

Archived Information

Evaluation of
the Federal Direct Loan Program
— Survey of First-Year Direct Loan Institutions —
Volume One
Summary Report

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The cooperation of first-year Direct Loan institutions enabled a comprehensive description of their experiences in implementing this new program. Without the effort and time contributed by approximately 100 financial aid administrators and other key institutional administrators, this report would not have been possible.

This survey was planned and managed by Sadie Bennett. Data preparation was executed by Nancy Hassett. Katherine Hoffman supervised the editing and data entry processes. Ms. Bennett, Michelle Hearn, Joel Goldman, and Rob Blankenship conducted telephone verification and follow-up. This report was prepared under the direction of Ms. Bennett. In addition to Ms. Bennett, Laura Greene Knapp, Elaine Glover, and Maureen Murphy were contributing authors. Report and survey production activities were supervised by Cathy Olshefski.

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Survey of First-Year Direct Loan Institutions

Highlights of Findings

This report presents the results of a survey of the first year of implementation of the Federal Direct Loan Program among institutions of the first cohort. The purposes of this survey were to assess institutions' experiences in transition to the new Program and their satisfaction with the Program overall, with specific aspects of the Program, and with the services provided by the Department of Education. A similar survey of institutions participating in the Federal Family Education Loan Program is currently being conducted. Results are expected by the end of June.

- **The overall level of schools' satisfaction with the Direct Loan Program was very high.**

About 90 percent of all institutions reported that they were satisfied with the Program; 61 percent of all respondents were very satisfied with the Program.

Specifically:

- 89.4 percent were satisfied;
- 6.6 percent were neutral;
- 4.0 percent were dissatisfied.

Several types of institutions seemed to be more satisfied than others with the Direct Loan Program. These included 2-year public schools, schools with centralized aid processing, and schools that experienced no major changes in the academic 1994-95 year in their computer processing systems.

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- **Improvements are needed in the Direct Loan software (EDEXpress) and in training, but schools were very satisfied with the Department of Education's responsiveness and support in implementing the Direct Loan Program.**

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Institutions were satisfied with the timeliness and usefulness of all Department of Education-provided services and materials for implementing the Direct Loan Program.

Schools rated their satisfaction with the Direct Loan Program on a scale of 1 to 5, with 1 representing the highest level of satisfaction and 5 representing the lowest.

- The overall rating for timeliness of Department of Education services was 1.6.
- The overall rating for usefulness of Department of Education services was 1.4.
- Servicing support was given the highest rating (1.3) of all the services.

Designing software to accommodate various types of institutions and their computer systems was an ambitious task undertaken by the Department and, as expected, some schools complained of processing inefficiencies and problems of integration with their existing systems. Institutions assigned average or slightly below-average ratings to:

- The processing efficiency of EDEExpress (2.4), and
- Its ease of integration with existing systems (2.3).

There were more specific suggestions for improvement of EDEExpress than for any other Department of Education-provided service. The most frequently mentioned suggestions for improving Direct Loan training related to the need for sessions tailored to computer systems personnel and for Business Office staff.

- **Overall satisfaction with the Direct Loan Program did not seem to be influenced as much by perceived changes in workload or resources required to implement the Program as it did by perceptions of effective outcomes of the Program.**

Schools' perceptions of the extent of workload and resource changes brought on by the Program differed. Institutions that were *very satisfied* with the Program tended to report increases in workload and resources slightly less often than all other institutions.

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The greatest variations in ratings, however, occurred relative to satisfaction with certain perceived outcomes of the Program:

- 83 percent of institutions that were *very satisfied* with the Program versus 44 percent of all others reported being *very satisfied* with their ability to provide service to borrowers during peak times; and
- 86 percent of institutions that were *very satisfied* with the Program versus 63 percent of all others indicated that they were *very satisfied* with institutional cash flow under the Direct Loan Program.
- **Institutions very satisfied with the Direct Loan Program tended to be dissatisfied with the Federal Family Education Loan Program.**

An inverse relationship was found between high level of satisfaction with the Direct Loan Program and past satisfaction with the Federal Family Education Loan Program.

