U.S. Department of Education
Office of the Under Secretary

Direct Loan Evaluation
Survey of Institutions Participating in the Federal Direct Loan and Federal Family Education Loan Programs: Academic Year 1996-97

Volume One — Summary Report

1998

Direct Loan Evaluation

Survey of Institutions Participating in the Federal Direct Loan and Federal Family Education Loan Programs: Academic Year 1996-97

Volume Two—Technical Appendices

Contract No. EA93085001

Submitted to:

U.S. Department of Education
OUS/Planning and Evaluation Service
600 Independence Avenue, S.W.
Washington, DC 20202

Project Officer, Steven Zwillinger

by:

Macro International Inc.
11785 Beltsville Drive
Calverton, Maryland 20705

1998

This report was prepared under the U.S. Department of Education, Contract Number EA93085001. The views expressed in this report do not necessarily reflect the position or policy of the Department, and no official endorsement by the Department should be inferred.

Acknowledgments

Macro gratefully acknowledges the guidance and support provided by Steven Zwillinger and Dan Goldenberg of the Planning and Evaluation Service, Office of the Under Secretary, U.S. Department of Education.

The cooperation of more than 2,200 institutions participating in the Federal Direct Loan and Federal Family Education Loan Programs enabled a thorough description of their experiences with the loan programs. This report would not have been possible without the time and effort contributed by financial aid administrators at the selected institutions.

Contents

Contents (cont'd)

Page
Number

List of Exhibits

List of Exhibits

Highlights

This is the third annual report of customer satisfaction with the Federal Direct Loan and Federal Family Education Loan (FFEL) Programs.

Annual customer satisfaction surveys of institutions are one component of an overall evaluation of the Federal Direct Loan Program conducted by Macro International Inc. (Macro) under contract to the U.S. Department of Education (ED). These surveys are designed to determine the level of institutional satisfaction with the Federal Direct Loan and Federal Family Education Loan (FFEL) Programs.

This report is based on nationally representative samples of FFEL schools and schools that began participating in the Direct Loan Program during the 1994–95, 1995–96, and 1996–97 academic years. Approximately 2,200 institutions completed surveys between May and August of 1997, for an overall response rate of 82 percent. The same sample responded to our 1995 and 1996 surveys, and selected comparative findings are presented in this report.

Objective

The objective of this survey is to provide comparisons of institutional satisfaction and experiences with each program, including reported

- Quality and ease of loan program administration

- Satisfaction with communications and support from the Department of Education and other service providers (i.e., lenders and guarantee agencies).

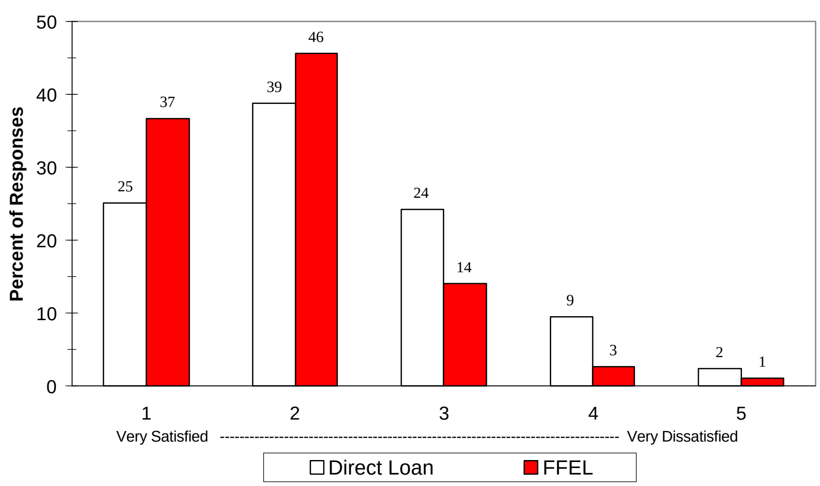
Differences in institutional experiences were also examined over time and by several key institutional characteristics. [1]

Findings

FFEL institutions indicated a significantly higher level of overall satisfaction with their loan program than did Direct Loan institutions.

In the 1996–97 academic year, both Direct Loan and FFEL institutions were generally satisfied with their respective loan programs, with only 6 percent of institutions expressing any dissatisfaction.[2] However as shown in Figure H1, FFEL institutions indicated a significantly higher level of overall satisfaction with their loan program than did Direct Loan institutions (82% for FFEL schools versus 64% for Direct Loan schools).[3]

Figure H1
Overall Satisfaction With Loan Programs
Direct Loan Schools and FFEL Schools



As shown in Figure H2, the difference in satisfaction between the two loan programs appears to have been influenced by the lower level of satisfaction reported by the second-year Direct Loan schools, where only 62 percent were satisfied, compared with 69 percent of first-year

---

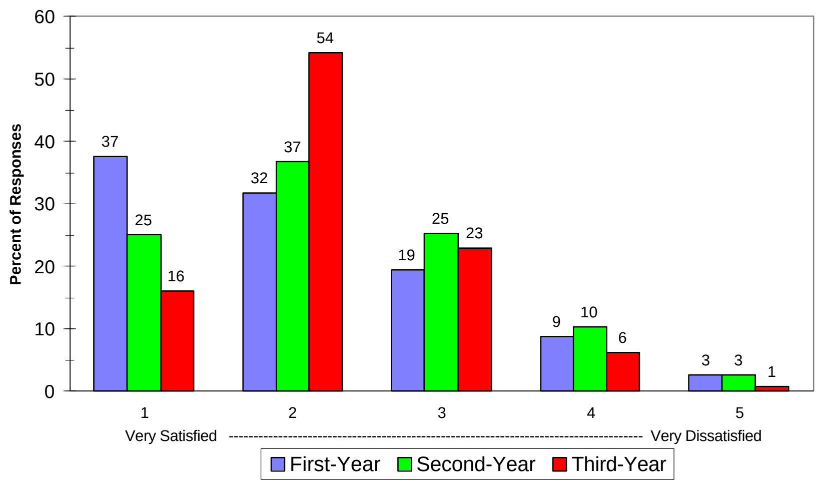
[1]Wherever comparative findings are presented in the text, only statistically significant differences are discussed. If an insignificant difference *is* mentioned, the reader will be alerted that the difference is not statistically significant.

[2] For the purposes of this report, the term *satisfied* refers to those institutions that expressed their satisfaction as either a 1 or a 2 on a scale of 1 to 5, where 1 was *very satisfied* and 5 was *very dissatisfied*.

[3]Because of errors induced by rounding, the summing together of numbers in tables may not always produce the value given in the text. In these rare instances, the number in the text represents the correctly rounded sum.

Direct Loan schools and 70 percent of third-year Direct Loan schools.

Figure H2
Overall Satisfaction With Loan Programs
Direct Loan Schools



When comparing the 1996 and 1997 surveys, the proportion of satisfied Direct Loan schools fell significantly from 83 percent during the 1995–96 academic year to 64 percent in the 1996–97 academic year.[4] This drop in satisfaction was confirmed by the responses to the relative satisfaction question in the 1997 survey. That is, when Direct Loan schools were asked how this year's satisfaction compared to last year, both first-year and second-year schools indicated that, on balance, they were slightly less satisfied this year. However, third-year schools felt that they were significantly better off this year in the Direct Loan Program than last year, when they participated in the FFEL Program.

Between 1996 and 1997, the proportion of satisfied Direct Loan schools declined by 19 percentage points. However, third-year schools felt that they were significantly better off this year in the Direct Loan Program than last year, when they participated in the FFEL Program.

