

Higher Ed Watch

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Guest Post: Despite Warnings from Loan Industry, the World Will Not End on July 1

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The first of July is almost here and, despite [the dire predictions of some](#), the sky has not fallen.

On March 23, 2010, Congress passed the [Health Care and Education Affordability Reconciliation Act of 2010](#) which eliminated the Federal Family Education Loan Program (FFELP) and required all federal student loans to be delivered through the less costly Federal Direct Student Loan Program (DL), starting July 1. Most of the savings generated by the change are going directly to students through increased Pell Grants.

While many in the student-loan industry and some in Congress questioned the ability of the U.S. Department of Education to pull off such a major shift in how student loans are delivered in such a short time frame, disaster has not befallen federal student lending. The student lending environment has indeed changed for many, but the world goes on and ultimately students are getting and will continue to receive their federal student loans without disruption.

While July 1 is the date that FFELP loans can no longer be made, it does not follow that all schools will process Direct Loans on that date. In fact, most schools do not begin to request federal student loan funds for their students until the end of summer -- late August and early September. There is not a single date that the flood gates open; rather, schools will choose the appropriate dates to process their students' loans and request funds on a rolling basis to meet their needs.

Has the change been effortless? Of course not -- change is never entirely painless, and nearly everyone experiences stress and trips up occasionally along the way. It took hard work on the part of many -- the U.S. Department of Education staff, national associations reaching out to their constituencies, and the financial aid administrators at schools across the country. It shouldn't be forgotten that student financial aid is a field that deals with change on what can seem a daily basis. Both the Department and aid administrators are accustomed to bringing new programs up and running successfully in constricted time frames -- the federal SMART and Academic Competitiveness Grants are but two recent examples.

Has the transition been successful? Most definitely.

Just ask Leslie Limper, director of financial aid at Reed College in Portland Oregon. "Reed's transition to Direct Lending was easy and straightforward, with no disruption to student funding and no increase in administrative workload," she recently said.. Her experience is common. According to the Education Department:

- Direct Loan-ready schools now account for nearly 91% of loan volume and over 90% of borrowers based on award year 2009-2010 originations.
- Most schools that have not begun originating loans indicate they are processing FFEL for their summer term or are waiting for their next software release to begin processing.
- Eligible foreign schools are working closely with the Department to be on track to process direct loans when their students need them.
- The newly contracted Direct Loan servicers are also coming on line smoothly. The Department reports that Nelnet successfully began working as a DL servicer last week; PHEAA has approval to go live and is scheduled to begin today; and Sallie Mae and Great Lakes are expected to begin receiving loans within a week.

Meanwhile, the Education Department certainly deserves credit as it has provided training webinars, conference sessions, written materials, hands-on assistance and one-on-one outreach when necessary. One of the most helpful things the Department has done is create a “first responders” team that has ushered many schools into DL successfully. The team assigns a single point of contact to the school and that liaison insures that the institution complete all necessary steps for transition and successful origination and disbursement of loans.

In addition, the [National Direct Student Loan Coalition](#) (NDSLCL), a grass roots organization of financial aid administrators, continues its mentor program to assist schools with everyday processing questions and best practices advice. The mentor program highlights the collegiality of the financial aid profession as volunteer college administrators freely give their time and talents to assist their colleagues who are new to Direct Lending. According to many schools new to DL, the mentors' ability to speak the language of federal regulations, institutional policy and process, as well as software platform requirements have proven invaluable.

Reed College's Limper sums up the experience of the majority of schools who have moved from FFELP to DL: “Admittedly, we were nervous about the transition to Direct Lending, but our experiences have all been positive and we are very happy with the results.”

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