



Highlights

Highlights of [GAO-04-107](#), a report to the Ranking Minority Member, Committee on Health, Education, Labor, and Pensions, U.S. Senate

Why GAO Did This Study

In 1993, Congress authorized the William D. Ford Federal Direct Loan Program as an alternative to the Federal Family Education Loan Program (FFELP). While the Direct Loan Program was originally mandated to replace FFELP, Congress revised the law allowing both loan programs to continue. Since that time, competition between the programs has been credited with improving borrower benefits and service for schools. The Department of Education's (Education) Office of Federal Student Aid (FSA) and its contractors administer the Direct Loan Program, and one of its goals is to improve customer service. In light of the upcoming reauthorization of the Higher Education Act (HEA), which authorizes the loan programs, this report examines the extent to which schools participate in the Direct Loan Program, factors that influenced schools' decision to begin—and for some schools end—participation, and steps that FSA has taken to increase the user-friendliness of the program.

What GAO Recommends

Congress should consider clarifying whether Education may regulate the fees charged to borrowers under the Direct Loan Program.

We are also recommending that FSA collect information from schools that could be used to make improvements to the Direct Loan Program. Education agreed with our recommendation.

www.gao.gov/cgi-bin/getrpt?GAO-04-107.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Cornelia Ashby (202) 512-8403.

DIRECT STUDENT LOAN PROGRAM

Management Actions Could Enhance Customer Service

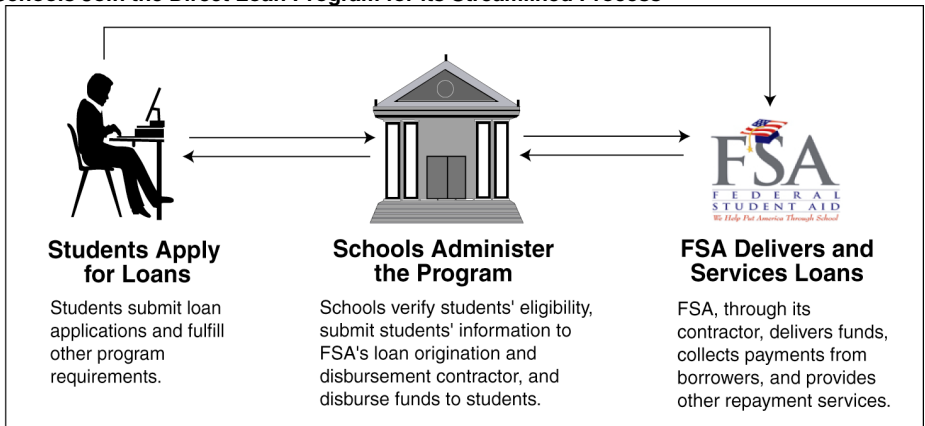
What GAO Found

Of schools that provided federal loans in every year since 1994-95, approximately 1,200 postsecondary schools—or 29 percent—have provided loans through the Direct Loan Program, and most continued to participate in school year 2001-02. The Direct Loan Program's share of total new loan volume has steadily decreased from its peak of 34 percent in 1998-99 to 28 percent in 2001-02, and the number of schools that have joined the program is much smaller than the number of school that have stopped participating.

Four factors—(1) streamlined loan delivery, (2) greater control over loan processes, (3) timely delivery of money to students, and (4) ease of tracking loans over time—were extremely or very important in influencing schools' decision to participate in the Direct Loan Program. Schools that joined and subsequently left the Direct Loan Program reported a number of factors that influenced their decision, including difficulties fulfilling certain program requirements and reduced or no loan origination fees offered by FFELP lenders. Education has reduced origination fees for Direct Loan borrowers, but its regulatory authority to do so has been challenged. FSA does not systematically collect information from schools about the reasons why they stop participating in the Direct Loan Program, although this information could be used to identify needed program improvements.

FSA has taken a number of steps to increase the user-friendliness of the program, such as using Web sites to disseminate and collect information and forms. Many Direct Loan schools reported that FSA's Web sites are effective in helping them administer the program and have simplified the process for Direct Loan borrowers, but it is challenging to navigate among multiple Web sites. FSA officials are aware of schools' concerns and are developing a plan to redesign its Web sites. FSA has also implemented a new information system that originates and disburses Direct Loans to students faster, and 72 percent of Direct Loan schools were generally or very satisfied with this system.

Schools Join the Direct Loan Program for its Streamlined Process



Source: GAO analysis.