The recent drop in satisfaction among Direct Loan schools follows the decline that began when overall satisfaction declined significantly from 89 percent during the 1994–95 academic year to 83 percent during the 1995–96 academic year. This 3-year decline in satisfaction among Direct Loan schools was confirmed by an analysis of the individual cohorts themselves, where satisfaction among the first-year Direct Loan schools fell between the 1994–95 and 1996–97 academic

Over the last 3 years, satisfaction among Direct Loan schools has fallen significantly, from 89 percent in academic year 1994–95 to 64

[4]This drop is satisfaction may have been caused by the significant difficulties, beginning in spring 1997, as the Department transitioned the Direct Loan origination contract from CDSI/AFSA to EDS, coinciding with the time that the 1996-97 institutional survey was in the field.

years, just as satisfaction fell among the second-year Direct Loan schools between 1995–96 and 1996–97.

Among the FFEL schools, satisfaction increased slightly, from 79 percent in 1995–96 to 82 percent in 1996–97, although the increase was not statistically significant. However, between the 1994–95 and 1996–97 academic years, satisfaction did increase among FFEL schools, increasing from 68 percent in 1994–95 to 82 percent in 1996–97.

percent in academic year 1996–97. However, over the same time period, satisfaction among FFEL schools has risen significantly, from 68 percent in academic year 1994–95 to 82 percent in academic year 1996–97.

Among all institutions, 78 percent were satisfied with the loan programs during the 1996–97 academic year, compared with 80 percent in 1995–96 and 68 percent in 1994–95. Although there were no differences in overall satisfaction between the 1995–96 and 1996–97 academic years, both years represented a significant improvement over the institutional satisfaction expressed during the 1994–95 academic year, suggesting that competition between the Direct Loan and FFEL Programs has increased overall institutional satisfaction with the loan programs.

During the 1996–97 academic year, 61 percent of Direct Loan institutions participated fully in the Direct Loan Program, while 39 percent of the schools offered loans through both the Direct Loan and FFEL Programs. As shown in Exhibit H1, those schools participating fully in the Direct Loan Program were more satisfied with the Direct Loan Program than were those schools phasing in the program (73% versus 48%). In a similar manner, schools participating fully in the FFEL Program were more satisfied with the FFEL Program than were schools participating in both programs (82% versus 68%).

Schools participating fully in Direct Lending were more satisfied with the Direct Loan Program than those schools phasing in the program, while schools participating fully in the FFEL Program were more satisfied with the FFEL Program than were schools participating in both programs.

Exhibit H1
Overall Satisfaction With Loan Programs by Level of Participation
(in percentages)

Level of Satisfaction	FFEL Satisfaction		DL Satisfaction	
	100%	Mixed	100%	Mixed
Very Satisfied	37	31	32	12
2	46	37	41	37
3	14	25	19	34
4	3	5	6	15
Very Dissatisfied	1	2	2	3

During the 1996–97 academic year, both Direct Loan and FFEL institutions reported that loan program administration required a moderate amount of work or effort. Furthermore, there were no differences between Direct Loan and FFEL schools in the level of administrative effort, nor were there any differences among the three cohorts of Direct Loan schools. However, as shown in Exhibit H2, over the last 3 academic years schools reported that the FFEL Program has become easier to administer, while the Direct Loan Program was harder to administer in 1996–97 than during either the 1994–95 or 1995–96 academic years.

During the 1996–97 academic year, there were no reported differences in the ease of program administration between Direct Loan and FFEL institutions. However, over the last 3 years the FFEL Program has become easier to administer, while the Direct Loan Program was harder to administer in 1996–97 than during either the 1994–95 or 1995–96 academic years.

Exhibit H2
Level of Effort Associated With Loan Program Administration
Institutions Rating Level of Effort as Very Easy or Relatively Easy
(in percentages)

Level of Effort	Direct Loan			FFEL		
	1994-95	1995-96	1996-97	1994-95	1995-96	1996-97
Very or Relatively Easy	61	60	47	29	36	41

There were no significant differences during the 1996-97 academic year between Direct Loan and FFEL schools in the level of effort required for loan program administration. However, since the Direct Loan Program began in 1994–95, participating institutions have become less satisfied with answering general questions about loans and financial aid, counseling borrowers while in school, processing loan origination records, processing promissory notes, requesting and receiving loan funds, and reconciling/monitoring and reporting finances. On the other hand, since 1994–95, FFEL institutions have become more satisfied with keeping up with regulations, answering general questions about loans and financial aid, counseling borrowers while in school, processing loan applications, requesting and receiving loan funds, disbursing loan funds, refunding excess loan funds to borrowers, reconciling/monitoring, and reporting finances, and helping students with their loans after they leave school.

When Direct Loan schools were asked to indicate the overall level of change in work load because of the implementation of Direct Lending, 63 percent indicated that their overall work load had increased, 21 percent said there had been no change, and 16 percent said their work load had decreased. The administrative functions most frequently cited as increasing institutional work load were reconciliation (reported by 75% of Direct Loan schools), training of financial aid staff (73%), providing cash management (61%), processing of loan applications and creation of origination records (54%), and keeping records and reporting (53%).

When Direct Loan schools were asked to indicate the overall change in work load due to the implementation of Direct Lending, 63 percent indicated that their overall work load had increased.

During the 1996–97 academic year, Direct Loan institutions were generally satisfied with the materials and training provided by the Department of Education, although they felt the materials were more useful than they were timely. However, FFEL schools were more likely to rate the materials and training provided by guarantee agencies and lenders as more timely and useful than those received from the Department of Education. When the responses from FFEL and Direct Loan schools on the materials and training provided to both programs by the Department of Education were compared, Direct Loan schools were more likely in all cases to rate the materials and training as both useful and timely.

During the 1996–97 academic year, Direct Loan institutions were generally satisfied with the materials and training provided by the Department of Education, although they felt the materials were more useful than timely.

When responses from the 1995–96 academic year were compared, it was seen that Direct Loan institutions in 1996–97 reported a decline in satisfaction with both the timeliness and usefulness of ED-provided information and support. In fact, Direct Loan institutions were more satisfied during the previous academic year with every type of information and support provided by the ED. In a similar manner, FFEL institutions also experienced a decline in satisfaction between the 1995–96 and 1996–97 academic years with both the timeliness and usefulness of not only the ED-provided material, but also material provided by lenders and guarantors.

When compared with the 1995–96 academic year, both Direct Loan and FFEL institutions in 1996–97 reported a decline in satisfaction with both the timeliness and usefulness of ED-provided information and support.

Among those schools first implementing the Direct Loan Program in 1996–97, a majority of institutions (56%) were satisfied with ED's responsiveness to their reported problems. However, a longitudinal comparison reveals a continued decline in satisfaction among those institutions first implementing the program, from 87 percent in 1994–89 to 79 percent in 1995–96, to 56 percent during 1996–97.

Introduction

Annual customer satisfaction surveys of institutions participating in the Title IV loan programs are one component of an overall evaluation of the Federal Direct Loan Program conducted by Macro International Inc. (Macro) under contract to the U.S. Department of Education (ED). These surveys are designed to determine the level of institutional satisfaction with the Federal Direct Loan and Federal Family Education Loan (FFEL) Programs. The objective of these surveys is to provide comparisons of institutional satisfaction and experiences with each program, including

- Overall quality and perceived ease of loan program administration
- Satisfaction with communications and support from the Department of Education and other service providers (i.e., lenders and guarantee agencies).

In addition to the areas of investigation listed above, changes in institutional experiences with aspects of loan program administration were reviewed over time for schools participating in the Direct Loan and FFEL Programs. This review was accomplished by comparing the responses of institutions participating in our 1995 and 1996 surveys with those of institutions responding to our 1997 institutional survey. Differences were also examined by several key institutional characteristics to determine if they were related to overall institutional satisfaction. For all institutions, differences in satisfaction were examined by

- Institutional type and control
- Loan volume
- Financial Aid Office structure
- Computer system.

For Direct Loan institutions, differences in satisfaction were also examined by

- Cohort level
- Software configuration

- Origination level.

For FFEL institutions, differences in satisfaction were also examined by

- Decisions regarding participation in the Direct Loan Program
- Number of lenders
- Number of guarantee agencies
- Current use of Electronic Funds Transfer (EFT).

