the basis of "good accounting practices," i.e., a loan officer should not assume these responsibilities. At some schools they were to be performed by the Business or Accounting Offices. At others, the functions would be performed by separate staff (e.g, an accountant) within the FAO.

At School 5, it appears that many of the activities performed under FFELP by a corporate FAO will be transferred to a corporate accounting office. The school will experience little change in financial aid operations. According to the school's Director of Finance, obtaining the signature on the promissory note will be no different than obtaining it on the loan application.

IV. FDSLP Workload and Resources

A. Costs

1. Training Costs

The costs for travel and attendance at Direct Loan meetings (e.g., User Group and Task Force meetings) varied by the number of staff attending, the number of meetings attended, and the cost of airfare between the training site and the school. The configurations of the number and level of staff attending the Kickoff Meeting and Phase I and Phase II Training varied for each school. Costs ranged from an estimated low of $1,200 to a high of $10,000.

School 3 had only one staff member attending the training sessions. Unexpectedly, the individual ceased working for that school. She had shared the training materials distributed at the meetings and had posttraining discussions with the school's owner. While the owner and the Director of Financial Aid felt comfortable with their knowledge of the new program, they wanted to be sure everything was in place. Attempts to obtain additional training from ED (before July 1) failed, despite her offer to pay any additional costs.[8]

2. Equipment Costs

Total equipment purchases ranged from approximately $15,500 at School 1 to $150 at School 3. All equipment purchases were reported to have been made specifically for implementing the FDSLP, and would not have been made for FFELP. Three of the five schools (Schools 1, 2 and 5) purchased at least one dedicated 486 PC with an internal modem at a cost of $2,500 to $3,500; three schools (Schools 1, 4, and 5) purchased a high-speed laser printer at $2,000 to $5,000; and two schools (Schools 3 and 4) purchased a modem at $150 to $400. Both Schools 3 and 5 purchased relatively inexpensive software to interface between systems but were not able to use the product successfully.

3. Other Costs

The schools anticipated additional costs for mailing signed promissory notes to the servicer and for additional photocopying which were expected to total less than $1,000 for the year. Only School 2 incurred higher costs from a special mailing announcing participation in the FDSLP to all previous FFELP and PLUS borrowers.

B. Staff Changes, Savings, and Costs

During the site visits, and before actual implementation, administrators were asked to project planned or anticipated staff requirements for the first year of FDSLP.

For internal planning purposes, School 1 had prepared projected estimates of staff requirements needed to (a) operate FFELP and FDSLP simultaneously, or (b) fully implement FDSLP. The Director of Financial Aid concluded that more additional staff were needed to operate the two programs (an additional full-time Loan Officer, a part-time Accountant, and a part-time Clerk) than to fully implement FDSLP (an additional part-time Clerk).

School 2 had also prepared estimated projections of staff needs. According to administrators, the number of reductions in work study staff in the FAO and clerical staff in the Bursar's Office were planned, but an additional full-time Accounts Clerk for reconciliation processes was needed in the FAO.

[8] ED has since made provisions for unscheduled training needs by training regional office staff (and hiring additional regional staff) to respond to needs such as those stated by the School 3 representative.

Schools 3 and 4 had no changes in staff and did not plan on making any after implementing FDSLP. The Corporate Administrators for School 5 expected that additional staff would be needed, but no specific plans had been made at the time of the site visit.

Therefore, there were no dramatic changes predicted in staffing levels except for School 2 (which will need an additional 2.5 FTE to manage the two loan programs in Year 1, but only an additional .5 FTE with full implementation in Year 2). As implementation progresses, each school will be monitoring the workload to determine the need for additions or reductions in staff.

C. Staff Effort

In addition to attending training and ED planning meetings, three of the schools (Schools 1, 2, and 5) spent many hours developing lists of responsibilities and planning policies and procedures for FDSLP implementation. Schools 1 and 2 invested heavily in systems staff for programming, refining, and maintaining computer system interfaces. School 1's Business Office staff spent many additional hours establishing a student account system to better handle Direct Loan disbursement.

The workload changes that will be experienced when the program transition is complete are not yet known. The schools identified areas that had the potential to increase or decrease workloads. Other factors were identified that could affect workload in either direction. At this time the factors that are foreseen as having the potential for causing increases or decreases in workload are as follows:

Factors That Might Cause a Decrease in Workload

- Schools 1-4 will no longer need to print, collect, review, sign, and mail loan applications to a variety of lending institutions.

- At School 3, students and the Financial Aid Administrator will not have to spend time locating a lender who will serve a proprietary school.

- For Schools 1 and 2, in all areas of loan application and disbursement there will be less manual updating and data entry.

