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Beyond Surfing: How the Web May Change Student Financial Aid

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Two essential tools for anyone working with the World Wide Web are a crystal ball and a seat belt. The seat belt may keep you grounded in this fast-paced industry, but it may not help you keep your job. The World Wide Web is fundamentally changing how the world transacts business. The number of Web users rises daily; Internet traffic doubles every 100 days. The Web is becoming standard operating procedure for many businesses—from booksellers to mortgage companies. What about student financial aid?

That is where a crystal ball will come in handy. Even the savviest Web consultants cannot tell you what the future will hold a year from now for any Web endeavor. The rate of technological change is staggering. In a couple of years, financial aid offices may implement new technology of which no one has yet dreamed.

This article will attempt to do the impossible. By reviewing case histories from other industries and noting changes to the financial aid landscape, the next few pages should offer some order to the chaos brought on by rapid technological change and note some opportunities the Web may hold for the realm of student financial aid.

Riding the Technology Wave

The Nintendo generation is now arriving on college campuses. These students expect fast information and prompt service. Traditional loan delivery systems will no longer meet the needs of tomorrow's students. The Web may provide the solutions these students seek: 24-hour access to information, and on-line, interactive service seven days a week.

Many financial aid offices are already using the Web to deliver information and services to students. The student aid arena has nearly completed what e-commerce consultants call "wave one" of Internet transformation. These financial aid offices and the organizations that support them have plugged their existing business model into the Web. For example, borrower education loan account information can be updated via the Web. Education loan applications can be completed on-line, but still need to be signed and returned by mail to the guarantor.

The next "wave" could mean significant changes. This second phase may alter the traditional mix of business partners in the industry—guarantors, lenders, loan servicers, and financial aid administrators. The Web might enable a shift in power away from these current partners to new service providers, the

government, or the end user. These changes to the fundamentals of existing value chains are called disintermediation and reintermediation. In many cases the Web helps businesses find a direct channel to the consumer and eliminates the middleman.

Going Straight to the Consumer

Internet bookseller Amazon.com is a highly publicized e-success story—with good reason. Approximately 10 million people in more than 160 countries have made Amazon.com the leading on-line shopping site. Amazon.com, a great example of a new entrant with the Web as its only front door, has had a significant impact on a very old industry. The Amazon.com story exemplifies the simple principles of disintermediation and reintermediation.

In the old days, books were produced, shipped in bulk to a warehouse, where they were then shipped again in bulk to brick and mortar stores, where they were selected by consumers, purchased and taken home. In the Amazon.com world, books are still printed on paper and bound, but the next step is an on-line purchase by the consumer. Amazon then orders the books from the publisher, which ships the books to Amazon. Finally, Amazon sends the order to the end consumer. The new business model disintermediates some of the players who were active in the old business model.

In addition, Amazon offers unique customer service options that cannot be found in a brick and mortar store. Amazon shoppers can search for books in just about any way imaginable. Once the shopper selects a book, the Web site offers reviews of the selection by other readers and ideas for related purchases. For example, the system shows a list of other titles that have been purchased by people who chose the same book. That information typically is not available from the clerk at the neighborhood bookstore.

Selling books over the Web represents an interesting synthesis of technology and tradition. In this day and age, when Web businesses have started to grab market share over brick and mortar stores, and when technology might make it seem that printed books are just plain old-fashioned, book sales are actually increasing in the United States. Amazon.com offers a clear example of the Web replacing one middleman with another, while also leveraging technology in creative ways to provide better customer service.

Brokerage Firms Shift to the Web

Brokerage firms are also using the Web to adjust their channels to consumers. As an industry shifting from bricks and mortar to "clicks and mortar," this one is especially interesting to watch because of new entrants and both early- and late-adopters among the established firms. Charles Schwab got in early, making a major commitment and some big decisions, including a significant reduction in their transaction fees. As a result, Charles

Schwab is a clear leader today. Merrill Lynch, on the other hand, initially took the stance that investing should forever be done the "old fashioned way." Thanks to its own brokers—who voiced their concern about the loss of customers to Web-capable companies in the spring of 1998—Merrill Lynch's leadership has finally decided to go with the e-commerce flow and is now playing catch up. The irony is that the executives who delayed the move to the Web felt they were protecting their existing channel, the brokers, but it was those very same 15,000 brokers who alerted the executives to the seriousness of the Internet threat in the spring of 1998.

Changing Roles in Business

The power of this and other computer technologies may eventually eliminate roles in business that are now thought to be vital. Take, for example, real estate appraisers: currently, every mortgage requires that someone visit the house, take out the measuring tape, count the number of bathrooms, verify the integrity of the building, research comparable real estate values in that neighborhood, and set the fair value. However, some partners in the mortgage industry are examining the feasibility of reducing, and possibly eliminating, the role of the real estate appraiser for some transactions. Rather than employing a human being to certify the value of the property, they could use computers to access tax records, determine the assessed value, and find comparable property values in other databases. By feeding the resulting data through an algorithm that evaluates passage of time and increases or decreases in the neighborhood's average value, they could determine whether or not the applicant's claim regarding the real value of the property is reasonable. The human appraiser, whose professional judgment seemed essential in completing the transaction, could be nearly replaced, and a process that currently takes days or weeks could soon take only seconds.