The 1997 institutional survey was conducted using a mail survey methodology with computer-assisted telephone interviewing (CATI) followup; institutions also had the option of completing the questionnaire on the World-Wide Web. Data collection for the survey began on May 16, 1997, and continued through August 20, 1997. Extensive telephone and mail followup procedures were implemented in an effort to achieve the highest possible response rate.

The overall survey response rate was 82 percent, based on 2,212 responses from 2,714 eligible institutions. The response rate was 88 percent for first-year Direct Loan schools, 80 percent for second-year Direct Loan schools, 66 percent for third-year Direct Loan schools, and 82 percent for FFEL schools.[1] Detailed tables illustrating the number and percent of responses for each question, including response rates by institutional type and control and loan volume are included in the Technical Appendices in Volume Two.

Cross-tabs for the survey data were produced through the Statistical Analysis System (SAS), and significance tests were conducted using Westvar.[2] Whenever comparative findings between the Direct Loan and FFEL Programs are presented, tests for programmatic differences are done at the 5 percent level of significance *after* controlling for differences in both type and control and size among institutions participating in the two programs. As a result, any observed differences can be attributed to actual programmatic differences, rather than differences in the composition of schools participating in the two programs. However, whenever within-program comparisons were made (e.g., among the cohorts of Direct Loan schools), differences in both type and control and size were not controlled for since all institutions in the Direct Loan Program operate under the same set of rules.[3] For the interested reader, a complete description of the data processing and analysis can be found in the Survey Methodology section of the Technical Appendices in Volume Two.

---

[1] Throughout both volumes of the report, first-year Direct Loan schools are those that entered the Direct Loan Program in 1994–95, second-year Direct Loan schools are those that entered the Direct Loan Program in 1995–96, and third-year Direct Loan schools are those that entered the Direct Loan Program in 1996–97.

[2] Westvar was used instead of SAS, since Westvar automatically takes into account the sampling design and survey weights.

[3] Wherever comparative findings are presented in the text, only statistically significant differences are discussed. If an insignificant difference *is* mentioned, the reader will be alerted that the difference is not statistically significant.

The Technical Appendices in Volume Two also include

- The weighted data tables
- Weighted and unweighted frequencies
- A detailed description of the data collection methodology
- The survey instruments.

This volume of the report summarizes the findings of the 1997 survey.

Overall Institutional Satisfaction With the Federal Student Loan Programs

Current Satisfaction

In the 1996–97 academic year, both Direct Loan and FFEL institutions were generally satisfied with their respective loan programs, with only 6 percent of institutions expressing any dissatisfaction. [4] However, as shown in Figure 1 (and in Table 1–1 found in the technical appendices[5]), FFEL institutions indicated a significantly higher level of overall satisfaction with their loan program than did Direct Loan institutions (82% for FFEL schools versus 64% for Direct Loan schools).[6]

---

[4]For the purposes of this report, the term *satisfied* refers to those institutions that expressed their satisfaction as a 1 or a 2 on a scale of 1 to 5, where 1 was *very satisfied* and 5 was *very dissatisfied*.

[5]All tables referenced are found in the technical appendices in Volume II.

[6]Because of errors induced by rounding, the summing together of numbers in tables may not always produce the value given in the text. In these rare instances, the number in the text represents the correctly rounded sum.

The difference in satisfaction between the two loan programs appears to have been influenced by the lower level of satisfaction reported by the second-year Direct Loan schools, where only 62 percent were satisfied, compared with 69 percent of first-year Direct Loan schools and 70 percent of third-year Direct Loan schools (Figure 2).

Figure 1
Overall Satisfaction With Loan Programs
Direct Loan Schools and FFEL Schools

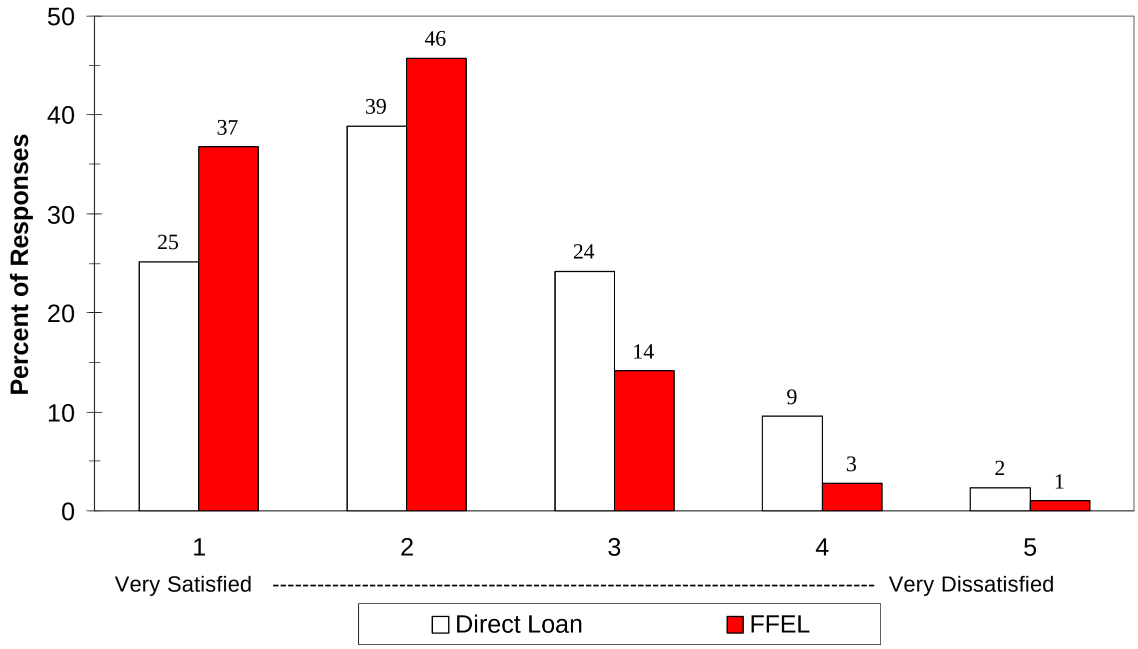
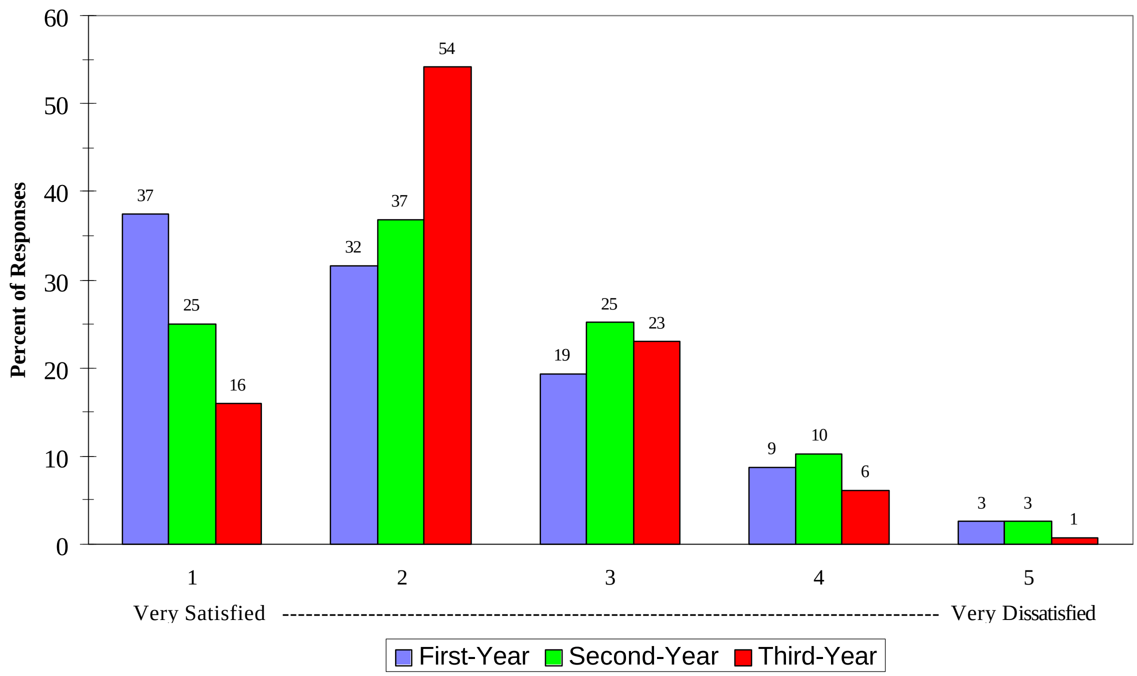