- With the establishment of student accounts (at Schools 1, 2, and 4) the very time-consuming process of manually logging in checks received, alphabetizing them, and recertifying the students' status before checks are released will no longer be required. School 3 had very small monthly loan volume and does not maintain a similar computerized, individual-student account system. School 5 had EFT and student account systems in place under FFELP.

- Staffing for long lines of students waiting to pick up and endorse student loan checks will no longer be needed at Schools 1 and 2. This was not an issue for schools 3, 4, or 5.

- Because there will no longer be unexpected loan check delays, fewer calls from students with questions about their loan status are expected at Schools 1 through 4.

- Schools will not have to arrange for short-term institutional loans or arrange a delay in tuition and room and board payments for students whose loan checks are delayed.

- At all schools, changes in student data (name, status, anticipated graduation date, etc.) and in-school deferments will only have to be sent to a single servicer.

- At all schools, when FFELP loans are paid off or consolidated with FDSLP loans, the school will no longer have to answer questions from multiple servicers and guarantors about the student's last known address.

Factors That Might Cause an Increase in Workload

- For Schools 3, 4, and 5, there will be more effort expended on entering student data to create loan origination files in EDExpress. In the past, the lender or guarantee agency entered all data from the loan application.

- For all schools, originating PLUS loans (an optional FDSLP activity) will require the collection of additional parent data.

- At School 5, additional student data (needed for loan origination) will have to be copied and sent from the school to the Corporate Offices.

- For all schools, the reconciliation process, which is not necessary with FFELP loans, may be time consuming.

- For all schools, printing and mailing promissory notes to students will require additional effort.

- The process of tracking and recording promissory notes and keeping them secure until mailed to the servicer will require additional effort at all schools.

- Procedures for logging communications with the servicer, including logging batches of messages, sending origination records, and receiving disbursements, are in the process of being developed. It is not yet known how much additional work this will involve.

- At Schools 1 and 2, the interface system between the mainframe and PC software, as currently designed, functions smoothly for about 80 percent of borrowers. It does not, however, handle special cases. Handling special cases and the associated student records manually will require double entry—once to the ED software and once to the mainframe system. This double entry will also have to be done for PLUS loan applications because parent data are not maintained in the mainframe student database.

- Troubleshooting on more complex transmissions of data or records with problems generating error messages may cause unknown difficulties. For example, the tracking of a missing batch of origination records may be time consuming.

- At Schools 1 and 2, the systems analyst had constructed an interface between the PC system used to communicate with the servicer and the school's database maintained on a mainframe system. As the FDSLP system develops, is tested, and refined, the systems analyst may need to maintain PC software in addition to the maintenance of the mainframe software.

- At all schools, students may perceive the school as the lender. Answering student borrower questions, such as queries about loan status, multiple disbursements, or repayment problems, which were taken care of by lenders under FFELP, may have to be handled by the FAO.

Finally, the following areas may become simpler and reduce workload or become more complex and increase schools' efforts:

Factors with an Uncertain Effect on Workload

- New regulations from ED may make processes simpler or more complex.

- Future mainframe software that may be made available by commercial software providers or ED could also make some processes simpler or more complex.

- Financial aid staff generally felt that loan counseling will be simplified because there will not be as many agencies as under FFELP for students to understand. However, regulations and counseling materials for repayment options had not been distributed at the time of the site visits. Having new repayment options (standard, extended, graduated, and income contingent) and choice of methods of repayment (check, employer deduction, automatic bank deduction) to explain may make loan counseling more difficult and/or more time consuming.

V. Satisfaction with ED Provided Services

The five case study visits provided an institutional assessment of services provided by ED prior to the first operational year of the program. These assessments are the reactions or responses of the five case study schools visited. The primary focus of the case studies was on quality, timeliness, and areas for improvement in ED's delivery of services.

A. Training - Overall Satisfaction

Across the five schools, a mix of financial aid administrators, systems staff, school owners, corporate staff, and business office and controller staff attended various sessions of Phase I and Phase II training. Respondents generally praised the enthusiasm and commitment of the presenters. They felt that the trainers were knowledgeable about the ED software and how the systems worked. The materials used in the training received unanimous praise, and were judged to be comprehensive, well written, and easy to understand. Overall satisfaction was mixed, with some offering high praise and others stating that the sessions they attended were only fair. The table below illustrates some positive and negative comments regarding the training sessions. Training sessions varied widely; therefore staff at different schools may have had very different experiences with training.

Table 6

Comments on Individual Trainer Behaviors and Session Characteristics

Positive comments: Trainer made special efforts to be responsive to the individual needs of the trainees. Hands-on training was very beneficial to the trainees and helped them to learn more quickly than if it had been simply lecture format. Trainees reported that they benefitted from the trainer working closely with them during the hands-on exercises. Opportunity to interact and share implementation problems and solutions with other schools was the single factor most consistently valued.
Negative comments: Trainer read from the manual to trainees. Trainers left the room or conversed with colleagues during hands-on exercises and were not available to help participants. Trainer would not allow trainees to operate computers during major parts of training session.