Local mortgage brokers and title companies could face the same fate. Today, they believe they are absolutely required to research old records and deeds, gather all the complex legal documents, and sit across the table from the home purchaser to extract 20 or 30 signatures. However, what if a computer system could provide the appropriate checks and balances and generate all of those documents? Then a Federal Express package could be sent to the home purchaser, who could simply stop by the local notary public at the local Wal-Mart. The mortgage broker or title company could be cut out of the loop.

Students Demand On-line Services

The financial aid arena may experience a similar shift in responsibilities, thanks to future Web innovations. Financial aid administrators, lenders, loan servicers and guarantors enable learning through their assistance with financial aid. It is important, valuable work. These groups must also stay up on the

ever-changing federal regulations. Yet, people who do not understand their importance might call them middlemen. And certainly if college students could get everything they need by pressing one button on their computers, they would.

The chief impetus for moving to more Web-based technology may come from students. The younger students are computer-savvy, perhaps even computer addicted, and demand services on-line. More students than ever before fit the non-traditional profiles of adult learners, part-time learners, and distance learners. They are busy people who have jobs and families. Thousands of them do not live on campus any more, and some of them do not even go to campus for classes. They will demand streamlined services delivered to them on-line at their convenience.

The current financial aid process and players are safe for the immediate future. Although more and more financial aid services are being pushed to the Web, students are not yet ready to take ownership of the financial aid process. Plenty of lenders offer students the opportunity to complete a loan application on-line, and yet most students are not proactive enough to select their lender. Although price competition is stronger today than ever before in the student loan industry, students and parents do not perceive it as a price-shopping issue. In most cases the school strongly influences the financing selection of students. Will that continue, or will the consumer-direct market forces that are impacting other industries have an impact in the student loan world?

Paradigm Shifts in Financial Aid

In addition to the heightened advancements in the Web world, changes in the student aid industry have been relentless over the past several years. The Department of Education's move toward more modernization is likely to create some significant paradigm shifts for the delivery of student aid. Will the government exert more control using these new technologies? It is easy to go to the Department of Education's Web site and see a long list of student services being provided directly by the government. Some financial aid administrators are concerned that, as these services gain popularity, the government will try to squeeze other service providers out of the value chain. For example, will the government change the role of the financial aid administrator in guiding students to the government-defined, "correct" mix of loans and grants? Or, for that matter, will the government try to guide students to the "best college for them" or the best financial aid package available?

The role of the lender in the financial aid process has also evolved. Today, financial aid directors know that federal student loans are not made without their certification. Yet, some lenders are already offering non-federal student loans without school certification, a process that some financial aid administrators may appreciate but others dislike.

The Only Constant Is Change

Student loan processing has already moved to a much more connected and instantaneous environment. Many of the transactions that once required paper processing can now be done on-line, in seconds instead of weeks. Processes that required face-to-face meetings, such as education loan counseling, can now be accomplished at the student's convenience, 24 hours a day, seven days a week via computer. Many schools use on-line education loan applications and use the Web to make changes to the loan. Right now, instant guarantee is a novelty, but these types of instant services will become more and more commonplace as smaller players gain the capability and schools modify their systems to work in a real-time processing mode.

Not all Web innovations will be applauded by institutions of higher education nor may they be in the best interest of students. Because the Web allows direct access to students, some companies may interject themselves into the financial aid process. Some Web businesses may provide valuable additions to the process while others may turn the process upside-down.

In September, a controversial new Web-enabled service was announced that aims to change the way families shop for a school. At eCollegebid.org, students name their price—the amount they are willing to pay—to attend college. In addition, they indicate their SAT score, grade point average, intended major, plans for residence (in dorms or not), gender, and the region where they prefer to attend college. After entering the data, the student waits to see whether any participating colleges are willing to meet that price. The site's creator, Tedd D. Kelly, said he hopes to have contracts with 25 to 50 colleges by the end of the year. Time will tell if this new Web intermediary will succeed, and how it will affect the college admissions process.

What Will the Future Hold?

There is no question that the Web will significantly alter the financial aid industry forever. The future of financial aid may merge new technologies with the human touch and provide for increased customer service. This scenario will allow computers to do the routine work, freeing financial aid administrators to spend their time where it is most needed—in one-on-one sessions with students.

The Internet clearly provides the mechanism for the direct marketing and immediate processing of all student aid—both federal and non-federal. The issue is, how can that mechanism work to the mutual benefit of students and schools? How can loan providers make use of technology to provide access for students and ease workloads for financial aid administrators without pre-empting the financial aid administrator's vital role in the process?

Some leaders in this digital age claim that the Internet will be more revolutionary than the telephone, the car, or the television, because it brings the people of the world even closer through instantaneous, mass, interactive communications.

Tomorrow's technology and innovations can and should still help real people in the real world improve themselves through higher education. The key is to use the combination of people-power and computer-power to deliver the best possible service for students in pursuit of education.

Jonathan E. Kroehler would appreciate hearing reader's thoughts about e-commerce and student financial aid via his e-mail address: jkroehle@usagroup.com.