- Almost half (45%) of the survey respondents indicated that they were dissatisfied with the Federal Family Education Loan Program.
- Three of the four institutions that indicated they were dissatisfied with the Direct Loan Program were *very satisfied* with the Federal Family Education Loan Program.
- **Improved service to borrowers was the most frequently mentioned factor affecting schools' decision to participate in the Direct Loan Program. This was consistent across all institutional categories.**

The following factors were most important to institutions in considering whether to apply for the Direct Loan Program:

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- The ability to serve borrowers better, cited by 88 percent of institutions;
 - Institutional control over the loan process, cited by 60 percent of institutions;
 - Simplicity of administration, cited by 47 percent of institutions; and
 - Predictability of funds, cited by 43 percent of institutions.
- **Institutions reported that Direct Loan implementation required a small to moderate level of effort.**

Institutions rated the ease of the start-up process for the three major organizational units involved in implementation—the Financial Aid Office, the Business or Bursar's Office, and Technical or Computer Support staff. On a 5-point scale, with 1 indicating an easy transition and 5 indicating a difficult transition, institutions reported that the start-up activities:

- Were *relatively easy* for the Business Office (2.2), and
- *Required a moderate level of effort* for the Financial Aid Office (2.8) and for the Technical Support staff (3.0).

Implementation was more difficult for 2-year private institutions and for institutions that have multiple campuses, branches, or schools served by separate Financial Aid Offices.

- **The reported level of effort required for Direct Loan administration was inversely related to the reported level of effort required for Federal Family Education Loan Program administration.**

In general, institutions said that the Direct Loan Program was easier to administer than the Federal Family Education Loan Program. Institutions that reported the Direct Loan Program as *very to relatively easy to administer* were more likely to report that the Federal Family Education Loan Program was *very labor-intensive to administer*.

Introduction

This survey of first-year Direct Loan institutions was conducted to assess Direct Loan administration at the institutional level. The institutional survey is one component of an evaluation of the Federal Direct Loan Program conducted by Macro International Inc. under contract to the U.S. Department of Education.

The specific objectives of this first-year Direct Loan School survey were:

- To assess the ease of loan program administration at the institutional level;
- To determine the level of institutional satisfaction with loan origination and servicing;
- To determine the level of institutional satisfaction with communications and support from the Department of Education; and
- To identify variations in satisfaction level and perceived quality of loan program administration by institutional characteristics.

This volume of the report presents the survey findings. Volume Two, Technical Appendices, contains a description of the survey methodology; the data tables; item-by-item response rates; the letters eliciting institutional cooperation; and the survey questionnaire.

There were 112 institutional campuses participating in the Direct Loan Program in academic year 1994-95. The following table illustrates the number of survey respondents by institutional type and control:

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Survey Responses by Institutional Type and Control		
Type and Control	Number of Respondents	Percent
4-year public	34	32.4
2-year public	9	8.6
4-year private	21	20.0
2-year private	6	5.7
Proprietary	35	33.3

Satisfaction with the Direct Loan Program

Overall Level of Satisfaction with the Direct Loan Program

Question #38

Please rate your general satisfaction with the Direct Loan Program up to this point. On a scale of 1 to 5 circle your level of satisfaction.

Given the significant changes introduced by the Direct Loan Program, the 6-month timeframe for planning and implementation for first-year Direct Loan schools, and the volume of new policies and regulations to implement the Program, most institutions gave a very high rating to their initial experiences with the Program.

On a percentage basis, institutions' satisfaction with the Program is very high—about 90 percent were satisfied, with 61 percent of all institutions being very satisfied:

- 89.4 percent said they were satisfied;
- 6.6 percent were neutral;
- 4.0 percent said they were neutral.

Only four schools indicated that they were dissatisfied with the Program, and seven schools gave a “neutral” rating of their satisfaction.

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Because the numbers of institutions in each variable category are small and the differences are relatively slight, the following analysis of differences in levels of satisfaction by institutional characteristics and perceptions of ease of implementation and workload changes is only intended to suggest potential future trends.

Satisfaction with the Program varied only slightly according to different institutional characteristics (Figure 1; Table 2.2, Volume Two). Among all the subgroups considered—type and control, annual loan volume, number of Federal Family Education Loans certified in 1993-94, administrative structure, current use of EDEExpress, and changes in computer system arrangements for processing aid—average satisfaction ratings ranged from 1.0 to 2.2, or an interval of only 1.1 points.