Table 6 (2)

Comments on Individual Trainer Behaviors and Session Characteristics

Negative comments (continued):
Some trainees at the session refused to allow others hands-on access to the PC. Trainers needed to encourage team work.
The servicer was not present to respond to questions or to show trainees the report formats to be generated.
In the process of working with the software, policy issues were raised. Trainers were not always able to resolve the issues.
Training was not oriented toward application of the system to individual schools' situations. Respondents said they needed to know how to apply the process to their individual needs, "what the system could do for us," "how to incorporate it (ED software) into our system."

In general, the trainees' reports of overall satisfaction tended to vary with their level of experience with financial aid, computers, and other characteristics. For example, training and software are designed primarily for typical academic institutions; issues relevant to School 3 (a cosmetology school) were not addressed. Similarly, School 4 would have liked more emphasis on the role of the alternate originator and suggested separate small group sessions for schools using this service.

Respondents with substantial student loan and/or ED software experience felt that the level of training was simplistic and boring. Inexperienced staff felt that the training assumed a working knowledge of student loans and was confusing and difficult to follow. For the latter group, not enough detail was presented. They said they needed more time to absorb two new areas of information: ED software functions and the FDSLP. Respondents who attended sessions where the groups were separated on the basis of EDExpress experience were very satisfied.[9]

All respondents said that they continued to interact with other FDSLP schools through computer bulletin boards, user group meetings, and personal phone calls, and that these interactions were very helpful.

[9] ED responded to this concern in Year 2 by establishing three levels of training based on trainees' prior experience with the EDExpress software.

B. Software and Software Support

1. EDExpress Phases 1 and 2

Systems staff at four of the five schools reported that the ED software was user friendly and was supported with clearly written and well-organized documentation. Since only one case study school had originated loans when the site visits were conducted, the software had not yet been used extensively for day-to-day operations; thus the five schools had widely differing experiences with it.

Schools 1 and 2 were refining mainframe-to-PC interface systems. (In a follow-up telephone call, both schools reported that origination and drawdown of millions of dollars in student loans were progressing smoothly, with only minor system "glitches.") Staff at School 3 had not used the software and had not received the training. The package had been loaded, but data entry had not begun.

School 4 was beginning to enter student loan data. In a follow-up telephone call, the site visit team learned that as soon as School 4 received Phase III software, it began using it. The servicer, however, was not prepared to receive loan records originated on Phase III for another 2 weeks. In a later follow-up telephone call, School 4 reported that "the system is working fine" and that the servicer told them that they were the first school to transmit an error-free batch.

Only School 5 had actually used ED software to originate, draw down, and disburse loans. It encountered a number of problems with loan origination data entry and report generation while using Phase II. The data entry problems were frustrating and, for these administrators, made the learning process and first loan originations a difficult and time-consuming task.

The following list details specific problems reported with the Phase II software by at least one case study school.

- Absence of a quick save capability makes the system very slow to navigate because each screen must be saved.
- System will not allow for a student's subsidized and unsubsidized loans to be processed together.
- Inability to do batch load processing of any kind; each loan must be processed separately.
- There are no fields assigned for local users to add additional information.

- Student identification numbers are automatically assigned by the ED software and cannot be overwritten, which makes it difficult to match the school's mainframe files with ED files.

- Lack of guidance on how to integrate the software into their existing mainframe systems

- The software is not adapted for a Macintosh environment, the traditional computer in the education field.

- Phase II software was reported as slow and somewhat cumbersome in actual use. (Phase III was not yet in use at the time of the site visits.)

- The standard reports generated were considered insufficient for their accounting procedures.

- The system is unable to sort and report data by school, which creates difficulties for institutions with multiple branches or consortia originating loans.

- There was limited opportunity to run tests of origination files with the servicer before trying to originate actual student loans.

Some of these difficulties were corrected in the Phase III release and others may be corrected in the Year 2 release.

2. Software Technical Support

All schools had at least one occasion to call the ED contractor for technical support in installing and running EDExpress. Respondents were unanimous in their praise for this service. They felt that response was provided in a timely manner and the technical support staff were very helpful, regardless of the schools' level of sophistication. During a follow-up telephone conversation, School 4 reported difficulties getting through to the technical support line was often put on hold for long periods, and had to leave a message. School 5 also had, some similar experiences this to a lesser degree, as reported during the site visit.

