

TESTIMONY



Statement of Greg Woods
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U. S. Department of Education
to the
Senate Government Affairs Committee

I'm Greg Woods, Chief Operating Officer of Student Financial Assistance at the Department of Education. Thank you for inviting me here today to tell you about our e-commerce strategy and its successes.

The context for this story is a new kind of government organization – the Performance Based Organization. Congress made us the first PBO three years ago. The heart of the PBO idea is a contract—it is held accountable for results and given control over the things that determine those results. Congress wanted the organization to run on a business-like basis.

Congress picked SFA to be the first PBO because of its history of service interruptions and the program's perennial appearance on GAO's high-risk list. To get SFA to run more like a good business, we've had to change nearly everything – the way we're organized, the way we measure progress, the way we make budget decisions and manage money – and everything about the computer systems. You've asked me about Web technology. But I wanted to point out that Web technology is just part of a major retooling of the whole system.

Congress told me to improve service and cut cost —and to do it by modernizing the tangle of old computer systems. Most of my career, I ran technology companies – so that was a natural for me. And Secretary Paige has made systems modernization one of the six major goals in his “Blueprint for Management Excellence”, his plan for correcting management problems and restoring the confidence of both Congress and the America

public in the Department.

We designed a modern, e-commerce architecture that uses the power of the Internet and the magic of back-office computer solutions proven by banks like Bank of America and Wells Fargo. It lets us quickly provide integrated customer services on the Web, even as we phase out the old, stovepipe systems.

We have lots of award winning web products and lots of firsts. But to make the Web work as a viable business solution, you must also integrate it with a whole process. Look at the three phases of the life of a student loan – the application, making the loan itself, and repayment:

First we give students and parents a PIN number, so they can do all their business with us securely on-line. Once we get them as e-customers, we want to keep them as e-customers.

Their first business is completing the application for aid, known as the FAFSA. We have a great Web version of the FAFSA. A few years ago practically nobody filed via the Web. But customers vote with their mouses, and this year 2.1 million customers have already filed electronically, and we anticipate that half of our applicant population will have done that by year-end. The counter on my slide shows we average 1.1 visits per second.

To get a loan, people have to sign a promissory note. This was the toughest piece of litter to pick off the information highway. Thanks to the GPEA and the e-sign legislation, now they can even sign online. This just went live last week. This feature is the first of its kind in government, and probably in the world. Private lenders can use our system to make their student loans. Our e-signature, promissory note process — with its inherent checks, balances, and records — actually provides lower risk than the old paper notes.

Next, we keep Direct Loan borrowers in the electronic fold

with a Web site that services their loans.

They can:

- See their account status – including FFEL loans
- Change payment schedules
- Opt for automatic debit payments
- Get deferrals or forbearances
- And more

Customers using this site climbed to 3.5 million this year.

We have similarly reengineered processes for our business transactions with schools and lenders. And it is all tied to another of Secretary Paige's priorities—to complete modernization of our financial system so that we can produce auditable reports that you and I both need.

We know that schools, students and bankers like our products, because in just one year, our customer satisfaction scores went from 63.8 on the ACSI index—way below those of the private financial services firms—to just one point behind them. Next year, I hope we can pass them.

But we have to save money, too. Our customer base is growing and our budget isn't. Does e-commerce really save money? Well, yes--but it is not that simple – I know from my business experience that you can't just automate the current system and assume you've saved money.

Look at the FAFSA—the application for student aid:

- If you look at the application itself compared to the paper, you'll conclude that the Web cost is about half the paper one. But not so fast.
- When we looked at the total system, we found paper

everywhere. Printing and mailing signature pages. Printing and mailing PIN numbers. Printing and mailing the results of the Web application. And, even with millions more applicants using the Web, schools were still ordering the same number of paper application forms— 35 million of them. And we found Web applicants were making lots of phone calls to our 1-800 line – with simple questions being handled by our most expert customer service representatives. When we looked at the total system we found that we saved very little.

We already revamped the phone system, so most of the calls get handled by a voice response unit, rather than an operator. We're getting the paper and mailing out of the Web process, and we're working with schools to cut back on the number of paper FAFSAs we print. When that's done, I'm guessing my Web application costs no more than one-third the cost of the paper version.

The lesson: E-commerce is a powerful weapon in the battle of the budget. But you can't win from the air. It's strictly trench warfare.

Thank you for listening to our story.

Thank you for the e-sign and GPEA legislation.

Thank you for making SFA a performance based organization – for giving me and the whole SFA team the chance to show that government can deliver service and financial performance equal to the best in business.

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