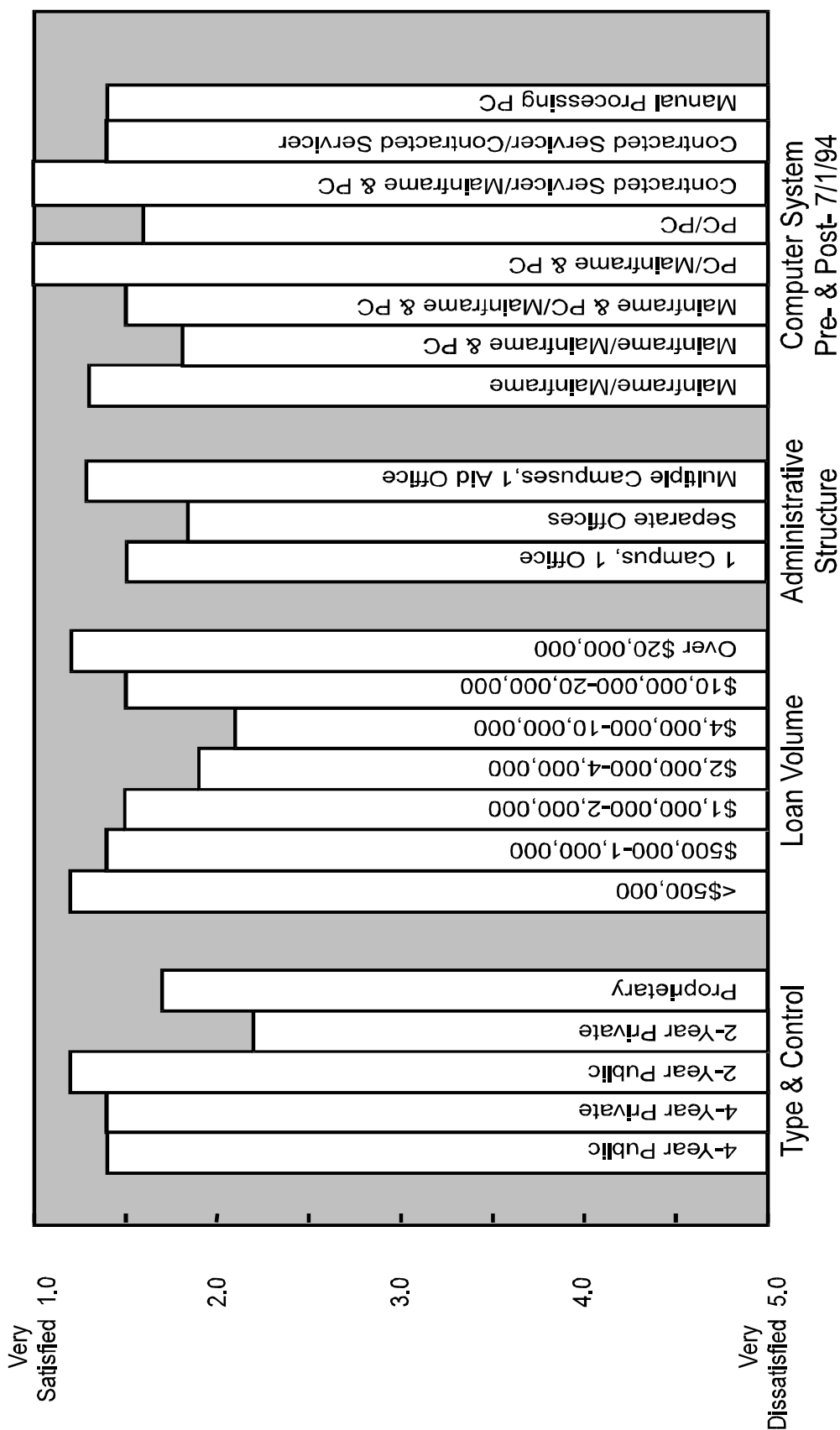
Relative to institutional type and control:

- 2-year public schools provided the highest general satisfaction rating of 1.2;
- 2-year private schools provided the lowest rating of 2.2;
- 4-year public and 4-year private schools provided a rating of 1.4; and
- Proprietary schools gave a 1.7 rating to their satisfaction with the Program.