C. Operations Technical Support and Policy Guidance

Because FDSLP is a new program, there were a number of questions on which Financial Aid Administrators needed guidance. All respondents reported that ED's staff were generally responsive and helpful with technical matters and, wherever possible, with policy clarification. Schools did, however, encounter the following problems:

- One school reported response problems with calls about materials delivery (e.g., printed promissory notes, counseling materials).

- The owner of School 3 had called ED more than 10 times, trying to obtain the name of the training contractor. The owner wanted to privately purchase additional training, but was unsuccessful in obtaining the contractor's identity.

- School 4's Director of Financial Aid noted that ED's Central Office and policy statements often use terms such as "may" and "can," which are sometimes interpreted by Regional Offices as "must." She would like more consistency in Regional Office interpretation and less ambiguity in ED's regulations and policy statements.

- The dates for drawdown and disbursement of funds to student accounts may be confusing because of the use of the term "disbursement." Under the FDSLP, disbursement means the transfer of funds from the school's account to the student. However, common usage of the term "disbursement" in the FFELP means the transfer of funds from the lender to the school, which is called "drawdown" in the FDSLP. The difference in use led to some of the confusion about the rules regarding timing of drawdown and disbursement.

Another source of confusion about the timing of drawdown and disbursement came from the wording of the Omnibus Budget Reconciliation Act of 1993 (P.L.103-66). The law states that FDSLP should mirror the Pell Grant program, so some of the administrators thought that the drawdown and disbursement timing would/should be the same as that of the Pell Grant.

D. Counseling Materials

Not all schools had received student borrower counseling materials at the time of the site visit; all had received them by the time callbacks were made. All schools felt that the materials were written in a clear, easily understood fashion. School 2 Administrators felt that the material was sufficiently comprehensive and that they would be able to reduce the school's own student borrower booklet to a single page.

School 3 had traditionally used in-house materials and a default video for student loan counseling. It decided to order ED brochures, but had not yet received them during the time of the site visit.

School 5 had initially planned to begin originating Direct Loans on July 1 for new students enrolling in June 1994. This would have required that counseling materials be received at the school in May, so school applicants for the summer start could receive all financial aid information. Because counseling materials were not ready for distribution to the schools and because School 5's corporate offices were having difficulty setting up the origination process, the school delayed originating Direct Loans. The School's Director of Finance reported that on July 1, he received a shipment of empty folders intended for the students' own copies of financial aid records. By the time of the site visit—the end of July—all materials had been received. School 5 felt that the lack of repayment information made the materials less than completely satisfactory, but that the information that was contained was clearly presented.

E. Servicer as Alternate Originator

Schools 3 and 4 (Level 2 schools) were required to use the servicer as an alternate originator of Direct Loans. At the time of the site visit, School 4 reported no communication with the servicer beyond receipt of a $1 test of drawdown and a telephone number to call. In comparison, School 3 had called the servicer a number of times and reported helpful and responsive communication. Neither school had received any direction from the servicer regarding the batching, mailing, or tracking of signed promissory notes. Both schools felt that communication would increase once origination files were ready for transmission.

F. Summary of Satisfaction with the FDSLP Implementation

The schools had a number of comments regarding their satisfaction with the transition period and their implementation of the FDSLP to this point. All schools expressed high hopes for the success of FDSLP. In all cases, except one, the schools thought that FDSLP would provide substantially better service to the students. They felt that there were many advantages to the new program over FFELP. Specific advantages included the speed of loan funds delivery; the elimination of the staff effort and student lines associated with receipt of checks from numerous lenders; the centralization of servicing; and, for a proprietary school, less time securing a lender for its students.

School 5 already had EFT under the FFELP and would only allow students to borrow from lenders who did not sell loans. The Administrators felt that the FDSLP offered no advantage over School 5's FFELP with EFT. Nevertheless, these administrators saw Direct Loans as the student loan program of the future and were committed to implementing a quality FDSLP program in the corporation's schools.

The institutions felt that ED had met all their stated goals in a timely manner. In addition, many commented on the responsiveness of ED in its efforts to provide both technical and policy assistance and clarification quickly and accurately. Schools did report that some questions or problems were not resolved quickly, but they were generally pleased with ED's efforts. Staff hoped that the level of services that had been received in Year 1 would continue in Year 2 when the number of FDSLP participants would greatly increase.

Overall satisfaction with the training provided by ED was mixed, with some schools being very satisfied and others rating it as fair or poor. Suggestions for improvement included more trainer-trainee interaction, more time for schools to interact and learn from each other, and more hands-on time and direction on the computers. The materials used in training were judged as well written and easy to understand. Satisfaction with the ED software was also mixed, with School 5 having used it the most and being the least satisfied. Specific difficulties with the software included that it was slow, it lacked a "quick save" capability, it was unable to batch process, and it could not generate reports required for internal processes. All schools had contacted the technical support line at least once, and all reported that the support staff were very responsive, helpful, and knowledgeable.

