

STATEMENT
OF
ROBERTA JOHNSON
DIRECTOR OF FINANCIAL AID
IOWA STATE UNIVERSITY
BEFORE THE
HOUSE COMMITTEE ON EDUCATION A LABOR
ON
MARCH 14, 2008

Mr. Chairman and Members of the Committee:

My name is Roberta Johnson and I am the Director of Student Financial Aid at Iowa State University in Ames, Iowa. Iowa State University is a land-grant institution with an enrollment of 26,160. Prior to assuming the role of Director of Student Financial Aid at Iowa State University, I served for eighteen years in the assistant director and associate director positions at Iowa State where I was responsible for student loan operations. I have experience in the administration of loans through both the Federal Family Education Loan Program and the Federal Direct Loan Program. Iowa State University entered the Federal Direct Loan Program as a Year One school in 1994.

Iowa State University's loan Federal Direct Stafford and PLUS volume in 2006-07 was \$97.6 million dollars and encompassed over 20,000 separate awards for 14,645 students. Yet we were able to accomplish this with only 2 full-time staff members. One of those staff members also administers the Federal Pell Grant program, Academic Competitiveness Grant, National SMART Grant, and will assume duties for the TEACH Grant program in July.

There were a number of reasons why we moved to Direct Lending in 1994 and why we remain there today – most notably, we are able to provide better customer service to our students and their parents; minimize the amount of staff time spent dealing with tracking down loan funds or changes; and maximize the predictability of receiving funds both for our students and our institution. Our students and their parents frequently comment on how easy it is to understand the process, that they appreciate always knowing who holds their loan, and that Iowa State University provides prompt courteous service when they have questions about any financial aid program. Before Direct Lending, that was not the case.

I have included in the attached slides a GAO slide that quite accurately depicts what Iowa State University experienced as a participant in the FFEL program, dealing with multiple student loan players and the contrasting graphic showing how the process works today. The Direct Loan Program has been described as Pell with a Prom Note. In fact, any school that is currently administering the Federal Pell Grant, ACG, or National SMART Grant programs is already interfacing the with Department of Education's system for disbursing Direct Loans and other student aid, the Common Origination and Disbursement (COD) system. To participate in the Direct Loan program would require only that they sign up to participate with the Department of Education and that they attach loan information to the files they are already sending to the Department via COD.

In the midst of the current credit crunch and with daily media reports about student loan instability, it is important to help students and their families differentiate between federal and private loans and to reassure them that Stafford Loans, PLUS loans and Grad PLUS loans are available. While there have been reports of certain FFEL lenders leaving the program, temporarily suspending operations, or redlining certain

schools due to graduation or default rates, this is not the case in the Federal Direct Loan Program. Direct Loans are funded as a student entitlement from funds borrowed wholesale from the private sector through the sale of Treasury Securities. There is never a question of capital availability in the Direct Loan Program. This differs from FFEL. In that program lenders are entitled to subsidy and default payments if they choose to make loans to students.

The Direct Loan Program is administered by private sector contractors through competitively let contracts by the Department of Education. These contractors have years of experience administering Direct Loans, and indeed many of them also are servicers for FFLEP lenders. Like the FFEL program, the Department's responsibilities are to oversee and govern the administration of both programs.

In 1994, the Direct Loan program was entirely new. In three years it had one third of the market and the program worked smoothly. Today it has 20% of the market thanks to the marketing and taxpayer provided discounts FFEL participants offered and the prohibition against marketing of Direct Loans by the Department. The Department of Education already has the infrastructure to handle an influx of schools into the Direct Loan program.

Mr. Chairman, thank you for the opportunity to appear before you today and for your support, and the support of others on the committee, for Direct Lending. I would be happy to respond to any questions you or the Members of the Committee might have.

Direct Lending at Iowa State University

Roberta Johnson, Director of Student Financial Aid
House Education and Labor Committee Hearing
March 14, 2008

Facts about Iowa State University

- 26,160 students – undergraduate, graduate, and professional (Veterinary Medicine)
- Iowa State University joined the Direct Loan Program in Year One (1994-95)
- Total 2006-07 volume of \$97.6 million representing 20,132 separate awards for 14,645 students
- Total program administered by 1 full-time professional and 1 full-time clerical staff person (who also handle other program responsibilities)
- FY05 cohort default rate of 2.1%

Why did we move to DL?

- Working with over 700 lenders and 34 guarantee agencies
- Complicated, cumbersome, time-consuming process, especially when changes to loans were required; most staff time was spent on the phone with lenders or servicers
- Looking for a simple alternative that would provide better customer service to students and families
- Wanted more transparency and simplicity

What have we experienced with DL?