A decentralized structure for aid processing (i.e., separate aid offices) tended to correspond with somewhat lower program satisfaction than a centralized structure with multiple campuses.

- Most institutions reported a single campus and single office, and their satisfaction rating was 1.5, equivalent to the overall rating provided by all institutions.

Figure 1: Overall Level of Satisfaction with Direct Loan Program by Selected Institutional Characteristics



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- Those with a decentralized structure gave a satisfaction rating of 1.9 to the Program.
- Those with a centralized structure were most satisfied with the Program, giving a rating of 1.3.

Institutions that experienced a conversion in their computerized aid processing system provided slightly lower satisfaction ratings than those that maintained their existing processing systems.

- Those converting from a mainframe-only operation to a combination mainframe and PC operation reported a Program satisfaction rating of 1.8.
- Those continuing with mainframe and PC gave a satisfaction rating of 1.5.
- Those with PC-only environments gave a satisfaction rating of 1.6.

In summary, institutional satisfaction with the Direct Loan Program by first-cohort schools was very high. There were slight variations in satisfaction according to institutional type and control, annual loan volume, degree of centralization of aid processing, and change in computer systems for aid processing. The highest satisfaction was reported by 2-year public institutions, those with the lowest or highest annual loan volume, those with centralized aid processing, and schools that experienced no major changes this year in their computer systems for aid processing.

Institutional Satisfaction with Various Program Aspects and Activities

Question #20

Please note how satisfied you are with each aspect [listed below] of the Federal Direct Loan Program, using a scale of 1 to 5, with 1 being very satisfied and 5 being very dissatisfied.

- Institutional receipt of loan funds on time
- Workload to counsel borrowers
- Service from the Direct Loan Servicing Center
- Institutional cash flow under Direct Loans
- Ability to provide service to students during peak flow periods

There was very little variance in this measure of satisfaction—all five aspects received an average rating of 1.3 to 1.6—high satisfaction ratings (Table 4.7, Volume Two). Schools did not tend to vary substantially in their satisfaction ratings by different school characteristics (Table 4.8, Volume Two).

However, satisfaction with these Program aspects appeared to influence respondents' rating of overall Program satisfaction. Those institutions that were *very satisfied* with these Program aspects tended also to be *very satisfied* with the Program as a whole (Table 6.4, Volume Two). The vast majority in both groups reported the highest level of satisfaction with institutional receipt of loan funds on time and with institutional cash flow under the Direct Loan Program.

Satisfaction with Effort Associated with Specific Program Activities

Question #22

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Thinking in terms of the amount of staff time and effort required, please indicate your level of satisfaction with each of the activities [listed below] involved in administering the Direct Loan Program.

- Keeping up with regulations
- Answering general questions about loans and financial aid
- Counseling borrowers while in school
- Helping students with loans after they have left school
- Processing origination records
- Printing promissory notes
- Securing signature on promissory notes
- Requesting and receiving loan funds
- Disbursement of loan funds
- Refunding excess loan funds to students
- Financial monitoring and reporting
- Recordkeeping and reporting of student information

Using a 4-point categorical scale ranging from *very satisfied* to *very dissatisfied*, seven of the 12 activities were rated *very satisfactory* by more than 60percent of the respondents:

- Answering general questions about loans and financial aid (64%)
- Counseling borrowers while in school (67%)
- Processing origination records (67%)
- Printing promissory notes (70%)
- Securing signature on promissory notes (64%)
- Requesting and receipt of loan funds (76%)
- Disbursement of loan funds (69%).

There were some differences between those who were very satisfied with the overall Program and all others (Table 6.6, Volume Two). Less than 10 percent of those that were very satisfied with the Program reported being dissatisfied with the effort required to implement any of these activities, compared to the following percentages of all other institutions expressing dissatisfaction with certain activities:

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- Requesting and receiving of loan funds (17%);
- Disbursement of loan funds (22%); and
- Financial monitoring and reporting (29%).

