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PREPARED TESTIMONY FOR THE RECORD of the:
HOUSE SUBCOMMITTEE ON HIGHER EDUCATION AND WORKFORCE TRAINING
Offered by Ron Day, Director of Financial Aid
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Introduction

Good Morning Madam Chair and other distinguished Committee Members. My name is Ron Day, Director of Financial Aid at Kennesaw State University in Kennesaw Georgia – a 4-year public university located in a suburb of metropolitan Atlanta. Thank you for the opportunity to testify about the successes and challenges of the William D. Ford Federal Direct Loan Program. Today I offer my perspectives on the transition process from the Federal Family Education Loan Program, or FFEL, and the current strengths and weaknesses of the now single federal loan program. As a current and former board member and now incoming chairman of the National Association of Student Financial Aid Administrators (NASFAA), I want to share some national perspectives as well.

FFEL Program

As an aid administrator for over 28 years, I have previously been associated with both private and public non-profit schools that participated in the FFEL Program. FFEL allowed students and parents the opportunity of selecting a lender from the private loan market. The FFEL partners assisted my schools by offering the following to my students:

- Brochures and informational items that included:
 - Basic explanation and eligibility criteria for student loans
 - Descriptions of step-by-step application and repayment processes
 - Budget advice and calculators that could be utilized for proper financial planning
 - Information regarding rebates and other incentives to encourage on-time repayment.
- Default prevention, counseling, and management tools that included information on:
 - How much should be borrowed
 - How to track and manage loans
 - How to repay student loans
 - The consequences of defaulting
 - Options to prevent student loan default
- Consolidation information and when that may or may not be a good option
- Information on the numerous repayment plan options and how differences in those plans would ultimately affect the total cost of their loans

Their assistance was extremely valuable to our students and provided them useful resources that educated students on all aspects of a loan – from the application process through repayment. Inasmuch as schools are held responsible for the numbers of students that default on loans, these vital services complimented institutional efforts to keep students out of default.

DL Transition

Schools had also previously received information on the current loan environment from various higher education associations. For example, on April 30, 2008, the American Association of Community Colleges wrote to members, "As a safeguard against any potential disruption in loan capital due to private lenders no longer providing loans to your students, you may want to consider gaining initial approval to participate in the Department of Education's Direct Loan Program." The American Council of Education also expressed to its members "there is a need to consider alternative financial options and whether the Direct Lending Program is a feasible way to navigate these uncharted waters." NASFAA issued similar guidance to schools in 2009, advising schools to at least make plans to convert into the Direct Loan program given the uncertainty surrounding an ECASLA extension.

It was a very difficult and confusing time for schools. Financial aid administrators sought advice and direction from as many sources as possible, but we knew it wouldn't be as easy as turning on a light switch. Once a school decided to transition from FFEL to Direct Loan, many other decisions and considerations came into play, such as:

- What staffing would be needed to implement the transition in a relatively short amount of time?
- What current initiatives would need to be forestalled in order to make the transition quickly and smoothly?
- What capital investments might be needed for training and system changes?
- Do we have the necessary staff to administer a new program effectively?
- What restructuring of staff and organizational arrangements should take place?
- How do we learn and adapt new processes to our computer systems?
- How long would it take for full implementation to occur?

Kennesaw State University Planning

After weighing all of the pros and cons, the current and predicted future market conditions, and talking to many colleagues across the country, in the Fall 2009 we at Kennesaw State University began the planning process of determining whether to move to the Direct Loan Program.

We developed a timeline to implement this transition, which included:

- Reviewing information available from various groups - including current DL schools, local schools with the same computer system as KSU who had previously transitioned to DL, and transitional plans developed by schools of comparable size as KSU
- Selecting a "Task Force" of campus individuals from critical offices to explore the possibility of transitioning:
 - Budget Office
 - Bursar's Office
 - Business Services
 - Information Technology
 - The Financial Aid Office

- Developing an informational meeting for key individuals to explain the differences in programs and seeking feedback regarding the possibility of moving to Direct Loans. These individuals included:
 - Upper Administrators
 - Budget and Planning
 - Office of Financial Planning
 - Internal Audit
- Attending and participating in webinars, workshops, and conferences from the higher education community and the U.S. Department of Education
- Reconvening the institutional Task Force in early January 2010 for additional education in process changes
- Seeking assistance from other schools who had the same internal computer system to help with:
 - Transitional information
 - Manuals
 - The timeline in making this transition
- Talking with IT professionals employed by the school (KSU)
- Reviewing steps needed to setup our system

Although an avid supporter of FFEL, when the financial markets froze in 2008, when many local and area banks discontinued participation in 2009 and 2010, when remaining private lenders showed an uncertainty in their longevity of participating in FFEL, the decision became clear. Ultimately, I determined the Direct Loan Program was the best option for our students and our institution and advised my administration on January 28, 2010, that we would be making the move from FFEL to DL by the following summer. Our first disbursement was successfully made during the Summer 2010 semester.

What is Best for Students

Kennesaw State University has always framed decisions from the perspective of what is “best for students” first and then what is “best for KSU.” We felt Direct Loans to be good for students for the following reasons:

- Funding is obtained directly from the Federal Government, which were the surest form of undisrupted capital at that time.
- Federal Direct Loans are fully integrated into the Federal student aid delivery process through ED’s common origination and disbursement (COD) system, the same system that delivers Pell Grant funding.

