

NASFAA Quick-Scan Survey Results: Making the Switch to Direct Lending

In June 2009, NASFAA surveyed 167 institutions that had switched from the Federal Family Education Loan (FFEL) Program to the Direct Loan (DL) program within the past year to learn what their transition had been like. Fifty-two respondents (31%) shared their thoughts and experiences. Many expressed that the transition proceeded more smoothly than expected, but some described challenges with software vendors and getting staff up to speed.

The study did not identify any significant differences in school experience based on staff size, sector, or software used. The results indicate that planning, coordination, and communication are key to a successful experience. The most important elements are:

- Communication with students and staff
- Coordination with other campus offices
- Doing research, using ED resources and other support services
- Having a plan
- Starting small and testing extensively

A summary of school responses and highlights of their comments appears below:

Conversion Process

- Forty-eight percent of respondents said they initially believed that converting to the DL program would be somewhat to moderately difficult.
- Eighty percent responded that the actual switch was easy and 73 percent said the switch was easier than they had expected. Only four percent said it was more difficult.
- Eighty-four percent said the Department of Education (ED) was helpful in providing assistance for the conversion. No one said that ED was completely unhelpful. Eighty-eight percent said other schools were helpful.
- Schools had the most issues with their software vendors and 10 percent said their software vendors were not helpful.

Conversion Time Frame

- Eighty percent of respondents said they were able to convert within four months, with 41 percent able to convert within two months; 14 percent said it took longer than seven months.
- Fifty-nine percent said it took about as much time as they thought it would to convert and 29 percent said it took less time than expected.
- Sixty-one percent said the administrative burden of administering the DL program is less than administering the FFEL program; 24 percent said the administrative burden is the same; and 14 percent said the DL program presents greater administrative burden.
- Eighty-four percent said they did not have to adjust their staff size after converting.

Conversion Challenges

- Respondents reported that getting adequate support from software vendors was challenging, with 49 percent saying it was moderately to very challenging.
- Respondents found it somewhat challenging to train staff for their new responsibilities (57 percent) and to become familiar with new processes (67 percent).
- Schools were unhappy with fees charged by vendors for software upgrades (88 percent) and fees charged for consulting services (82 percent).

Direct Loan Services

- Fifty-two percent said that before converting to DL, they had felt concerned about the level of service they would receive in the DL program. However, 78 percent said that after converting, they no longer have concerns about the level of services they receive.
- The survey asked respondents to compare DL and FFEL services to borrowers:
 - Default prevention: 24 percent said DL is worse; 62 percent said it is the same.
 - Financial literacy: 40 percent said DL is worse; 49 percent said it is the same.
 - Debt management: 32 percent said DL is worse; 57 percent said it is the same.

The survey asked respondents to describe what aspect of the conversion took the most time and what factors they feel schools should consider about making a transition. Highlights of their responses appear below.

What aspects of the conversion took the most time?

- "We applied and were approved a year before I planned to begin offering DLs to students. In other words, we took our time, no rushing to get things done."
- "Learning to read reports and find Web sites needed."
- "The conversion resulted in a significant change to our processes. Getting everyone on board with the changes to the processes took some time and a good deal of effort."
- "I think the most time was spent on redesigning our forms and Web site to accommodate the DL program and in setting up our software system to make the awards. ED was great to work with and help with testing and verifying issues."
- "The only problems we had were with our software provider being able to set up our system. We ran in to problems every step of the way."
- "Designing and implementing a communication plan for our students."

What information do you think is important for other schools to know before going through such a conversion?

- "It just isn't that tough. Get another college to help you. When you start sending records through COD, start with one or two."
- "I would recommend doing either FFEL OR DL, not both. Look at DL as an entirely new program to administer. Placing the responsibility for DL on the same FFEL staff member would be close to doubling their work load."
- "It is much easier than expected, especially if you have a FAMS system rather than a school legacy system."
- "Try to implement at the beginning of an academic year and communicate to the entire institution."
- "Have a dedicated staff and send them to training."
- "Talk with other schools, make site visits if possible, and use the NASFAA resources."
- "Be open to a different process not unlike processing Pell. PLUS processing under DL may be more challenging than anticipated compared to FFELP."
- "Allow plenty of time and start small before opening the door to all students, parents, and loan types."
- "ED will give you a check sheet and speak to you at length on the phone. Systematically complete each task on the spreadsheet and ask ED any questions that arise. You need the support of a top-notch technical team."

Breakdown of Survey Respondents

Public 2-year: 16 (30.8 percent)
Public 4-year: 12 (23.1 percent)
Private 4-year: 17 (32.7 percent)
Graduate schools: 3 (5.8 percent)
Less than 2-year: 2 (3.8 percent)
Other: 2 (3.8 percent)

Preliminary results of this survey were shared during the NASFAA National Conference.

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