Of the administrators who commented on their dissatisfaction with activities, most expressed dissatisfaction with the speed of EDEExpress for various functions, mentioning problems caused by the software program or the desire for better software reporting capabilities.

The two activities for which more than 50 percent of the respondents reported that they could not rate their satisfaction (i.e., not applicable) were “helping students with loans after they left school” and “recordkeeping and reporting of student information (including Student Status Confirmation Reports (SSCRs), financial aid transcripts, and student data updates).” This is probably because at the time of the survey, few Direct Loan student borrowers would have left school and SSCR recordkeeping by the Direct Loan servicer had not yet begun. There were no consistent differences in satisfaction related to any of the measured school characteristics (Tables 4.12A-G, Volume Two).

Communications and Support from the Department of Education

Institutional Opinions Regarding Department of Education Services and Communications

Question #28

How satisfied are you with the Department of Education's responsiveness to reported problems or difficulties during the implementation of the Direct Loan Program? Using a scale of 1 to 5, with 1 being very satisfied and 5 being very dissatisfied, please circle your level of satisfaction.

Institutions were satisfied with the Department of Education's responsiveness to reported problems or difficulties experienced in implementing the Direct Loan Program.

The average rating for all first-year Direct Loan schools was 1.7 on a 5-point scale (Table 5.1, Volume Two), which indicates that institutions were satisfied with the Department of Education's responsiveness to their implementation problems. Given the short timeframe in which the Department of Education had to have all aspects of the Program operational for institutional disbursement of Direct Loans by July 1, 1994, this is a very good rating.

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Question #29

The following table lists Direct Loan Program materials or support [listed below] that you may have received. Rate the timeliness of the information support using a scale of 1 to 5, with 1 being very timely and 5 being not at all timely. Rate the usefulness of the information/support on a scale of 1 to 5, with 1 being very useful and 5 being not at all useful.

- Direct Loan Program rules and regulations
- Telephone support for policy or administrative guidance
- Direct Loan User's Guide
- In-person assistance
- Counseling materials
- Preprinted promissory notes
- Training on Direct Loan software
- Loan origination support
- Other servicing support

Institutions were generally satisfied with Department of Education-provided services and materials.

- An average satisfaction rating of 1.6 was given for the timeliness of all Department of Education-provided services and materials, and a 1.4 rating was given to the usefulness of all services.
- The highest rating (1.3) was given to the timeliness of servicing support.
- Institutions indicated they were satisfied (with a 1.9 rating) with the timeliness of the borrower counseling materials.
- Institutions found the preprinted promissory notes to be the most useful of the Department of Education-provided services (with average satisfaction ratings of 1.1).
- The training on Direct Loan software received a rating for usefulness of 1.8.