Final judgement on the FDSLP was withheld, pending the quality of service provided by ED's contracted servicer. Many of the schools stated that quality servicing, both for institutions and for borrowers, would be a determining factor in the success or failure of the FDSLP. At the time of our site visits, the amount of interaction with the servicer was quite varied. In a follow-up telephone conversation with School 4, the Financial Aid Officer reported that she was very pleased with the servicing. She believes that this program is easier to administer because the school has more control over the process, they are making fewer mistakes, and they are receiving overnight acknowledgement on most originations.

VI. Considerations for Future Policy Development

During the case study site visits, institutional staff discussed not only their experiences to date, but also their concerns regarding future policy decisions and considerations that might affect these decisions. While these are not areas of dissatisfaction per se, the following comments are areas in which at least one school administrator reported concern, of a programmatic nature.[10]

- **Default**: All schools expressed general concern about how, or if, default will be calculated in FDSLP. While some thought that ICL would essentially make default a moot issue, others were concerned that a school might be held responsible for a default 10 or 15 years after the student had left. Schools with an active FFELP default prevention program, which included intensive borrower follow-up contacts, wanted to know what the school's role will be in the future under FDSLP.

- **Consolidation**: Considerable concern was expressed by an Administrator about the policies governing Direct Loan consolidation. There are potential advantages to students, schools, and ED in converting FFELP loans to Direct Loans through consolidation.

[10] The open-ended nature of the site visit protocols encouraged the schools to report their own unique area(s) of concern. Additionally, at the same school, different respondents brought up different issues. Except for a specific question about counseling students on loan consolidation, there was no effort by the site visit teams to direct discussion to specific topics of concern for comparability across schools.

Advantages for students: The rules make it possible for students with FFELP loans made prior to July 1, 1993 to consolidate their outstanding FFELP balances into a Consolidated Direct Loan and continue in school with a deferment. As they are completing school, they may continue to consolidate additional Direct Loans. In addition, the variable interest rate on the Consolidated Direct Loan may be lower than the interest rate on the balance of FFELP loans, which may also lower monthly payments. All paperwork (in-school deferment forms, address changes, etc.) will have only to be sent to the single ED servicer instead of to multiple loan holders.

According to the School 1 Director of Financial Aid, consolidation under FDSLP can lead to excessive borrowing. For example, when a student has consolidated his or her loans under FDSLP, he or she is no longer considered in default and may continue to borrow to attend school. This is different than the FFELP regulations which state that a student in default, after making six timely payments, is considered "rehabilitated"—but not taken out of default—and may be denied additional loans.

Advantages for Schools: According to the Corporate Administrator, generally the schools would initially encourage consolidation because it would reduce the number of agencies the schools' administration must deal with when responding to student status confirmation reports and filing deferements.

Advantages for ED: Consolidation would quickly enlarge the Direct Loan portfolio, thus potentially save the taxpayer money because the lenders would not be collecting the subsidy on these loans.

The unintended consequence, however, is substantial. If a Direct Loan school encourages borrowers with FFELP loans to consolidate, there could be negative impact on the FFELP. Many of the remaining holders of FFELP paper (i.e., dropouts who didn't consolidate) are those at the highest risk of defaulting, which may increase the FFELP default rate. We understand that ED is reviewing its position on this issue.

- **Guarantee Agency Relationships**: In many States, the State agency charged with oversight of public 2- and 4-year colleges also has oversight responsibility for the State guarantee agency. In such instances, the agency must balance the needs of the school to serve its students through the FDSLP against the fiscal viability of the guarantee agency and the need to protect the jobs of the guarantor's civil service employees. In States where the oversight is not necessarily by the same agency, the needs of the State's guarantor are still an important political issue. In both instances, public schools will be influenced by the needs of their State's guarantor. Both public schools in our study reported strong, negative influence of their State guarantee agency on schools' decisions to participate in FDSLP. As one Administrator stated, "what had once been a supportive and cooperative relationship was now a competitive one."

- **Liability Incurred by the School**: There was little concern about increased liability expressed by school representatives. As one official said, "Once the Government accepts the promissory note, the Government assumes the liability." There was, however, one area of concern. Under the FFELP, the banks were liable when a student claimed that he or she had received an inadequate education. This is known as the "borrowers defense" for not paying back the borrowed funds. The schools do not know if they will be protected from such suits under FDSLP.

- **Administrative Fee Payments**: Although not a major concern, the schools would like information about (1) how often ED will make administrative fee payments, (2) on what date(s), and (3) whether a separate payment will be made for originating PLUS loans.

