



NATIONAL DIRECT STUDENT LOAN COALITION

Direct Lending: Separating MYTH from REALITY

Many schools are interested in the Federal Direct Student Loan Program (DL), but they continue to hear that significant obstacles are inherent in moving into the program or that administration of the program is difficult and demanding. These rumors typically originate from those who have a vested interest in the Federal Family Education Loan Program (FFELP) or whose only familiarity with Direct Lending is with old processes that have long since changed as technologies have evolved.

The best way to determine the facts is to hear from financial aid colleagues who have current, personal experience with Direct Lending.

This brochure provides quotes from financial aid administrators who have recently transitioned to the Direct Loan program or who have worked with the program for many years. Their candid comments are meant to give you the facts and dispel the myths.

After reading their comments, you are welcome to contact any of the financial aid administrators for more information about their school's experience with the DL program; or call a member of the Coalition Executive Council.

Can the U.S. Department of Education handle a significant increase in Direct Loan volume? Is the Department turning schools away?

"COD maintenance will assist us in handling increased William D. Ford Federal Direct Loan (DL) Program volume as necessary."

William Leith, Federal Student Aid, July 3, 2008

"The Department is still accepting and processing Direct Loan applications from schools."

NASFAA Today's News, May 21, 2008

Will my school or its employees have greater liability in DL than in FFELP?

"Schools in Direct Lending face less liability than schools in FFELP for two primary reasons. First, there is no more 'middleman' (lenders, call centers, guarantors, etc.) so there are fewer places for problems to occur. Second, schools in Direct Lending are not concerned with laws like SLATE or lender codes of conduct. We

are able to essentially ignore hundreds of pages of legislation that our FFELP colleagues cannot."

Chuck Knepfle, Miami University, OH

Won't my students lose choice?

"Borrowers at my institution are pleased to know that their loans will NEVER be sold unless they initiate the process. Many of their friends at FFELP schools thought they had choice - until their loans were sold."

Roberta Johnson, Iowa State University

Is customer service in DL as good as it is in FFELP?

"I cannot express how pleased and impressed I am with the service I receive from the Direct Loan and COD School Relations Center. It's wonderful to have a one-stop center for managing the loan programs with friendly, knowledgeable staff ready to assist you with any questions. The COD website is an added bonus-giving me the ability to view, create and update DL award information in real time processing. It's also a great tool for trouble shooting and issue resolution. I cannot imagine processing loans any other way."

Sherry Cwirko, DePaul University

Is it true that the default rate in DL is higher than it is in FFELP?

"According to the most recent figures obtained from the Department of Education, the cohort default rate in DL has been lower than the default rate in FFELP each year except one since DL's inception. In fact, it has been as much as 20% lower in DL! According to President Bush, the only reason that the lifetime default rate in DL is projected to be higher than in FFELP is because of the defaulting FFELP loans that have been consolidated into DL by the guaranty agencies."

Eileen O'Leary, Stonehill College, MA

Is the transition to DL difficult?

"It was a big undertaking making a decision in March to be disbursing through Direct Lending by July 1. I think the very fact that we accomplished our entry into Direct Lending in four months speaks volumes about the program!"

Anna Griswald, Pennsylvania State University

"The implementation has been extremely smooth and very simple to follow...but it was very comforting to know that the Department of Education and the National Direct Student Loan Coalition were there if we needed them!"

Walter JH O'Neill, Roosevelt University, IL

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Is the transition to DL difficult? (CONTINUED)

"We got the transition work done with our regular staff, during normal operating hours, while keeping on top of regular work. It was hard to believe that something this big could be this easy."

Rick Shipman, Michigan State University

"The transition to DL is easy. The program is supported by most administrative software packages, and the design of the program works so well with your software that you will be amazed."

Peg Julius, Kirkwood Community College, IA

"Our focus is on what is best for student borrowers, so we returned to Direct Lending for 2008-2009 as the FFELP environment had become very uncertain and unstable for our students. Student service continued to be our focus through the transition, a view that was shared and supported by the Federal Direct Loan staff assigned to work with us."

Susan Pugh, University of Indiana, Bloomington

Is processing Direct Loans more difficult in DL than in FFELP?

"Since we were already set up with Common Origination and Disbursement (COD) for other federal aid programs, it has been very simple to originate and receive response files for Direct Loans. We submit our files to one place and receive response files from one place – and generally within 20 minutes! Students go to one website to complete entrance/exit loan counseling and to complete Master Promissory Notes (MPNs). The process is efficient not only for our students but also for our staff. As each day passes we are confident that we made the right decision at the right time to switch to 100% Direct Lending."

Chad Nosbusch, University of St. Thomas, MN

"Things are going well for us and Direct Loans. I had to make some changes to a FFELP loan the other day and decided I was glad we went Direct. I am saddened by my years of resistance to DL."

Harlan Plunkett, MidAmerica Nazarene College, KS

What about reconciliation? Is it difficult?

"Reconciling our Direct Loans is no more difficult than reconciling our Pell program. Since all records are within our system, we can track disbursements and cash at any time. By monitoring activity frequently, reconciling records monthly has been simple."

Tony Erwin, Northeastern University

"Reconciliation of the Direct Loan program was relatively easy for my previous institution. We were able to reconcile a \$90 million+ program to zero every year with little effort and time. I look forward to using the same strategies at my new institution where the loan program is significantly smaller. I don't anticipate a need for more staffing to perform this function."

Michelle Saigh, Mt. Vernon Nazarene College, OH

"Our institution has not had any reconciliation problems with the Department of Education."

Mary SanAgustin, Palomar College, CA



NATIONAL DIRECT STUDENT LOAN COALITION

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*An alliance of schools participating in the
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