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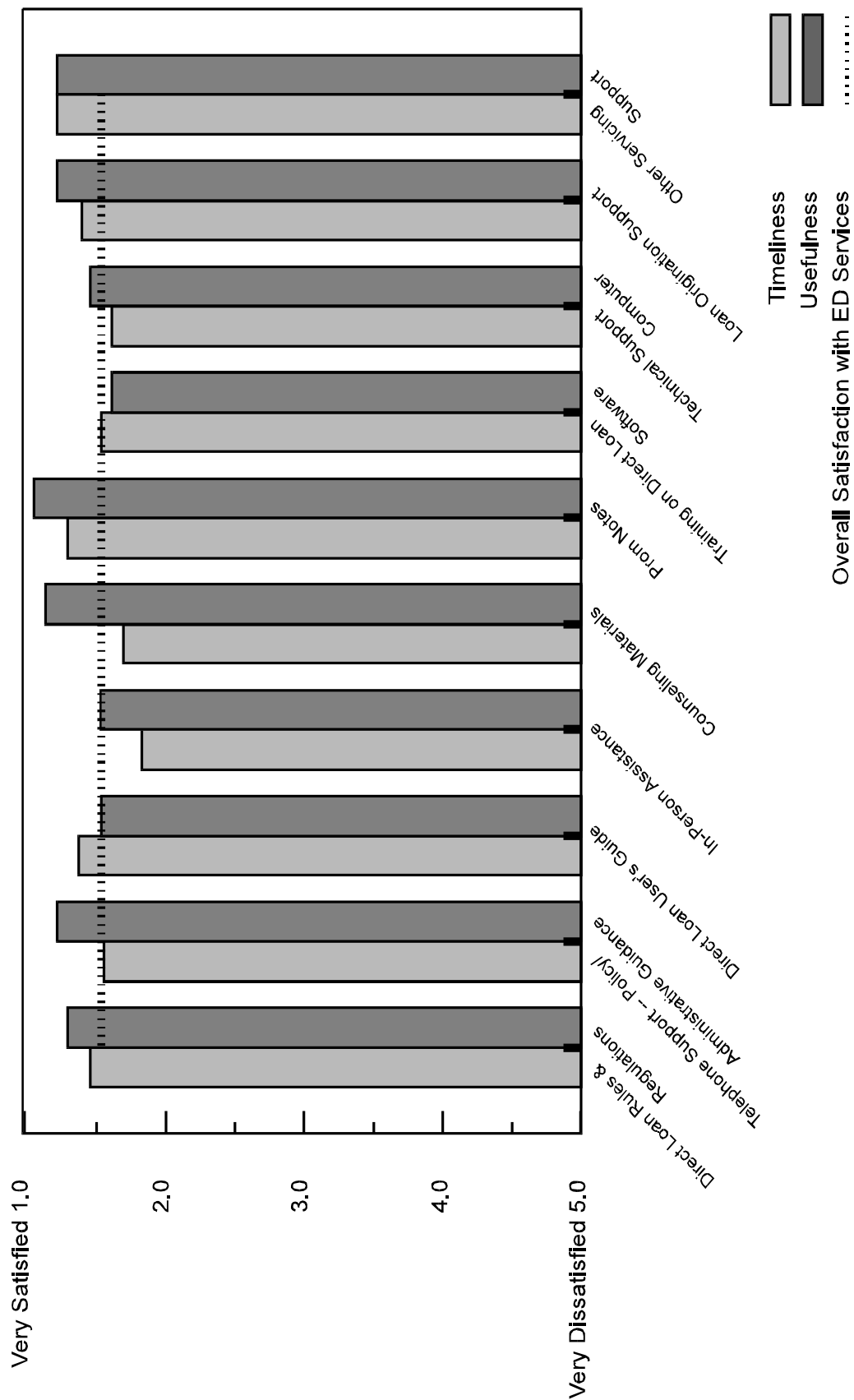
The timeliness and usefulness of all other services—Direct Loan Program rules and regulations, telephone support for policy and administrative guidance, the Direct Loan User's Guide, in-person assistance, technical support for software and computer issues, and loan origination support—received high satisfaction ratings of between 1.3 and 1.9 (Figure 2; Table 5.2, Volume Two).

More than 25 respondents provided comments on Department of Education services and materials. The comments tended to be positive, particularly in regard to the responsiveness of the Department of Education and its contracted servicer. One school described the Department of Education rules and regulations as “. . . the best Department of Education material ever.” Others said the telephone support was “outstanding,” “very fast,” and that the computer technical support was “very helpful.”

Some administrators noted improvements needed, including: “. . . the final regulations were published too late,” “more training was needed on reconciliation,” and “. . . the borrower counseling materials for exit counseling were received too late.” One respondent noted that “. . . the Direct Loan software training was too hurried and the mixed audience was a problem,” while another commented that “. . . the Year 2 software was a significant improvement.”

Institutions provided ratings for each phase of the Direct Loan software relative to the timeliness of delivery and the ease of learning (Table 5.3, Volume Two). (Note that software to process Direct Loans was delivered in three phases in Year 1, with each phase corresponding to a major processing activity, such as loan origination and reconciliation of loan disbursements. This was because of the limited time for implementation in the first year. Each phase also incorporated modifications based on feedback from institutions.) Timeliness was rated higher than ease of learning for all phases:

Figure 2: Institutions' Ratings of Timeliness and Usefulness of ED-Provided Services



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- Phase III of Year 1 software received the lowest rating (1.9) for timeliness.
- All other phases of Year 1 software and Year 2 software received ratings of 1.5 or 1.6 for timeliness.

Institutions were asked to rate (on a 5-point scale) certain attributes of the software:

- Usefulness scored a 2.2 rating.
- Ease of integration and compatibility with existing systems scored a 2.3 rating.
- Processing efficiency received a 2.4 rating (Table 5.4, Volume Two).