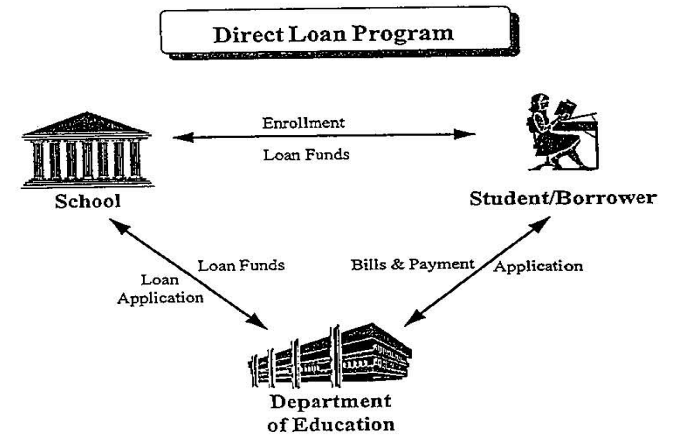
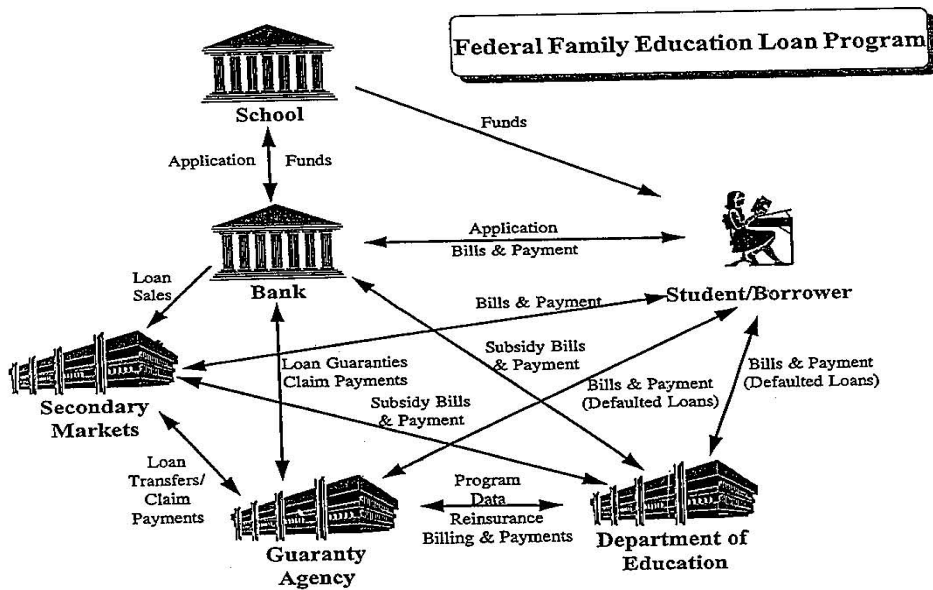
- Reduced administrative time and expense
- Streamlined process for students and parents
- A model that's easy for families to understand
- More efficient, timely, and predictable delivery of funds
- More efficient approval process
- Positive reviews from families

Reasons for remaining in DL:

