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Pennsylvania State University Switches to Direct Loan Program

By Carina Zaragoza



The Pennsylvania State University system announced this week that it will move to the Direct Loan Program. The Direct Loan Program is the funding arm of the U.S. Department of Education and offers Stafford and PLUS loans, among others. The Direct Loan Program is funded by the U.S. Treasury.

Prior to this move, the Penn State system primarily used the Pennsylvania Higher Education Assistance Agency (PHEAA) to fund the majority of loans for students. More than 44,000 students in the Penn State system borrow federal loans; 40,800 students attending Penn State schools borrowed federal loans through PHEAA, nearly the entire Penn State student population.

Penn State's decision came after PHEAA announced it will exit the Federal Family Education Loan Program (FFELP). PHEAA's departure, as the organization was one of the largest FFELP student loan lenders, had major repercussions throughout the financial aid and student loan communities. That such a large lender has been vastly affected by the turmoil in the credit markets is evidence of a crisis in the student loan industry.

Students can still borrow private loans from various lenders, and Penn State has agreed to help students select reputable lenders and cost-effective loans. All federal loans will be administered directly from the government's Direct Loan Program. However, PHEAA will still be used to service all Direct loans. PHEAA will continue to guarantee, originate, and service student loans. Lending will be turned over to private banks and other lenders. PHEAA officially terminated new FFELP loans on March 7, 2008; thus, no new loans will be made for the upcoming semesters.

Penn State will be providing students with information about the transition in the coming weeks.

"We think students will find this program to be simple and easy to understand," said Anna Griswold, assistant vice president and executive director of student aid for Penn State.

As a result of the change, Penn State students may see additional benefits not offered by PHEAA. The Direct Loan Program offers students more flexible repayment plans and a loan forgiveness

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program. Recently passed legislation allows students who borrow federal loans through the Direct Loan Program partial forgiveness of their loans should they enter the public service workforce.

Penn State in large part made the move to the Direct Loan Program to ensure its students will have money to pay for college. Penn State President Graham Spanier said in a statement that "affiliating with the federally guaranteed Direct Student Loan Program will enable our students to continue their education without worrying about where their federal student loans will be coming from."

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