Software ratings tended to vary by different institutional characteristics.

- 2-year public institutions assigned the software the highest rating (1.9). A lower rating was given by 4-year public institutions.
- Processing efficiency was rated 2.8 by the 4-year public institutions, 2.5 by the 4-year private and 2.1 by the 2-year public institutions (Table 5.5, Volume Two).
- The lowest rating for processing efficiency (3.4, or indicating some dissatisfaction) was given by institutions with the highest loan volume, while the highest rating (1.8), for processing efficiency, was given by those with the fewest loans certified during the previous year.

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Satisfaction with EDEExpress also tended to vary with institutional structural characteristics:

- Those institutions with multiple campuses and central aid administration gave a noticeably higher rating to EDEExpress than those with other administrative configurations.
- Schools that had major changes in computer systems for aid processing tended to respond with lower satisfaction ratings.

Institutional Comments on Department of Education Services

Institutions were asked to provide comments or suggestions about Department of Education services. The Direct Loan software was the topic of most of these comments. Suggestions included: allow more flexibility for multiple types of schools, increase ability to generate student-specific data, provide a capability for change records comparable to correction records in the application mode, develop batch processing capability, and provide more report features and importing and exporting capabilities.

Other topics included more general computer systems issues, such as the need for mainframe support groups and the suggestion that the servicer and central processing system contractor be knowledgeable of each other's software. Specific suggestions for improving the efficiency of promissory note processing included: add a reference screen so correction information will print directly, and have the system generate labels or create the promissory notes to fit inside window envelopes. One administrator wished the training sessions could include more sample cases. Another institution stated that "the Department has done an excellent job at moving to automation, and their support of Direct Loans has been extraordinary."

Satisfaction and Experiences with Federal Family Education Loan Program

Direct Loan schools were asked about their experiences and satisfaction with the Federal Family Education Loan Program. Those schools that are phasing in the Direct Loan Program were also asked to rate their satisfaction with the Federal Family Education Loan Program in the current academic year.

General Experiences with Federal Family Education Loan Program

In addition to experiences with the Direct Loan Program, institutions were asked about their experiences with the Federal Family Education Loan Program during the 1993-94 academic year. Most institutions were likely to have relationships with a large number of lenders. About 33 percent of surveyed institutions indicated that they dealt with more than 20 lenders regularly, while just 16 percent dealt with only one or two lenders regularly. About half of the schools indicated that their primary lender services less than half of their loan volume.

Institutions were also asked to specify the number of guarantee agencies that they dealt with on a regular basis, and the percentage of loan volume handled by their primary guarantor. The vast majority of schools indicated that they dealt primarily with just a few agencies and that their primary guarantor was responsible for handling most of their loan volume.

- Over half of responding institutions (57%) dealt with one to three guarantee agencies.
- About 30 percent of institutions dealt with more than 5 guarantee agencies. Similarly, the institution's primary guarantee agency was likely to handle the majority of loans.
- About 37 percent of institutions reported that their primary guarantor handles 76 to 95 percent of their loan volume.

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- 22 percent of institutions reported that their primary guarantor handled 96 to 100 percent of their loan volume.

Question #35

Overall, how satisfied were you with the Federal Family Education Loan Program prior to your involvement with the Direct Loan Program? On a scale of 1 to 5, please circle your level of satisfaction.

Responses to this question provided a basis for direct comparisons between the two loan programs. The mean rating for satisfaction with Federal Family Education Loan Program was 3.3 (Table 7.3, Volume Two). This finding was not particularly surprising, given that dissatisfaction with the Federal Family Education Loan Program was reported as a major reason for participating in the Direct Loan Program. Institutions that are phasing in the Direct Loan Program and therefore were also offering the Federal Family Education Loan Program to their borrowers were asked to rate their satisfaction with Federal Family Education Loan Program during the 1994-95 academic year.

The average rating of current satisfaction with the Federal Family Education Loan Program (for schools offering both programs) was 2.6 (Table 7.8, Volume Two). This rating suggests that the Federal Family Education Loan Program has improved with the competition from the Direct Loan Program.