- **Crediting of PLUS versus Stafford Loan Refunds**: Business Office Administrators have noted that it is not possible in the current system to distinguish which loan--a PLUS or a Stafford—was received first by the school. This affects who—the parent or the student—should get any Loan refund due. If the Stafford loan is "first" and is completely used for tuition, fees, room and board, etc., any balance for refund is from the "later received" PLUS Loan and is due to the parent. Conversely, if the PLUS loan is received first, the refund would be for the Stafford loan and paid to the student. While a school may state a policy of treating all PLUS loans as "first received," this may also create a problem with school-parent relationships.

- **PLUS Loan Origination**: Schools that originate PLUS loans have concerns about the process when a PLUS loan is denied. The servicer sends a letter telling parents that they have some options on how to eliminate their credit problem, after which they can receive a PLUS loan. However, this leaves the loan in an indeterminate status. Until the school knows the final status of the PLUS loan, they can't award an unsubsidized loan. This situation makes it difficult to try to proceed with a dependent student loan. Schools wonder if the servicer will have a deadline past which a PLUS denial can be considered final, so they may proceed with an unsubsidized loan.

- **Proration**: Proration rules have yet to be defined. Twenty-four credits in an academic year is considered to be full time for the purpose of allocating loans. However, if a student is in the last term and needs only six credits to graduate, he or she would be entitled to only six twenty-fourths (1/4) of the maximum $5,500 loan or just $1,375, which would not be enough for him or her to stay in school.

These concerns for future policy development or guidance were expressed by at least one representative from a school, but do not represent the views or concerns on all the institutions visited.

VII. Student Borrower Attitudes and Experience

A. Introduction

At four of the five schools, the site visit team conducted 1-hour, small group discussions with student borrowers. A total of 30 students participated in these discussions. Only two of the participants (from School 5) had Direct Loans; the others had borrowed under the FFELP.[11] The discussions with the students were enthusiastic and lively. They expressed a strong interest in all aspects of student aid and debt management, and the discussion sessions were marked by a free exchange of students' opinions on borrowing for an education, on being in debt, on future employment prospects, and on loan repayment.

B. Borrowing Experience

The students were knowledgeable about their student loans. Almost all knew the types of loans they had, how much they had borrowed, and what their total debt would be at graduation. All students were aware of most of the consequences of default. What was most impressive to the site visit teams was that many of the students expressed a strong desire to repay their loans at a faster rate than the 10 years allowed under the standard repayment option. They wanted to be free of school debt so that they could more easily make decisions such as getting married or buying a home.

Students generally regarded debt as a fact of life. They felt that it was worth having school-related debt because having a postsecondary education would improve their career and job opportunities. Most of the students felt that they would be able to obtain a job after graduation; others felt that they would need graduate school training. Only two of the students said that school debt might influence the type of job they would seek after graduation; these students were enrolled at the 4-year private school with the highest tuition in the sample.

With the exception of a group composed of traditional age students (who overestimated potential earnings), the students had fairly accurate perceptions about starting salaries in their chosen field. While none of the students thought that they would have problems with repayment, concerns about a change in the economy, losing a job, or unexpectedly decreased earnings were expressed during discussion of repayment options. Single mothers, in particular, made statements such as, "You never know what will happen."

[11] Because the site visits were conducted when summer school was in session, participants were somewhat limited to the few students available. This resulted in groups of borrowers who, except for those at School 2, were more likely to be nontraditional students; they appeared to be older, more experienced, and more likely to be married and have children than traditional students (ages 18 to 22).

C. Perceptions of Repayment Options and Methods of Repayment

In addition to general discussion questions about loans, attitude about debt, and repayment concerns, the site visit team presented detailed explanations of the four repayment options (standard, extended, graduated, and income contingent) and 4 different types of payment methods (Note: No official decision has been made as to which payment methods will be offered).[12] Since all but two students were FFELP borrowers, options were presented as hypothetical cases.

The students were asked, "If you had these options, which would you choose, and why?" Time limits precluded obtaining perceptions of the positive and negative aspects of each option, but students sometimes explained why they would not choose one of the other options. Often, students had more than one reason for selecting a particular option.

What follows is an overview of the students' perceptions of the repayment options they selected. Much of the emphasis in the overview is on the areas of misunderstanding among the students so that readers (ED and School Administrators) can be aware of these and adjust counseling and materials accordingly.

Repayment Options Selected by Student Borrowers:

Students were given the following definitions of repayment options and were then asked which they would choose.

STANDARD REPAYMENT: fixed payment each month for 10 years
EXTENDED REPAYMENT: fixed payment each month for 20 years
GRADUATED REPAYMENT: smaller payments in early years and larger payment in later years
INCOME CONTINGENT REPAYMENT: payments which vary annually based on income of borrower and that of his/her spouse.

