

**ANNA M. GRISWOLD**  
**Assistant Vice President for Undergraduate Education**  
**Executive Director Office of Student Aid**  
**The Pennsylvania State University**  
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Good morning Mr. Chairman and members of the Committee. My name is Anna Griswold and I am the Assistant Vice President and Executive Director of Student Aid at the Pennsylvania State University. Penn State is a large public, multi-campus, research university enrolling just over 90,000 undergraduate, graduate, medical and law students at 23 campuses. Over 60,000, or 73%, of our students receive some form of financial aid, including 23% of undergraduates receiving Pell Grants. About one-third of our undergraduates are the first generation in their families to attend college. Increased funding and simplifying and improving student aid programs and systems are matters of great importance at Penn State. The entire university is committed to maintaining a student-centered focus in all areas of service to students.

The federal student and parent loans represent over 50 percent of all our student aid funding. Last year, more than 46,000 Penn State students borrowed \$466 million in federal loans to help pay their education costs. However, last year's turmoil in the financial markets together with changes in federal regulations affecting school use of preferred lenders threatened to destabilize both the federal student loans and the efforts of our student aid office to maintain an efficient and student-friendly loan delivery model in the Federal Family Education Loan (FFEL) Program.

As lenders across the country began to terminate or suspend participation in the FFEL Program, this quickly became a cause for alarm for students and parents that relied heavily on both the Stafford student loan and Federal PLUS/Parent Loan. To allay the concern of our students and their families, we needed to act quickly and decisively to reassure them that they would still be able to find federal student and parent loans to help pay their costs. We turned to the Federal Direct Loan Program. We had 38,000 current student borrowers using a single non-profit lender with whom we had worked for years and who had provided loans to our students, a lender that, unfortunately, had to suspend making loans last year. All these students were in need of locating another lender. Given the uncertainty about future lender participation, and the new restrictions that limit schools on advising students about lender selection, we felt we had few tools with which to guide our students. Direct Loans offered a logical alternative to the FFEL Program in light of our circumstances.

I would like to add that for about a decade, with the majority of our students selecting the Pennsylvania Higher Education Assistance Agency (PHEAA) as their lender, we were able to build compatible systems between Penn State and PHEAA to better facilitate the data exchange between us for processing of student loans. This

certainly served students and our institution well. By trying to use a single lender, we had replicated most of the Direct Loan model within the FFEL Program, with the exception of cash draw down and return of funds. However, students choosing lenders outside this process required different handling depending on the lender, guarantor or servicer. Having had a good experience in FFEL as long as the majority of our students used PHEAA, we are pleased that Direct Lending is designed as a single lender program. That, and the added features of cash draw down and return of funds further enhanced the model we previously had in place for processing student loans.

In March, 2008, Penn State announced it would enter the Federal Direct Loan program. This offered several benefits to students including access to a secure source of funds, elimination of the need to find a new lender on their own, and providing a more efficient, single point of contact to transact their loans. In addition, Direct Loans would provide better loan repayment and loan forgiveness options.

In early March we identified a core team of 10 to 12 existing staff from Administrative Information Systems, the Bursar's Office, and the Student Aid Office and began the work of developing new automated systems and processes between the U.S. Department of Education's Common Origination and Disbursement (COD) system and Penn State's homegrown integrated student information system. Other staff in these offices also participated in supporting roles during the period of implementation. For example, in addition to the technical programming work, we executed an extensive communication plan to ensure that students and parents understood the changes in how they would now secure their loans and the steps they would need to take. We heard little resistance to this change and students reported on the ease of signing their electronic master promissory notes on the Department of Education's Direct Loan website.

Our existing staff did all the work; we did not hire additional staff to convert to direct lending and the cost to convert was within normal budgetary costs required for any adjustments that schools must make when regulations change. The work was not unlike implementing other new student aid programs such as ACG, SMART and Teach Grants in recent years. In some respects those programs presented greater challenges. During Direct Loan implementation, we were also implementing changes due to the increase in student borrowing limits and we were implementing new automation and the use of Commonline for alternative loan processing. When new programs are enacted into law or new regulations are passed, preparing systems to administer those programs is simply a part of the normal work of student aid offices. These types of changes do take extra time and effort. **However, it is important to keep in mind Penn State's unique circumstance last year: 1) the need to move quickly to convert to Direct Lending (four months), 2) our loan volume and the large number of students across 23 campuses that we needed to inform (\$466M and 46K borrowers), and 3) the fact that we have a homegrown computing environment and use our own computer programmers (no vendor supported software) to run our student aid program.** Most schools will not face these circumstances and would not require the same resources.