Figure 2
Overall Satisfaction With Loan Programs
Direct Loan Schools



Current Satisfaction by Selected Institutional Characteristics

In addition to examining institutional satisfaction levels by program and cohort, differences in satisfaction were also examined by several key institutional characteristics. Among all schools, there were no differences in satisfaction by loan volume, financial aid office structure, or type of computer system used, although differences did exist by type and control. As shown in Exhibit 1 (and Table 1-2), 4-year private institutions were significantly more likely to be satisfied with their loan program than were proprietary institutions (82% versus 73%).

Exhibit 1
Overall Satisfaction by Institutional Type and Control
(in percentages)

Level of Satisfaction	Institutional Type and Control				
	4-Year Public	2-Year Public	4-Year Private	2-Year Private	Proprietary
Very Satisfied	37	34	34	34	32
2	42	44	48	46	41
3	17	19	13	16	19
4	3	4	4	3	6
Very Dissatisfied	2	1	1	1	2

Among FFEL institutions, there were no differences in satisfaction by loan volume, number of guarantee agencies used, or by current use of EFT, although there were differences in satisfaction by the number of lenders and an institution's plans for participation in the Direct Loan Program. Specifically, those schools that applied for participation in Year 4 of the Direct Loan Program and whose application was either pending or accepted, and those schools that had their application for Direct Loan Program participation rejected exhibited the lowest satisfaction with the FFEL Program, followed by those schools either planning on applying to the Direct Loan Program or currently participating in both programs (Table 1-3). In terms of the number of lenders, those schools with three to five lenders expressed the highest level of satisfaction, followed by schools with 11 to 20 lenders (Table 1-4).

Among Direct Loan institutions, there were no differences in satisfaction by either cohort level, loan volume, origination level, or software configuration.

Current Satisfaction Compared to Previous Satisfaction

When comparing the 1996 and 1997 surveys, the proportion of satisfied Direct Loan schools fell significantly, from 83 percent during the 1995–96 academic year to 64 percent in the 1996–97 academic year (see Table 1-5).[7] This drop in satisfaction was confirmed by the responses to the

[7]This drop in satisfaction may have been caused by the significant difficulties, beginning in spring 1997, as the Department transitioned the Direct Loan origination contract from CDSI/AFSA to EDS, coinciding with the time that the 1996-97 institutional survey was in the field.

relative satisfaction question in the 1997 survey. As shown in Exhibit 2 (and Table 1-6), when Direct Loan schools were asked how this year's satisfaction compared to last year's, both first-year and second-year schools indicated that, on balance, they were slightly less satisfied this year, while third-year schools felt that they were significantly better off this year in the Direct Loan Program than last year when they participated in the FFEL Program.

Exhibit 2
Relative Satisfaction by Direct Loan Cohort
(in percentages)

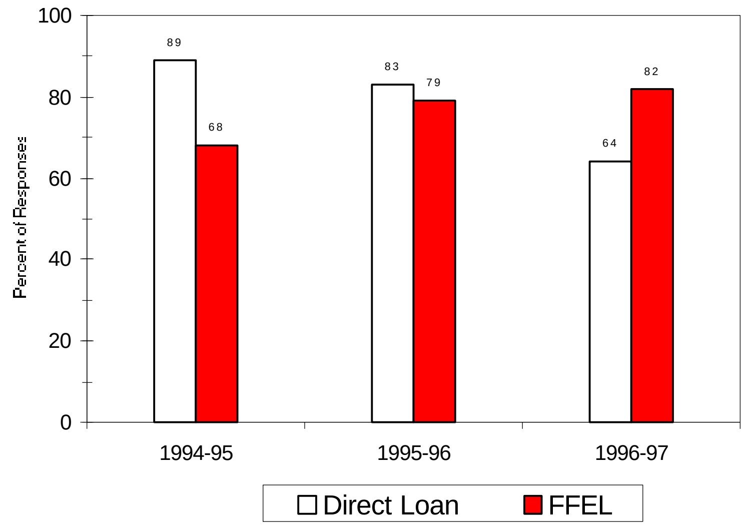
Level of Satisfaction	Direct Loan Program Participation		
	1st Yr.	2nd Yr.	3rd Yr.
Increased	21	28	38
Remained the Same	49	38	57
Decreased	30	34	5

As shown in Figure 3, the recent drop in satisfaction among Direct Loan schools (from 83% during the 1995–96 academic year to 64% during the 1996–97 academic year) follows the decline in institutional satisfaction that began during the second survey year (from 89% during the 1994-95 academic year to 83% during the 1995-96 academic year). This 3-year decline in satisfaction among Direct Loan schools was confirmed by an analysis of the individual cohorts themselves, where satisfaction among the first-year Direct Loan schools fell between the 1994–95 and 1996–97 academic years, just as satisfaction fell among the second-year Direct Loan schools between 1995–96 and 1996–97.

Among the FFEL schools, satisfaction increased slightly from 79 percent in 1995–96 to 82 percent in 1996–97, although the increase was not statistically significant. However, between the 1994–95 and 1996–97 academic years, satisfaction did increase among FFEL schools, increasing from 68 percent in 1994–95 to 82 percent in 1996–97.

Among all institutions, 78 percent were satisfied with the loan programs during the 1996–97 academic year, compared with 80 percent in 1995–96 and 68 percent in 1994–95. Although there were no differences in overall satisfaction between the 1995–96 and 1996–97 academic years, both years represent a significant improvement over the institutional satisfaction expressed during the 1994–95 academic year, suggesting that competition between the Direct Loan and FFEL Programs has increased overall institutional satisfaction with the loan programs (Table 1-8).

Figure 3
Direct Loan and FFEL Institutional Satisfaction
From 1994-95 to 1996-97
(in percentages)



Satisfaction of Schools That Originated Loans in Both Programs

During the 1996–97 academic year, 61 percent of Direct Loan institutions participated fully in the Direct Loan Program, originating Direct Loans exclusively. A smaller group, 39 percent, also originated loans in the FFEL Program.

Among institutions participating in both programs, there were significant differences observed in FFEL and Direct Loan satisfaction. As shown in Exhibit 3 (and Table 1-9), schools participating fully in the Direct Loan Program were more satisfied with the Direct Loan Program than those schools phasing in the program (73% versus 48%), and in terms of FFEL satisfaction, those schools participating fully in the FFEL Program were more satisfied with the FFEL Program than were schools participating in both program (82% versus 68%) (Tables 1-10 and 1-11).

A majority of schools administering both programs reported that students' access to loans, ease of administration of the FFEL Program, service from loan servicers and collections agencies, and service from third-party servicers have remained unchanged in their administration of the FFEL Program. Schools also reported that services from banks and guarantee agencies had improved since the introduction of Direct Loans, with 56 percent of schools citing an improvement and only 2 percent saying that services had worsened.