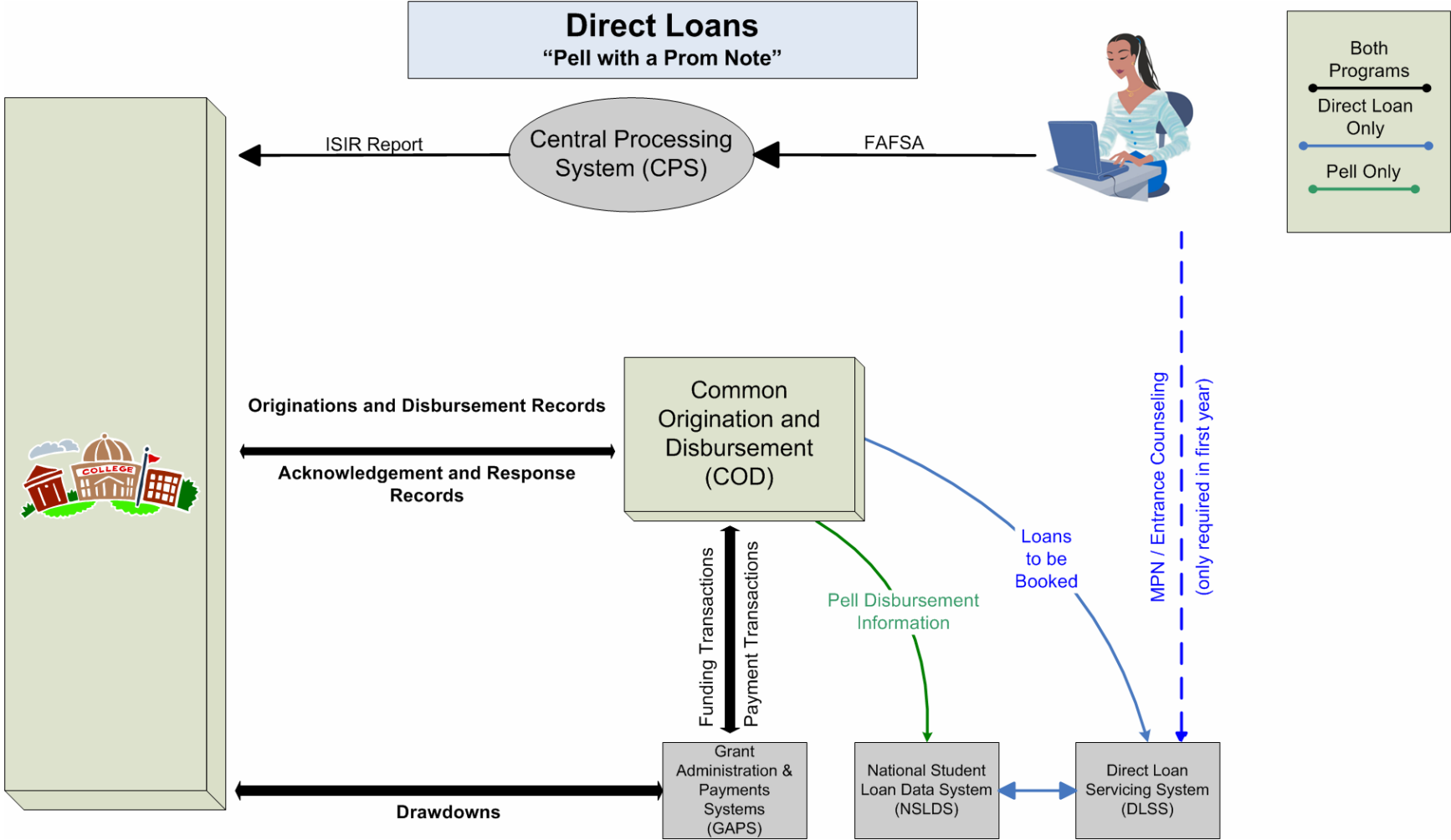
- Customer service and administrative control:
 - FFELP: Controlled by multiple partners
 - DL: Controlled by Financial Aid Office
- Back-end servicing:
 - FFELP: Multiple loan servicing agents; loans may be sold several times over life of loan
 - DL: Single point of service for life of the loan
- Administrative issues
 - Increase in staffing would be needed to process FFELP
 - Ease, predictability, and reliability of obtaining DL funds to assist in cash flow predictions

Reasons for remaining in DL:

- Loan consolidation with Perkins
 - FFELP: results in loss of Perkins grace period
 - DL: does not result in loss of Perkins grace period
- Repayment Plans
 - FFELP and DL are the same except income contingent repayment option in DL with loan forgiven after 25 years; also new public service forgiveness now available only in DL
 - DL borrowers can change repayment plans at any time without loss of benefits; not always true in FFELP



Direct Loans "Pell with a Prom Note"



Administering Direct Lending at Iowa State University

Loan Processing

- New students are awarded their Direct Loan via paper award letter; returning students are sent an e-award
- Award directs student to accept or decline loan via school's secure web portal
- New students who choose to borrow are directed to Department of Education's web site to complete Master Promissory Note (MPN) and Entrance Counseling

How loans are processed

- Loans with signed promissory notes on record are sent via batch directly to the Department of Education's Common Origination and Disbursement (COD) system for origination
- Confirmation of origination is imported back to Iowa State University's mainframe system
- Confirmation of completion of MPN and Entrance Counseling are imported in e-file from COD

Processing continued. . .

- Identify through internal queries which students are ready for loan disbursement (MPN on file, Entrance Counseling completed) and how much can be disbursed
- Request the funds through G5 (Grant and Payment System) to cover loans ready for disbursement
- Upload award and payment information onto student accounts
- Disburse loan funds in batch to student accounts and export disbursement file to COD

PLUS Loans

- Parents request loan using school-developed PLUS Loan request form available on school web site and electronically signs MPN on DL web site
- Loan is processed on mainframe system and sent to COD for origination
- COD performs credit check and returns response file to school
- School requests funds and applies to student accounts

Reconciliation

- With each drawdown, a report is generated indicating amount of funds requested by program and amount disbursed
- Funds disbursed through student account system are balanced against Department of Education records
- Annual reconciliation process is simple because we are in balance every month

Changes to loan amounts/types

- Changes or adjustments are made as required electronically and reported to COD
- Frequent reports are generated to insure all systems are balanced

Summary

- Direct lending is easy
 - Utilizes same platform as Federal Pell Grant, Academic Competitiveness Grant, National SMART Grant, and TEACH Grant
- Direct lending is efficient
 - Single point of contact for both student and school
- Direct lending is economical
 - Requires less staff to administer
 - Students receive funds more timely so less likely to request University emergency loans or rely on other debt instruments as stop-gap funding
 - University receives payments more quickly so cash flow is enhanced