



NATIONAL DIRECT STUDENT LOAN COALITION

*Written Statement of
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ON BEHALF OF THE
National Direct Student Loan Coalition (NDSLC)

PUBLIC HEARING ON The Department of Education's Negotiated Rulemaking

Loyola University
CHICAGO, ILLINOIS
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The College of Charleston
CHARLESTON, SOUTH CAROLINA
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The mission of the National Direct Student Loan Coalition is to promote the success of the Federal Direct Student Loan Program in serving the interests of students, families, taxpayers and institutions.

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I speak to you today on behalf of the National Direct Student Loan Coalition (NDSLCL), a grass roots organization comprised of schools dedicated to the continuous improvement and strengthening of the Direct Loan program. Its members are practicing financial aid professionals working at participating institutions.

I would like to thank the Secretary for the opportunity to provide the Department of Education with comments on federal student loan programs that may be addressed in the negotiated rulemaking process later this year.

First and foremost, the Coalition wants to extend its thanks and congratulations to the staff at the Department of Education, and especially at Federal Student Aid, for the tremendous success in moving all 5000+ schools to the Direct Lending program. While some in our industry predicted that this was an impossible task, the fact is that there has not been a report of even one student who was denied access to Stafford Loan funds this year as a result of schools making the transition to Direct Lending. This transition could not have been more successful for schools or students.

To ensure that the Federal Direct Student Loan program continues to be a strong and viable source of loan funding for students, I wish to address regulatory issues in four (4) areas:

SIMPLIFICATION OF ORIGINATION REGULATIONS

THE HEALTH CARE & EDUCATION AFFORDABILITY RECONCILIATION ACT OF 2010 (H.R. 4872) requires that all new federal loans, beginning with the 2010-11 academic year, be originated in the Direct Loan program. The Direct Loan regulations continue to cross reference regulations with the Federal Family Education Loan (FFEL) Program which Congress ended with H.R. 4872. With so many new administrators in the Direct Loan program needing quick, easy-to-read regulatory language to ensure compliance with the origination regulations for Direct Loans, it is important to simplify the federal loan regulations by negotiating a clear, concise, stand alone set of Direct Loan regulations that eliminate any cross references to the FFEL program.

SERVICING

One of the trademarks, and richest features of Direct Lending prior to this year, was that all Direct Loans were serviced by the same servicer. Every Direct Loan borrower and school staff member knew exactly where a student's loan was held, and knew who to call with questions. The NDSLCL recognizes that the Department of Education now uses multiple contractors for the servicing of federal student loans but we encourage new regulatory language to address the following issues that are inherent when multiple servicers compete for servicing contracts:

- A single interface between students and schools and all servicers to avoid the confusion that now occurs when schools attempt to counsel students with loans held by**

multiple servicers.

- **Transparency to borrowers and their families about the contractor that is servicing their loans in repayment**
- **The Department's vigilance in monitoring the servicing contracts to ensure accurate data is provided by the servicer to the Department for the calculation of the cohort default rates**
- **Loan terms that are consistent for all borrowers, regardless of their Servicer. Currently, issues like capitalization of interest for borrowers and the date Income Based Repayment is calculated are not always the same with different servicers. Terms need to be consistent with the historical Direct Loan methodology which is most favorable to borrowers.**
- **Exit counseling requirements that ensure the providing of helpful information about consolidation options that benefit borrowers with multiple loan types.**

Further, we urge the Department to retain the role of assigning students to servicers. A topic we've heard on more than one occasion is that there could be a change that would allow either students or schools to choose their servicer. Even though the current servicers do not profit in nearly the same way as lenders did under the FFEL program, there would still be a financial incentive to encourage schools to recommend an individual servicer. This would inevitably lead to a situation that we finally left behind: inducements and incentives to steer loan volume to particular companies. The Department is the only entity that should be making those servicer assignments.

TOTAL AND PERMANENT DISABILITY

The Coalition requests that the Department of Education negotiate rules with a final result that is fair to both permanently disabled borrowers and federal taxpayers. Currently students are required to submit multiple applications for loan discharge, and are monitored for up to three years after being granted the permanent disabled status. We encourage the Department to develop a less intrusive and simplified process that retains the integrity of the current one.

OPERATIONS

Regulations for the Direct Loan program encompass both the policy and operational aspects of the program. With all federal loans and grants processed through one system, the Common Origination and Disbursement System (COD), student aid processing and delivery is now focused on the student, rather than on each individual aid program. It is absolutely critical that the Department ensure that regulations address the need for a system concept like COD. Any solution that does not retain the ease of use and understanding of our current COD process will

set students and schools back significantly. This standardization of the common record file formatting in such a system is essential for the following reasons:

- **Standardization of the common record format streamlines student eligibility changes for funds and ensures students receive their funds on time.**
- **Standardization of the common record format simplifies and enables quick programming that is required by software vendors to deliver funds for new programs that Congress develops.**
- **For each program in COD, a school or Third Party Servicer is assigned the same Customer Service Representative (CSR) team to facilitate origination and disbursement processing and issue resolution thus providing more time for financial aid professionals to counsel students about all aspects of their financial aid.**
- **Before COD, schools did not have any on-line capability (24/7) to make corrections/changes, process “emergency” requests, and check processing status to help resolve issues for students quicker and to get their aid disbursed immediately.**
- **The COD system provides accountability because funding for all programs is processed through one system: G5.**
- **Monthly and annual reconciliation processes decrease fraud and abuse by ensuring that all funds are accounted for on a timely basis.**
- **Every disbursement record for a student’s funds is recorded in the system to ensure accountability for the individual student’s records**
- **The COD system now contains information about the servicer to which students’ loans have been assigned.**
- **Over multiple academic years and institutional enrollments, a student’s record remains in a single record within COD, to ensure greater ease in schools’ compliance with federal regulations.**

In closing, I would like to thank you again for the opportunity to present this testimony on behalf of the National Direct Student Loan Coalition. Many of our members were the first schools to implement the Direct Loan program over 15 years ago and have years of expertise in operational and policy issues as well as compliance with the regulations for the program. The Coalition looks forward to participating in the negotiated rulemaking process that will occur late in 2011.