Exhibit 3
Overall Satisfaction With Loan Program by Level of Participation
(in percentages)

Level of Satisfaction	FFEL Satisfaction		DL Satisfaction	
	100%	Mixed	100%	Mixed
Very Satisfied	37	31	32	12
2	46	37	41	37
3	14	25	19	34
4	3	5	6	15
Very Dissatisfied	1	2	2	3

Important Attributes of the Loan Programs

Consistent with the results of both the 1995 and 1996 institutional surveys, the ability to serve borrowers well was the most frequently mentioned attribute of the loan programs, mentioned by 77 percent of all institutions. The next two most frequently mentioned attributes among all schools were the predictability of loan funds (54%) and the flexibility of loan repayment options (44%).

When comparing the loan programs, Direct Loan schools were more likely than FFEL schools to list the flexibility of loan repayment options as an attribute (61% versus 38%), while FFEL schools were more likely than Direct Loan schools to list the following as attributes (Tables 1-12 and 1-13):

- Ability to serve borrowers well (78% versus 73%)
- Predictability of loan funds (56% versus 45%)
- Viability of the program (38% versus 28%)
- Cost-effective administration of program (30% versus 20%).

There were no differences among the three cohorts of Direct Loan schools.

Areas of Unmet Expectations in the Loan Programs

Among all institutions, simplicity of administration was the most frequently mentioned area of unmet expectation, with 23 percent of all institutions listing this area, followed by the cost-effectiveness of the program (15%), and the flexibility of loan repayment options (8%). All of the other choices were mentioned by less than 5 percent of institutions, suggesting that institutions were generally pleased with the loan programs.

When comparing the loan programs, Direct Loan schools were more likely than FFEL schools to list the following as areas of unmet expectations:

- Simplicity of loan program administration (32% versus 20%)
- Cost-effectiveness of the program (21% versus 12%)
- Viability of the program (6% versus 2%)
- Predictability of loan funds (8% versus 4%).

FFEL schools were more likely than Direct Loan schools to list the flexibility of loan repayment options as an area of unmet expectation (9% versus 3%) (Tables 1-14 and 1-15).

Among the three cohorts of Direct Loan schools, there were several significant differences. For example, second-year schools were more likely than both first-year and third-year schools to mention borrowers' being well served as an area of unmet expectation, while second-year schools were more likely than first-year schools to mention simplicity of administration as a concern. In terms of program viability, second-year schools were more likely than third-year schools to express this area of unmet expectation, while both first- and second-year schools were more likely to mention the predictability of loan funds than were third-year schools. The area of cost-effectiveness was more of a concern to second-year schools than to either first- or third-year schools, while the flexibility of loan repayment options was listed as an area of unmet expectation more frequently by second-year schools than by third-year schools (Table 1-14).

Recommendations for Improving the Loan Programs

In the 1997 survey, Direct Loan schools were given an open-ended opportunity to comment on any aspect of the Direct Loan Program. Their comments fell largely into two groups—correcting problems with the Loan Origination Center (LOC) (mentioned by 43% of respondents) and improving software and technical support (mentioned by 18% of respondents).[8]

[8] For a complete listing of responses, readers are referred to Appendix C of Volume 2.

When Direct Loan institutions were asked what specific recommendations they would give to the Department of Education on how to improve its administration of the Direct Loan Program, the most frequently volunteered recommendations were

- Better/more LOC representatives (7%)
- Improve customer service of Montgomery servicer (7%)
- Improve overall performance of Montgomery servicer (general) (6%)
- Improve ED Express/software quality, functions, or documentation (6%)
- Improve reconciliation process (6%)
- Expand training locally (6%).

FFEL institutions offered more varied recommendations. When asked what specific recommendations they would give to the Department of Education or loan servicers on how to improve the administration of the FFEL Program, institutions volunteered the following recommendations most frequently:

- Simplify regulations (6%)
- Need clear/regular communications with students (4%)
- Don’t penalize schools for student defaults (4%)
- Revise application forms/use FAFSA (3%).

Administration of the Direct Loan and FFEL Programs

Institutional Satisfaction With Loan Program Administration

During the 1996–97 academic year, both Direct Loan and FFEL institutions reported that loan program administration required a moderate amount of work or effort. Furthermore, there were no differences in effort between Direct Loan and FFEL schools, nor were there any differences among the three cohorts of Direct Loan schools. However, as shown in Exhibit 4 (and Table 2-2), over the last 3 academic years schools reported that the FFEL Program has become easier to administer, while the Direct Loan Program was harder to administer in 1996–97 than during either the 1994–95 or 1995–96 academic years.

Exhibit 4
Level of Effort Associated With Loan Program Administration
Institutions Rating Level of Effort as Very Easy or Relatively Easy
(in percentages)

Level of Effort	Direct Loan			FFEL		
	1994-95	1995-96	1996-97	1994-95	1995-96	1996-97
Very or Relatively Easy	61	60	47	29	36	41

As shown in Exhibit 5 (and in Table 2-3), institutions in both the Direct Loan and FFEL Programs indicated that they were generally satisfied with the activities involved in administering their respective loan programs.[9] For example, at least nine out of every 10 institutions said they were satisfied with the following activities:

- Answering general questions about loans and financial aid (96%)
- Counseling borrowers while in schools (95%)
- Requesting and receiving loan funds (94%)
- Disbursing loan funds (91%).

At least eight out of every 10 institutions were satisfied with the following activities:

- Keeping up with regulations (89%)

[9]Although most of the administrative activities listed in our survey were common to both loan programs, some of them were program specific, so that comparisons for all activities were not possible.

- Refunding excess loan funds to borrowers (88%)
- Helping students with loans after they left school (85%)
- Reconciling/monitoring and reporting finances (82%).

The only administrative activity receiving a satisfaction rating lower than 80 percent was recordkeeping and reporting of student information, for which 76 percent of all institutions reported that they were satisfied.

However, in a comparison of the responses from Direct Loan and FFEL institutions, Direct Loan schools were more satisfied than FFEL schools in

- Keeping up with regulations (93% versus 88%)
- Refunding excess loan funds to borrowers (91% versus 87%)
- Helping students with loans after they left school (89% versus 83%) (Table 2-3).

FFEL schools were more satisfied than Direct Loan schools with

- Requesting and receiving loan funds (96% versus 91%)
- Reconciling/monitoring and reporting finances (89% versus 60%)
- Recordkeeping and reporting student information (77% versus 71%) (Table 2-3).

Since the Direct Loan Program began in 1994–95, participating institutions have become less satisfied with

- Answering general questions about loans and financial aid
- Counseling borrowers while in school
- Processing loan origination records
- Processing promissory notes
- Requesting and receiving loan funds
- Reconciling/monitoring and reporting finances.

FFEL institutions have become more satisfied with

- Keeping up with regulations
- Answering general questions about loans and financial aid
- Counseling borrowers while in school
- Processing loan applications
- Requesting and receiving loan funds
- Disbursing loan funds

- Refunding excess loan funds to borrowers
- Reconciling/monitoring and reporting finances
- Helping students with their loans after they left school (Table 2-4).

Exhibit 5
Satisfaction With Loan Program Administration Activities
(in percentages)

Types of Activities	Loan Program Participation		
	DL	FFEL	ALL
Keeping Up With Regulations	93	88	89
Answering General Questions About Loans and Financial Aid	94	97	96
Counseling Borrowers While in School	96	95	95
Processing Origination Records	88	NA	NA
Processing Promissory Notes	82	NA	NA
Requesting and Receiving Loan Funds	89	96	94
Disbursing of Loan Funds	93	90	91
Refunding Excess Loan Funds to Borrowers	90	87	88
Reconciliation/Financial Monitoring and Reporting	62	89	82
Recordkeeping and Reporting of Student Information	72	77	76
Helping Students with Loans After They Have Left School	90	83	85

Level of Change in Resources Required To Administer the Loan Programs

As shown in Exhibit 6 (and in Table 2-5), when schools were asked if there had been a change in the resources needed for the delivery of financial aid between the 1995–96 and 1996–97 academic years, Direct Loan schools were more likely than FFEL schools to have reported increases in the

- Number of permanent or temporary staff related to financial aid (21% versus 16%)
- Number of staff used for technical support (29% versus 14%)
- Number of hours current staff work (45% versus 34%)
- Resources required for equipment and computers (68% versus 50%)

- Resources required for supplies (52% versus 34%)
- Funds for training (43% versus 21%)
- Funds for staff travel (42% versus 21%)
- Resources required for the development and modification of computer programs and procedures (73% versus 57%).