Most students selected either the Standard Repayment or Income Contingent (ICL) options; only four students selected the Graduated Repayment option; none said they would choose the Extended Repayment option.

[12] ED published rules and regulations regarding repayment options in *The Federal Register* on July 1, 1994. Half the site visits had been completed by this date, so new information was not added to the student borrower protocols. Explanations of options were both written and verbal, using specific, concrete examples and simple language.

Standard Repayment Option

Many students choosing the Standard Repayment option tended to associate this option with early repayment of debt; they had difficulty grasping the idea that they could pay back their loans ahead of schedule under any repayment option.

Some students felt that it would be easier to establish a budget if they had the same repayment amount due each month; it was not clear to them that with ICL the monthly amount due would be the same for a whole year.

Despite a dramatized explanation that this option requires a minimum payment of $50 per loan, some students still referred to the Standard Repayment option as requiring a single $50-per-month payment—even when they had multiple loans in each academic year. Thus, they would select this option and explain, "If I had (financial) trouble, I always could pay $50."

Other students selecting this option noted that having a shorter, fixed repayment period (as opposed to ICL or Extended Payment options) was a positive factor in their choice. They preferred this so they could "see the light at the end of the tunnel" and could plan for other life decisions when payments were finished.

Income Contingent Repayment Option

Many students preferred to repay their school debt quickly, using the Standard Repayment option. However, many liked having the availability of the ICL option for times when the standard repayment level could not be met because ICL was based on actual earnings. Only one student selected this option because it allowed the smallest possible initial monthly payment.

A number of students at one school preferred the ICL option because it was "fairest," being based on the borrower's income. One student said it would allow her to worry less about earning sufficient income to repay her debt.

Some of the reasons students rejected the ICL include the concern about agencies other than the Internal Revenue Service having access to tax returns. One recently divorced mother, however, mentioned that if a financially difficult year followed a comparatively successful year, one could have a lot of difficulty meeting payments based on the first year's income.

Graduated Repayment Option

Students selecting this option saw the benefit of delaying larger payment until their career developed and earnings increased. They felt that if possible, they would pay larger amounts than the minimum in early years to repay their debt sooner.

One student expressed concern about the possibility of losing his job and wanted to know if repayment amounts would be reduced in that circumstance.

Repayment Methods Selected by Student Borrowers:

Students were given the following definitions of the payment methods that may be available and were asked which they would choose.

CHECK: Write a check each month to the government

EMPLOYER WITHHOLDING: Have employer withhold part of paycheck, similar to the way they withhold taxes and Social Security; borrower would reconcile underpayment or overpayment at the end of the year on their tax form.

ELECTRONIC TRANSFER: Have borrower's bank automatically transfer funds each month to the government.

Selection of a repayment method appeared to involve the following two factors:

- The desire for personal control over budgeting and recordkeeping: Some students wanted to retain personal control, while others felt more comfortable with an outside agent (a lender or employer) controlling loan payment and available spending money; and

- Experience with alternatives to a monthly personal check: Many students selected a method of payment because it had worked successfully for them in the past.

Monthly Check

Students selecting the Monthly Check option associated this option with personal control over their finances. They felt that there was a sense of personal satisfaction and accomplishment in writing a monthly check.

Some students believed, erroneously, that this option allowed them to pay less or that they had a choice of reducing the amount of their check or not sending one at all, regardless of what the payment was supposed to be, if they were having a month with financial difficulties. They thought there would be less flexibility or control with EFT from bank accounts. The students did not seem to understand that the rules for repayment option applied, regardless of repayment method.

Employer Withholding

Students selecting this option did so because they would not be tempted to use the money for other purposes and they would know exactly what money they had to spend each month.

Those rejecting this option did not want employers knowing their personal business. Some expressed distrust of automated operations and would rather have control themselves over budgeting and recordkeeping. One student noted that changing jobs could lead to problems. Another expressed concern that if there were a problem with the repayment or with recordkeeping, ED would hold the student responsible.

Some students said that there was a "sense of accomplishment" found when writing a check that would be lost with both this and the bank transfer method.

Automatic Bank Transfer

Automatic Bank Transfer was generally selected as the option of choice by those students who had successfully used it in the past to pay bills. Others liked the idea that the payment would be made regularly by a responsible party (the bank) and they could be sure that it was sent to the servicer on time. Some felt that if they had the money deducted from their bank balance at the beginning of the month, they would be less likely to spend it on other things.

As with the Monthly Check option, some students thought that you could determine the amount to be deducted and seemingly disregarded the earlier discussion of repayment options with predetermined monthly amounts.