KSU Transition Process

Although ultimately successful, our transition was not without bumps and challenges. Challenges included:

- Reconfiguring our computer system(s) to accommodate new processes
- Training and retraining of staff
 - Counselors within the Financial Aid Office

- Processing staff within the Financial Aid Office
- External staff in KSU
 - Bursar Office
 - Business Services
- Developing a communication plan to assist students with new requirements:
 - New Promissory Note for all previous and future borrowers
 - New processes and location and revamping of websites, links, and forms

With the assistance of workshops, colleagues, manuals, and the U. S. Department of Education, our students did not experience insurmountable struggles or roadblocks through the transition.

As a board member of NASFAA, I heard from schools on an ongoing basis who were struggling to make the transition successfully. This was no easy task for schools to undertake in such a short amount of time and many schools were shifted from liaison to liaison at the U.S. Department of Education as ED increased their operational capacity to help schools transition and implement the program successfully. However, when it was all said and done, I am proud to say that I am not aware of any student who was denied access to student loans due to a school not successfully transitioning into the Direct Loan program.

Today, schools across the country are successfully operating in the Direct Loan Program. However, this program is not perfect. I raise the following issues that I believe require additional, immediate attention:

- Better and more accurate reporting. Quite often the data is not reported in a timely fashion from multiple servicers to our national, central database – The National Student Loan Data System (NSLDS). Delays in reporting data adds to the student confusion and could have negative ramifications for disbursement of funds. As an example:
 - If an institution originates a student loan because a student indicated s/he would be attending that term and only finds out several weeks later that the student decided to attend another institution – the current institution must delay disbursement until the data is cancelled and resubmitted. This causes great harm to students. Other private, national student loan and attendance databases are successful in updating student information within a 24- 48 hour turnaround. Improvements should be made or additional partnership struck with the private sector to ensure a more timely delivery of information.
- Additional streamlined services: With a single federal loan program, many of the processes that used to be in place during the FFEL program could be updated to make the entire student aid process easier for students. For example, until this last year, the Free Application for Federal Student Aid (FAFSA) would ask whether students were interested in taking federal loans. If they indicated yes, the FAFSA could easily double as a Master Promissory Note or link over to the federal MPN, which would streamline the entire process. Instead, and against the advice from

NASFAA and other financial aid administrators, the Department has simply eliminated that question altogether from the FAFSA. The promise of a *single* federal loan program should result in innovative ways to streamline other federal student aid processes. I think much more can be done on this front.

- Additional college access and default prevention materials and assistance: The legislation that eliminated the FFEL program also allowed previous FFEL program student loan guarantors to offer college access and default prevention materials and services to schools and students. Unfortunately, there has been a bit of a lapse between the period when FFEL was eliminated and these new programs coming to fruition. Recently the Department announced it would allow guarantors to operate under new flexible arrangements to compensate them based on metrics like keeping students out of default or participating in other college access initiatives. However, the timeframe to get these programs up and running has some schools scrambling to fill in the gaps, all while a sour economy is leading to ever increasing student loan defaults. Schools and students need these services sooner rather than later.
- Increased standardization of loan servicing: Perhaps one of the most disconcerting parts of the Direct Loan program has been the lack of standardization in loan servicing. Many of the former FFEL partners went from *lending* federal student loans to *servicing* them. These servicers are awarded student loan accounts based on several criteria and they are allowed to implement different policies and practices in the name of competition in hopes of receiving additional servicing contracts. However, to date no single publication has been released that easily tells schools and students about the different practices and policies of these servicers. Under the FFEL program, lenders and guaranty agencies came together to create a “Common Manual” that clearly outlined lender policies, procedures, and practices. It is disappointing that a similar effort has not been spearheaded by the Department, who oversees these contracts.

In some instances, these differences in servicing practices have resulted in drastic increased expenses for students. For example, servicers have different practices for capitalizing interest after periods of deferment or forbearances. Those differences have resulted in different expenses for students, sometimes resulting in drastically higher costs. We were recently assured By the Department of Education that this issue is being standardized, yet other variances may still exist such as the type of documentation individual servicers will accept for deferments, forbearances, or income based repayment. We believe students should have standardization with a single federal loan program. And where there are differences between servicers, finding all of these practices in one location should be a requirement.

With dozens of other servicers scheduled to come online in the coming months, we as a community are extremely concerned about how students are to keep up with the various processes and procedures.

Finding Loans In Between Servicers: One of the outcomes of ECASLA and the switch to 100 percent Direct Lending has been the transition of loans from FFELP lenders to Direct Loan servicers. Because of multiple servicers of the Direct Loan Program, students are often uncertain about where their loans are being serviced. There have been scattered reports that some loans have gone “off the grid” entirely for multiple weeks, sometimes over a period of time when a borrower was expecting to make payments. This process must be smoother for students and they must be informed in an expeditious way the unique phone numbers and websites where they can obtain assistance. NSLDS is not updated in real-time, and that time lag can cause angst and possibly missed payments for students.

I do not see these challenges as insurmountable and I feel confident that as we partner together we can see positive outcomes for students.

I once more wish to express my sincere gratitude for the opportunity to offer you a glimpse into our transition process from FFEL to Direct Loan and to share some areas that we believe require some additional improvement. We as aid administrators see ourselves as partners with you and the Department in ensuring that the nearly \$150 billion in federal student aid is delivered efficiently, appropriately, and successfully to needy students around the country. The financial aid community is appreciative of you and your willingness to hear of our needs, struggles, and successes.