

THE CHRONICLE

of Higher Education

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April 28, 2010

Colleges Report Smooth Transitions to Direct Lending So Far

By Libby Nelson

The next few months may be busier than usual for financial-aid offices at the colleges that are still in the process of switching to the direct-loan program, which they must do by July 1.

But, despite the earlier concerns of some small colleges and others that the change to a new federal-loan system would be technically difficult, confusing, and costly, financial-aid administrators and experts report that the process appears to be moving smoothly so far.

"We have not heard any schools say they would not meet the July 1, 2010, deadline," said Justin Draeger, vice president for public policy at the National Association of Student Financial Aid Administrators. "That doesn't mean they're not concerned, and it doesn't mean they're not working furiously to get this done."

The move away from bank-based lending is required by the student-loan legislation that President Obama [signed](#) last month ([HR 4872](#)). For the transition, financial-aid officers at colleges that had not previously switched to direct lending needed training in originating loans, all student borrowers at institutions making the change will have to sign new promissory notes for their loans, and some institutions will need to adapt their computer systems to accommodate the change.

Many institutions got a head start on the switch to direct lending, in which the Education Department provides loans to students through their colleges. The House of Representatives [passed a version](#) of the student-loan bill in September, an indicator to many college officials and others that a switch to direct lending was likely to come soon. Although Congress did not approve the final legislation until March, when the student-loan measure was combined with the health-care overhaul, many colleges that previously relied on bank-based lending used the months in between to begin switching, or preparing to switch, to direct lending.

A March [survey](#) of 365 institutions by Student Lending Analytics, a company in California, found that 72 percent of colleges that had

not been using direct lending had already switched to the new loan system or were planning to switch, and that only 2 percent were waiting for legislation to pass. The Education Department [reported separately](#) last month that colleges representing 97 percent of borrowers had already switched to the new system.

The department had aggressively sought to get as many colleges as possible ready to change to the new system, too. Department officials provided training to colleges that had not been participating in the direct-loan program, including online seminars and orientation sessions on campuses, before the switch to direct lending was finalized.

Worries about Cost and Time

Before the final student-loan legislation passed, some institutions—including community colleges, small colleges, and historically black colleges—raised concerns about the switch, saying they worried it would be too time-consuming or expensive to accomplish in a short amount of time.

The student-loan legislation provided \$50-million to help colleges make the transition. The department has decided to use the money to provide technical assistance, Daniel T. Madzellan, the acting assistant secretary for postsecondary education, said in a "[Dear Colleague](#)" letter dated April 20.

The challenges a changeover presents vary based on the institution. A 2009 survey by the financial-aid administrators' association of institutions that had switched to direct lending found that two-year public colleges had the most difficulty switching to direct lending from bank-based lending because such colleges often have few resources and students with higher financial need, Mr. Draeger said.

But so far community colleges haven't faced many struggles in moving to direct loans, said David S. Baime, senior vice president for government relations at the American Association of Community Colleges.

"We found that there was far less difficulty, time, and expense entailed in making the switch than we had expected," Mr. Baime said. The "overwhelming bulk" of the association's members have already started changing to direct loans, he said.

Colleges that know little about the program are "a little bit unsure" about how it will work, Mr. Baime said. But he said he had heard of no "significant problems" from institutions beginning the transition.

No Major Glitches Reported

Associations and colleges that were previously skeptical of the switch also reported they have experienced few problems.

Many [historically black colleges](#) initially opposed the change to direct lending, in part because bank-based student lenders gave such colleges help with both financial-literacy programs for students and with administrative and technical support.

But after meetings with and reassurances from the Education Department, most colleges "felt that the shift to direct loans could work," said Lezli Baskerville, president and chief executive of the National Association for Equal Opportunity in Higher Education, the umbrella organization for those colleges. The final student-loan bill allocated \$2.5-billion to minority-serving institutions.

"I have not heard that there have been any significant challenges or any unanticipated blips on the screen," Ms. Baskerville said.

Sheryl Mihopulos, director of student financial services at Adelphi University, said in an [interview](#) with *The Chronicle* last summer that she was worried that the switch would consume too much time and resources.

Adelphi began working on the transition last fall, she said this week. The Education Department provided in-person training at a conference in New York and helped with technology issues, giving the university "constant attention," she said. With a little over two months until the July 1 deadline, the university has sent a test file of sample student data to the department, one of the final steps in the transition process.

"I'm feeling really comfortable and good about it right now," Ms. Mihopulos said. "I'm pretty confident that it's going to be wonderful once we make the switch."

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The Chronicle of Higher Education 1255 Twenty-Third St. N.W. Washington, D.C. 20037