When the Direct Loan schools were examined for changes over time, several significant differences emerged. For example, schools participating in the Direct Loan Program in 1995–96 were more likely to have had a smaller increase in the number of permanent or temporary staff positions than Direct Loan schools did in 1996–97, and they were also more likely to have had smaller increases in the number of hours staff worked and smaller increases in the amount spent on supplies than Direct Loan schools had in 1996–97. However, Direct Loan schools in 1996–97, as well as those in 1995–96, were more likely to have seen smaller increases in funds for staff travel than were those schools participating during the 1994–95 academic year (Table 2-6).

Differences also emerged among Direct Loan schools by type and control (Table 2-7). In general, proprietary schools were more likely to have had smaller increases than several other types of schools in the

- Number of permanent or temporary staff
- Number of staff used for technical support
- Number of hours worked by current staff
- Spending on equipment and computers
- Supplies
- Funds for staff travel
- Development and modification of computer programs and procedures.

Exhibit 6
Changes in Resources Needed for the Delivery of Financial Aid
(in percentages)

Types of Resources	Loan Program Participation					
	Direct Loan			FFEL		
	Increase	Same	Decrease	Increase	Same	Decrease
Number of Permanent or Temporary Staff Positions Related to Financial Aid	21	74	5	16	79	5
Number of Staff Positions in Accounting or Business Office	11	87	2	11	85	3
Number of Staff Used for Technical Support	29	68	2	14	82	4
Number of Hours Current Staff Work	45	49	7	34	63	4
Equipment/Computers	68	30	1	50	49	1
Supplies (postage, copying, etc.)	52	42	6	34	62	5
Funds for Training	43	54	3	21	75	4
Funds for Staff Travel	42	56	2	21	73	5
Development/Modification of Computer Programs/Procedures	73	26	1	57	41	2

When the FFEL schools were examined for changes over time, significant differences also emerged. In terms of the number of permanent or temporary staff positions, the hours current staff work and the amount spent on supplies, FFEL schools in both 1995–96 and 1996–97 experienced smaller increases than did those schools participating in the FFEL Program in 1994–95. However, those schools participating in the FFEL Program in 1994–95 experienced smaller increases in equipment and computer purchases, as well as in funds spent on the development and modification of computer programs and procedures, than did FFEL schools in 1996–97. Finally, FFEL schools in 1995–96 were more likely to have had smaller increases in funds for training and staff travel than they had in either 1994–95 or 1996–97 (Table 2-6).

Among the FFEL schools, differences also existed by type and control (Table 2-8). In general, 2-year public institutions had smaller increases than did several other types of schools in the

- Number of permanent or temporary staff positions
- Number of staff positions in the accounting or business office
- Number of staff used for technical support
- Number of hours worked by current staff
- Spending on equipment and computers
- Funds for training
- Funds for staff travel
- Development and modification of computer programs and procedures.

Level of Change in Work Load Resulting From Implementation of the Direct Loan Program

When Direct Loan schools were asked to indicate the overall level of change in work load due to the implementation of Direct Lending, 63 percent indicated that their overall work load had increased, 21 percent said there had been no change, and 16 percent said their work load had decreased. As shown in Exhibit 7, the administrative functions most frequently cited as increasing institutional work load were

- Reconciliation (reported by 75% of Direct Loan schools)
- Training of financial aid staff (73%)
- Cash management (61%)
- Processing of loan applications and creation of origination records (54%)
- Recordkeeping and reporting (53%) (Table 2-9).

When the overall level of change in work load was examined by the Direct Loan cohort, significant differences emerged. For example, both the second-year and third-year Direct Loan schools experienced a greater increase in work load than did the first-year Direct Loan schools (64% and 73%, respectively, reported an increase versus 44%). In fact, when broken out into the various administrative functions, third-year Direct Loan schools experienced more work than first-year Direct Loan schools in training financial aid staff (79% versus 64%) and requesting and receiving loan funds (44% versus 38%), while second-year Direct Loan schools experienced more work than first-year Direct Loan schools in training financial aid staff (73% versus 64%), counseling borrowers (59% versus 24%), and cash management (64% versus 46%). Third-year Direct Loan schools experienced more work in requesting and receiving loan funds (44% versus 38%) than did second-year Direct Loan schools (Table 2-10).

Exhibit 7
Changes in Work Load Resulting From Implementation of the Direct Loan Program
(in percentages)

Administrative Function	All Direct Loan Institutions		
	Decrease	Same	Increase
Overall Level of Change in Work Load	16	21	63
Training Financial Aid Staff	3	25	73
Counseling Borrowers on Direct Loan Program	3	61	35
Processing Loan Applications Creating Origination Records	20	26	54
Verifying Enrollment	7	69	25
Advising Students on Status of Loans	16	57	27
Requesting and Receiving Loan Funds by Institution	22	40	38
Disbursing Loan Funds to Students	27	44	29
Recordkeeping and Reporting	14	33	53
Providing Cash Management	13	26	61
Handling Reconciliation	6	19	75

An examination by type and control also yielded several significant differences. For example, 4-year public institutions experienced less of an increase in work load than did all other types of institutions. In terms of specific administrative functions, 2-year public schools were more likely to have experienced an increase in work load related to

- Training financial aid staff
- Counseling borrowers

- Processing loan applications/creating origination records
- Verifying enrollment
- Advising students
- Disbursing loan funds to students
- Requesting and receiving loan funds
- Providing recordkeeping and reporting
- Handling cash management

than were several other types of schools (Table 2-11).

Of those Direct Loan schools indicating a change in administrative work load, 78 percent felt that the change was permanent, while 22 percent felt it was temporary. Among these schools there were strong cohort effects—first-year Direct Loan schools were the most likely to view the changes as permanent, followed by third-year, and then second-year Direct Loan schools (Table 2-12).

Communications and Support From the U.S. Department of Education, Lenders, and Guarantee Agencies

Materials and Training Provided by the U.S. Department of Education

During the 1996–97 academic year, Direct Loan schools were asked to rate the timeliness and usefulness of 14 types of materials and training provided by the Department of Education or its servicer. With the exception of the timeliness of loan reconciliation support, a majority of institutions reported satisfaction with the timeliness and usefulness of all ED-provided services and materials. As shown in Exhibit 8 (and Table 3-1), Direct Loan schools felt that the materials and training provided were more useful than timely, with ratings for usefulness ranging from 51 to 90 percent, while the ratings for timeliness ranged from 41 to 83 percent.

Exhibit 8
Direct Loan Satisfaction With Materials and Training
Provided by the Department of Education
(in percentages)

ED-Provided Materials/Training	Timeliness	Usefulness
Information on Direct Loan Rules and Regulations	73	80
Telephone Support for Policy and Administrative Guidance	57	69
Direct Loan Users Guide	63	67
In-Person Assistance	57	66
Borrower Counseling Materials	69	86
Training Materials for Counselors	66	75
Entrance/Exit Counseling Videos	72	73
Preprinting Promissory Notes	83	90
Reconciliation Guide	57	59
Consolidation Booklet	61	69
Loan Origination Support	57	65
Loan Reconciliation Support	41	52
Training and Technical Support	54	62
Software for Administration or Reporting Functions	54	56
Videoconferences	52	51

Usefulness and Timeliness of Materials and Training Provided by ED

Most useful
- Preprinted promissory notes (90%)
- Borrower counseling materials (86%)
- Information on Direct Loan rules and regulations (80%)

Least useful
- Videoconferences (51%)
- Loan reconciliation support (52%)
- Software (56%)

Most timely
- Preprinted promissory notes (83%)

- Information on Direct Loan rules and regulations (73%)
- Entrance and exit counseling videos (72%)

Least timely
- Loan reconciliation support (41%)
- Videoconferences (52%)
- Training and technical support (54%)

During the 1996–97 academic year, FFEL institutions were also asked to rate the timeliness and usefulness of several types of materials and training provided by the Department of Education, lenders, and guarantee agencies. As shown in Exhibit 9 (and Table 3-2), FFEL schools were more likely to rate the materials and training provided by guarantee agencies and lenders as more timely and useful than those received from ED for all five areas listed. In addition, FFEL institutions preferred the telephone support, training sessions, and software provided by their guarantors over materials and training provided by their lenders; however, FFEL institutions gave lenders the highest timeliness and usefulness marks for counseling materials used for borrowers.