Among students rejecting this method of payment were those with concerns about losing personal control over budgeting and recordkeeping and who distrusted automated systems. One student mentioned that he was afraid he would forget to deduct the repayment amount in his personal records and then overdraw his account; he wanted to keep his own records.

VIII. Considerations for Schools

The following are project staff observations based on comments made by the schools during our site visits about lessons they learned in the transition to the FDSLP. These factors represent the experiences of five very different schools; therefore not all items will be applicable to any given school.

Planning

- Assign FDSLP responsibilities on the basis of past experience with similar functions. For example, the office performing Pell drawdowns should perform FDSLP drawdowns.

- The more a team is composed of members of other offices, the more people you have committed to a successful program. This may also result in a higher commitment of resources by school administration.

- The more you involve others in the planning, the more apt they may be to share the workload.

- Make use of other schools' experience. The financial aid bulletin board and networking have been useful resources for Year 1 schools. ED's Student Financial Assistance Bulletin Board on Direct Loan issues will offer another valuable resource.

- Remember that the program will be implemented and administered a little differently across schools. Find the practices from other schools that best fit your situation and circumstances. Adapt and modify others to suit your own unique needs.

- Draw on knowledgeable personnel. For example, a computer literate staff member in the FAO can be a valuable asset in planning, making systems decisions, and facilitating communication between systems staff and financial aid operations staff.

Training

- Have more than one person attend ED training.

- ED offers training sessions for novice and experienced users. Select the appropriate session, even if you must travel separately.

- Have staff members that will be working closely with the program participate in the training. Policy personnel will ask different questions and have a different focus from operations staff.

Operations and Resources

- State-of-the-art 486 PCs are more efficient at handling the volume of data and operate at a reasonable speed.

- Computer literate people in the FAO are assets and can offer immediate computer help to other financial aid staff.

- Utilize people with relevant skills during the first and second year to develop your processes. For example, have an accountant develop policies and procedures for reconciliation.

- Remember that the current software is designed for DOS-based computers; Macintoshes may be inefficient.

- Student accounts can be an efficient way of operating within the FDSLP.

Student Counseling

- It may be too late to wait until exit interviews to let students know the amounts of their total debt and monthly payments. Explain repayment options soon after admission.

- Do not assume one explanation will suffice. Repeat and repeat again.

IX. Considerations for ED

The following are project staff observations based on comments made by the schools during our site visits about factors that ED may want to consider as it moves forward in implementing the program. These factors represent the experiences of five very different schools; therefore not all items will be applicable to any given school.

Please note that some of these suggestions have already been implemented or are under consideration.

Training

- Plan separate training sessions based on loan and ED software experience. Allow extra training time, with more hands-on experience for novices.

- Schedule training time or special regional sessions for schools to exchange information, implementation problems, and progress.

- Encourage trainer involvement during hands-on practice.

- Develop a clearinghouse of information and examples of implementation or establish a system of referral to other schools with similar systems.

Software

- Consider working with major commercial vendors of mainframe software for postsecondary institutions in order to develop needed system interfaces.

- Set up a testing process so that schools with no prior EDExpress experience can enter and transmit test cases to learn EDExpress for loan origination and drawdown procedures.

- The current software is loan based rather than student based, slowing origination for students with multiple loans. Convert the system to student based.

- Allow an unsubsidized Stafford Loan to be automatically generated using the subsidized data loan, without re-entry of data or switching to an other section of the software.

- The "save" process is currently inefficient. Design a save-screen override to cut down data entry time or allow for a "quick-save" capability, so the user does not have to save each screen when exiting.

- Add fields to the loan record that will allow institutions to enter their own unique student identifier or other student information in the loan record.

- Allow access to the EDExpress programming code so schools can modify the software for their individual needs. For example, School 5 needed a listing of origination records and disbursements sorted by anticipated disbursement date with information on campus, branch, or school and could not access the reporting code to create this list.

Customer Support

- Ensure that adequate staff and equipment (e.g., telephone lines) at both ED and at the servicing center are devoted to customer support during Year 2 and beyond.

Loan Servicing

- Provide schools with online query functions of their origination activity. This will save servicer support time and equipment and will allow schools to access information in a timely fashion when they need it.

Policy Guidance

In summary, the experiences of these five schools in planning for the transition to the FDSLP indicate that there are multiple planning approaches and software systems that will facilitate successful implementation. The "best approach" depends on the size of the school, the degree of centralization of administrative functions, existing loan processing capability, and commitment of all offices/staff charges with administrative responsibilities for the new program. Therefore, it is important for schools entering the program to search for a "model" to follow, i.e., a school of similar academic length and programs, serving similar students, and of similar size and administrative structure. We hope that by describing approaches to implementation by five very different schools, both this report and the individual case studies can assist many Year 2 schools in their implementation decisions.

Appendix A