With adequate lead time, even most of the smaller schools will likely find converting to Direct Loans a manageable process, especially for those with vendor supported student aid software. I think most schools have such software. One smaller institution in Pennsylvania with whom I spoke began the conversion this January and is now ready to submit their first direct loan records to COD. They have vendor supported software and indicate that they were able to incorporate implementation tasks into the normal operational activity of their office. Since resources do vary across institutions I am certain that the Department of Education will be ready to offer assistance where needed for schools that may need help and, the Department's ED Express software works very well for schools with smaller loan volumes.

It is testimony to the streamlined nature of the direct loan process and the single point of contact model it represents, that we were able to convert fairly quickly. Like most schools, we were already familiar with the COD system used for Pell Grant processing. Direct Loans uses this same system. We had excellent technical support from the Department of Education's Direct Loan and COD staff. Ideally, an institution would benefit from having a year's lead time to implement this program. But many schools that I am aware of have done so in less than a year. We often implement program changes with less time. Our first Direct Loan disbursements in summer of 2008 and the larger volume disbursed for the fall and spring semesters went very smoothly.

Our Bursar's Office, with whom we partnered closely during the implementation, manages the loan disbursements, adjustments, cash drawdowns (G5), and reconciliation function. They indicated that the reconciliation in FFEL was not a required formal monthly process but was to match receipts with postings to students' accounts on a daily basis. Now, under direct lending, we formally reconcile monthly and this task takes about a few hours a month to perform. This adds greatly to program accountability. For summer 2008, we completed reconciliation four months ahead of the deadline. Other time savings with Direct Loans comes with the return of funds which are simply netted out of the cash drawdown. This compares to actual return of funds to the lender as required in the FFEL Program. Cash drawdown in direct lending takes us two days from origination of the loan to receipt of funds by the University. This is a one day improvement over the FFEL Program and represents a significant improvement in cash flow.

In summary, we believe that by entering the Direct Loan Program, we have shielded our students from the impact of turmoil in the financial markets. The state of the economy will make the availability of student aid funding even more important considerations for families in choosing a college or in determining whether they can even send their children to college in the coming years. Returning adult students face this same challenge. We continue to work hard to advocate in the best interest of our students for increased funding in the federal and state student aid programs. We encourage Congress to take whatever measures possible to increase appropriations in the Pell Grant program as we all work toward ensuring access and affordability of higher education for students from low and moderate income families.

I would be happy to address any questions you may have. Thank you.

## Comments from Staff about Penn State's first year in the Direct Loan Program

*As you know student lending has become very complicated and needs to be simplified. One loan from one lender seems to fit well. I can attest to this first hand because I have just spent the last week helping my graduating medical students sort out their loans, servicers and repayment options. It has been exhausting for all parties.*

*Whenever a student makes an entry error in the system, an incorrect social security number or birth date, we can now easily fix the error on-line while we are talking with the student. Then we know that we can tell the student exactly when their funds will be available to them.*

*We feel more in control of the process. The COD system is easy and quick to review and determine the status of a student's loan. We feel empowered to resolve problems for students quickly and efficiently. There is no need to call another agency to make the correction or to explain the student's problem.*

*The students like it when they call with a question about their loan or when they need to change the amount of their loan and find out that we can help them without their needing to contact another entity. We can work on their behalf. It's easier for us and saves time for the student.*

*The change to direct lending was the right decision at the right time for our office and our students.*

*Direct lending gives schools the authority to be immediately responsive to the needs of its students without "middle-men", time delayed transactions.*

*To reconcile multi-million dollar transactions to the PENNY raises the bar on accountability to unprecedented levels, unmatched in the FFEL Program.*

*When several of the law school's preferred lenders quit lending last year, I was so grateful that we went into direct lending. I was not so sure at first because our lenders did a good job for our students. But direct loans provided an immediate solution and a less complicated and labor-intensive process.*

*Parents of Penn State students with children at other colleges that are not Direct Loan schools often comment that they wish getting the loan we as easy at the other school as it is here at Penn State.*

## Time for Change and Value Added Opportunities

Pennsylvania schools and students have benefited for decades from the services of the Pennsylvania Higher Education Assistance Agency in its role as the State Grant Agency and the Guaranty Agency. Agencies such as PHEAA certainly have a role to play in the Direct Loan Program, many with infrastructures and systems already in place to facilitate servicing. In addition, PHEAA and other agencies can offer value added services within the Direct Loan Program should Congress so chose to deploy them to accomplish new goals and objectives for federal student aid. Many offer financial literacy programs within their states or regions, debt management tools and college outreach programs to encourage access to and planning for college. Congress should consider this opportunity to blend the strengths of the Direct Loan Program with the strengths of higher education agencies for servicing and value added program delivery.