Exhibit 9

Agency-Provided Materials and Training	Timeliness			Usefulness		
	ED	Lender	GA	ED	Lender	GA
Information on FFEL Program Rules and Regulations	56	74	80	66	79	82
Telephone Support for Policy or Administrative Guidance	47	79	82	57	81	83
Borrower Counseling Materials	56	81	79	58	82	80
Training Sessions	54	68	75	61	73	77
Software for Administrative or Reporting Functions	47	67	72	50	73	75

FFEL Satisfaction With Materials and Training
Provided by ED/Lender/Guarantee Agencies
(in percentages)

When Direct Loan and FFEL schools' ratings on ED-provided materials and training common to both programs were compared, Direct Loan schools were more likely in all cases to rate the materials and training received as both useful and timely. As shown in Exhibit 10 (and Table 3-3), Direct Loan schools felt that the information on program rules and regulations, telephone support for policy or administrative guidance, borrower counseling materials, and software were more useful and timely than did the FFEL schools.

Compared with the 1995–96 academic year, Direct Loan institutions in 1996–97 reported a significant decrease in satisfaction with both the timeliness and usefulness of ED-provided information and support. Institutions were more satisfied during the 1995–96 academic year with every type of provided material and training (Table 3-4).[10]

FFEL institutions also experienced a decrease in satisfaction with the timeliness and usefulness of information and support from lenders and guarantors between the 1995–96 and 1996–97 academic years. Like Direct Loan schools, FFEL institutions also reported a decrease in satisfaction with ED-provided materials and training; however, satisfaction improved with the information on FFEL Program rules and regulations (Tables 3-5, 3-6, and 3-7).

[10]The only exception to this satisfaction was the insignificant decline in satisfaction with the usefulness of entrance and exit videos. Software for administration and reporting functions was not included in the 1996 survey.

Exhibit 10
Direct Loan Versus FFEL Satisfaction With
ED-Provided Materials and Training
(in percentages)

ED-Provided Materials and Training	Timeliness		Usefulness	
	DL	FFEL	DL	FFEL
Information on Program Rules and Regulations	73	56	80	66
Telephone Support for Policy or Administrative Guidance	57	47	69	57
Borrower Counseling Materials	69	56	86	58
Software for Administrative or Reporting Functions	55	47	55	47

Frequency of Communications With Servicers Regarding Loan Repayment and Consolidation

Direct Loan institutions reported that they most frequently referred borrowers to the LOC for consolidation information and materials and were most likely to refer borrowers to the servicer for loan repayment information and materials. Furthermore, institutions indicated that they sometimes contacted the LOC to obtain consolidation forms and information, intervene at the request of borrowers, contact the servicer for repayment forms and information, and intervene at the request of borrowers (Table 3-8). There were no significant differences found between the Direct Loan cohorts regarding the frequency of this type of communication.

Related frequencies of occurrence were reported by FFEL institutions, which most frequently referred borrowers to servicers for both consolidation and repayment information and materials. In addition, FFEL schools reported they sometimes contacted servicers to obtain consolidation and repayment forms and information and to intervene at the request of borrowers (Table 3-8).

When the frequencies of communications for Direct Loan and FFEL schools were compared, FFEL schools reported that they were more likely to contact servicers for loan repayment forms and information and to refer borrowers to the servicers for loan repayment information and materials. These results are consistent with the 1995–96 academic year findings; FFEL schools have more interaction because they have more loans in repayment. There were no significant differences between the loan programs on the frequencies of communications on consolidation issues.

Satisfaction With Communications With Servicers Regarding Loan Repayment and Consolidation

When asked about their satisfaction with the communications with servicers regarding loan consolidation, FFEL schools were more satisfied than Direct Loan schools in general and second-year Direct Loan schools in particular. Regarding both in-school and out-of-school consolidation, 65 percent of Direct Loan schools were satisfied with communications with their servicer, compared with 74 and 75 percent of FFEL schools. FFEL schools were also more satisfied than second-year Direct Loan institutions on repayment communications. As shown in Exhibit 11 (and Table 3-9), 85 percent of FFEL schools expressed satisfaction regarding loan repayment communications, compared with 74 percent of all Direct Loan schools and 71 percent of second-year schools. There were no significant differences between current and prior Direct Loan satisfaction on communications with servicers.

Among the Direct Loan institutions, proprietary schools were more satisfied with in-school and out-of-school consolidation communications than were schools in the public sector; proprietary schools were also more satisfied with loan repayment communications than were 2-year public schools. Among the Direct Loan cohorts, third-year schools were more satisfied with in-school consolidation communications than were second-year institutions (Table 3-10).

Exhibit 11
Satisfaction With Communications With Servicers
(in percentages)

	Loan Program Participation					
	Direct Loan					
Type of Communications	**1st Yr.**	**2nd Yr.**	**3rd Yr.**	**Combined**	**FFEL**	**All**
Loan Repayment	72	71	87	74	85	82
In-School Consolidation	63	62	86	65	74	71
Out-of-School Consolidation	56	64	78	65	75	72

Satisfaction With the Department of Education's Loan Repayment and Consolidation Guidelines

Direct Loan schools were asked to rate the timeliness and clarity of the Department of Education's regulations on loan repayment options, including the standard, income-contingent, extended, and graduated repayment plans. A majority of institutions reported satisfaction with the timeliness and clarity of all ED-provided regulations, with satisfaction ratings for timeliness ranging from 75 to 78 percent, while the ratings for clarity ranged from 66 to 75 percent (Table 3-11).

Direct Loan schools were also asked to rate the timeliness and clarity of the Department of Education's consolidation guidelines. Institutions reported lower satisfaction with the timeliness and clarity of all ED-provided guidelines, with satisfaction ratings for timeliness ranging from 54 to 57 percent, while the ratings for clarity ranged from 51 to 53 percent (Table 3-12). There were no significant differences found between Direct Loan cohorts.

Compared with the 1995–96 academic year, 1996–97 Direct Loan schools reported a decline in satisfaction with the timeliness and clarity of all of the loan repayment regulations, with the exception of their satisfaction with the clarity of the income-contingent repayment plan (Table 3-11). Regarding satisfaction with consolidation guidelines, the only intertemporal change was a decline in satisfaction with the timeliness and clarity of out-of-school Direct Loan consolidation guidelines (Table 3-12).

For the timeliness and usefulness of loan repayment regulations, 2-year private institutions were less satisfied with the ED-provided regulations on the income-contingent repayment plan, the extended repayment plan, and the graduated repayment plan. For the timeliness and usefulness of loan consolidation guidelines, 2-year public institutions were less satisfied than were 4-year public institutions and those in the private sector (Table 3-13).

Contact With the Department of Education's Regional Offices

A large majority, 72 percent of Direct Loan institutions, reported contact with a client account manager at their regional office. A majority of schools also indicated that the contacts were initiated by both the institution and the regional office (66%). Most institutions characterized the amount of interaction between the client account managers and their school as moderate, with 53 percent reporting some interaction, 24 percent reporting extensive interaction, and 23 percent very little interaction.

As shown in Exhibit 12 (and Table 3-14), Direct Loan schools judged their contacts with the Department of Education's Regional Office as slightly more useful than timely, with ratings for usefulness ranging from 56 to 86 percent, and ratings for timeliness ranging from 55 to 79 percent. The most useful and timely types of contact with ED's Regional Offices, as well as the least useful and timely types of contact, are presented below:

Most useful
- Requests for ED-provided material (86%)
- Entrance and exit counseling issues (81%)
- Training received at the Regional Office (81%)

Least useful
- Computer-related reconciliation issues (56%)
- Accounting-related reconciliation issues (57%)
- Questions and issues regarding computer system design or implementation (64%)

Most timely

- Requests for ED-provided material (79%)
- Training received at the Regional Office (75%)
- Questions regarding Direct Loan policy (74%)

Least timely

- Computer-related reconciliation issues (55%)
- Accounting-related reconciliation issues (57%)
- Questions and issues regarding computer system design or implementation (63%).

First-year Direct Loan institutions appear to be the most satisfied with contacts with the regional office. This cohort reported higher levels of satisfaction than did second-year schools on the timeliness of entrance- and exit-counseling issues, questions regarding loan origination, computer-related reconciliation issues, and accounting-related reconciliation issues. First-year Direct Loan schools also reported higher satisfaction with the timeliness of training/guidance delivered by account managers at their institution than did second- or third-year institutions. Third-year schools expressed greater satisfaction than did second-year schools with the timeliness of training received at their regional office. Furthermore, second-year institutions were less satisfied than first-year institutions with the usefulness of training received at regional office, computer-related reconciliation issues, and accounting-related reconciliation issues (Table 3-14).

Exhibit 12
Direct Loan Satisfaction With ED Regional Office Contact
(in percentages)

Type of Contact	Timeliness				Usefulness			
	1st Yr.	2nd Yr.	3rd Yr.	Combined	1st Yr.	2nd Yr.	3rd Yr.	Combined
Training Received at the Regional Office	80	70	95	75	90	78	90	81
Training/Guidance Delivered by Account Managers	88	62	52	64	88	66	52	67
Questions Regarding Direct Loan Policy	87	72	73	74	87	77	83	79
Entrance/Exit Counseling Issues	92	68	85	73	90	78	90	81
Requests for ED-Provided Materials	88	75	89	79	94	84	89	86
Questions/Issues Regarding Computer Systems Design or Implementation	75	59	81	63	72	62	71	64
Questions/Issues Regarding Loan Origination	87	67	80	71	81	67	82	70
Questions/Issues Regarding Disbursement and/or Refunding of Excess Funds to Borrowers	80	67	77	70	79	70	87	73
Computer-Related Reconciliation Issues	69	52	62	55	72	52	66	56
Accounting-Related Reconciliation Issues	74	52	72	57	68	52	74	57
Inquiries Requesting Appropriate Sources of Contact for Specific Questions	84	67	80	71	83	72	76	74

Direct Loan Implementation Issues

Ease of Implementation Processes

Among third-year Direct Loan schools, the ease of implementation varied considerably among the different activities and processes, with easy to set up ratings ranging from 9 to 56 percent. As shown in Exhibit 13 (and Table 4-1), a majority of institutions reported that developing procedures and materials to counsel borrowers was easy; 56 percent of respondents rated this as easy. This process was also judged easiest in the 1995–96 academic year. The development of loan disbursement procedures (48%) was also rated as more easy than moderate or difficult. However, a majority of third-year institutions reported that all other implementation processes required a moderate level of effort.

Difficulty ratings for implementation processes ranged from 1 to 20 percent. Processes with the highest difficulty ratings were developing reconciliation procedures (20%), processing loan applications and ensuring loan origination (18%), and internal recordkeeping procedures for reporting to the Direct Loan system (15%).

As found in the 1995–96 academic year, all nine startup activities were judged as either requiring a small or moderate level of effort. Schools implementing the Direct Loan Program in 1995–96 (the second-year schools) and schools implementing the program in 1996–97 identified the same processes as being the most easy or the most difficult.

Factors Influencing the Decision To Phase in or Switch Exclusively to the Direct Loan Program

Most third-year institutions, 64 percent, elected to phase in Direct Lending, while 36 percent chose to immediately offer only Direct Loans. In contrast, a majority of first-year and second-year implementing institutions chose to switch exclusively to Direct Lending (72% during the 1994–95 academic year, and 59% during the 1995–96 academic year) (Table 4-2).

The difference in the decision to phase in or switch exclusively to the Direct Loan Program can be explained by the composition of the third-year class—78 percent of which are proprietary schools. Since this group of schools has historically been the least likely to switch exclusively to Direct Lending, this factor helps explain why a majority of third-year institutions elected to phase in the program.

Among those institutions electing to phase in the program, the three most important factors were (Table 4-4)

- Desiring to keep graduate and professional students in the FFEL Program (73%)
- Maintaining relationships with lenders and/or guarantors (66%)
- Not confusing borrowers who already had FFEL loans (61%).

This ordering of factors is similar to that of the second-year institutions in 1995–96, with the exception of the preference to keep graduate and professional students in FFEL. This reason increased from the fifth preference in 1995–96 to first in 1996–97 (Table 4-5).

Among those schools switching exclusively to Direct Lending, the most important factors were not wanting (Table 4-6)

- The complexity of administering two programs simultaneously (79%)
- To administer the FFEL Program at all (55%)
- To confuse borrowers by offering two loan programs (53%).

In academic year 1995–96, second-year Direct Loan schools indicated similarly that the complexity of two programs (81%) and not wanting to confuse borrowers (73%) were the most important considerations in their decision to switch exclusively to Direct Lending (Table 4-7).

Satisfaction With the Department of Education's Responsiveness to Problems During Implementation

During their implementation of the Direct Loan Program, 56 percent of the third-year schools were satisfied with the Department of Education's responsiveness to their problems, while only 8 percent expressed any dissatisfaction. The remainder of the schools (36%) were neither satisfied nor dissatisfied with the Department's responsiveness to problems during implementation (Table 4-8).

A longitudinal comparison of implementing institutions revealed that third-year Direct Loan schools were less satisfied than first-year institutions in academic year 1994–95 (where almost 87% expressed satisfaction) or second-year institutions in academic year 1995–96 (where 79% expressed satisfaction) (Table 4-9).

Recommendations to Institutions That Will Implement in the Future

Direct Loan Institutions volunteered that available technical support and the necessary computer hardware were most essential to the implementation process. Furthermore, 9 percent of third-year institutions took the opportunity to advise other schools to participate in the program, since it benefited both students and the school.

When all Direct Loan schools were asked what the most important advice was that they would give another institution that was preparing to implement the Direct Loan Program, the top open-ended responses were[11]

- Have computer person on staff/technical support available (14%)
- Ensure you have necessary computer hardware/equipment and configuration (9%)
- Get training for staff/attend workshops (6%)
- Plan ahead/start early (6%)
- Go ahead and do it (5%).

Schools Formerly Participating or Awaiting Participation in Direct Lending

Some responding institutions indicated that they had been selected to participate in Direct Lending but had yet to originate any Direct Loans (4%). A smaller percentage of institutions reported that they participated in Direct Lending during the 1994–95 or 1995–96 academic year but they no longer originated Direct Loans (1%).

Institutions no longer originating Direct Loans were asked the open-ended question, Please indicate why your institution is no longer participating in the Direct Loan Program. The most frequently volunteered reasons were

- Too cumbersome/complex (27%)
- Promissory note problems (27%)
- Electronic process problems (10%)
- Left because of problems with servicer (5%)
- School could not handle work load (4%).

[11]This question was asked of all Direct Loan institutions, not just the third-year schools. A full listing of the open-ended responses is provided in the Appendix.