Respondents were asked to rate whether each of the following possible changes to the Federal Family Education Loan Program had improved or had worsened since the introduction of the Direct Loan Program:

- Student access to loans
- Ease of administration
- Service from banks and guarantee agencies

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- Service from loan servicers and collection agencies
- Service from third-party or privately contracted services

The average ratings for ease of administration, and service from banks and guarantee agencies were identical at 1.8 (Table 7.9, Volume Two). The average ratings for the three remaining aspects were: student access to loans (1.9), service from loan servicers (1.9), and service from third parties or privately contracted servicers (2.0).

A direct comparison between satisfaction with the Direct Loan Program and current satisfaction with the Federal Family Education Loan Program showed an inverse relationship between high level of satisfaction with the Direct Loan Program and previous satisfaction with the Federal Family Education Loan Program (Table 7.4, Volume Two). More than half of the respondents that indicated they were *very satisfied* with the Direct Loan Program said they had been *dissatisfied* with the Federal Family Education Loan Program. Of the respondents indicating that they were *very satisfied* with the Direct Loan Program:

- 52 percent indicated that they were dissatisfied with the Federal Family Education Loan Program;
- 24 percent were neutral; and
- 24 percent were satisfied with the Federal Family Education Loan Program (Table 7.4, Volume Two).

The following table illustrates the level of satisfaction with the Federal Family Education Loan Program as it relates to the level of satisfaction with the Direct Loan Program.

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Level of Satisfaction with Federal Family Education Loan Program	Level of Satisfaction with Direct Loan Program				
	Very Satisfied 1.0	2.0	3.0	4.0	Very Dissatisfied 5.0
Very Satisfied—1.0	11%	3%	0%	100%	0%
2.0	13%	27%	71%	0%	0%
3.0	24%	30%	29%	0%	0%
4.0	25%	20%	0%	0%	100%
Very Dissatisfied—5.0	27%	20%	0%	0%	0%
Total	100%	100%	100%	100%	100%

Comparison of Satisfaction with Services Received Under FFEL and Direct Loan Programs

Those institutions currently offering both the Direct Loan and the Federal Family Education Loan Programs were asked to rate the timeliness and usefulness of materials and training associated with administration of the Federal Family Education Loan Program. Ratings were requested for services provided by the Department of Education, the primary lenders, and the primary guarantee agency, and were based on a scale of 1 to 5, with 1 indicating *very timely/useful* and 5 indicating *not at all timely/useful*.

- The average ratings for timeliness and usefulness of software, telephone support, information on the Federal Family Education Loan Program rules and regulations, training sessions, and counseling materials ranged from 1.6 to 2.3 for all providers (Table 7.6, Volume Two).

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In almost all instances, institutions were less satisfied with timeliness and usefulness of the materials and support provided in the Federal Family Education Loan Program by primary lenders and guarantee agencies than those provided in the Direct Loan Program by the Department of Education, as shown on the following page (Tables 7.6 and 5.2, Volume Two).

Materials/Training	ED/Direct Loan		Lender/FFELP		GA/FFELP	
	T	U	T	U	T	U
Software	—	2.2	2.3	2.2	2.0	2.3
Telephone support	1.5	1.3	2.1	2.1	2.1	2.1
Information on program rules	1.6	1.4	2.0	2.0	1.9	1.9
Training	1.7	1.8	2.0	2.1	1.9	2.1
Materials for counseling borrowers	1.9	1.3	1.7	1.7	1.8	1.9

T = Timeliness

U = Usefulness

Note: Timeliness for Direct Loan EDEExpress software varied by phase.

Initial Decision to Participate in the Direct Loan Program

Question #11

Please check up to three of the most important factors (listed below) in your institution's overall decision to apply for the Direct Loan Program:

- Able to serve borrowers better
- Simpler to administer than Federal Family Education Loan Program
- Cost savings to taxpayers and Federal Government
- Funds availability more predictable than from lending institutions or guarantee agencies
- Flexible repayment options for borrowers
- Loan application process is entirely under institutional control
- Receive administrative allowance for originating loans
- Key administrators at your institution favor it
- Simple to administer than Federal Family Education Loan Program important to external supporters (e.g., Board, funders, etc.).

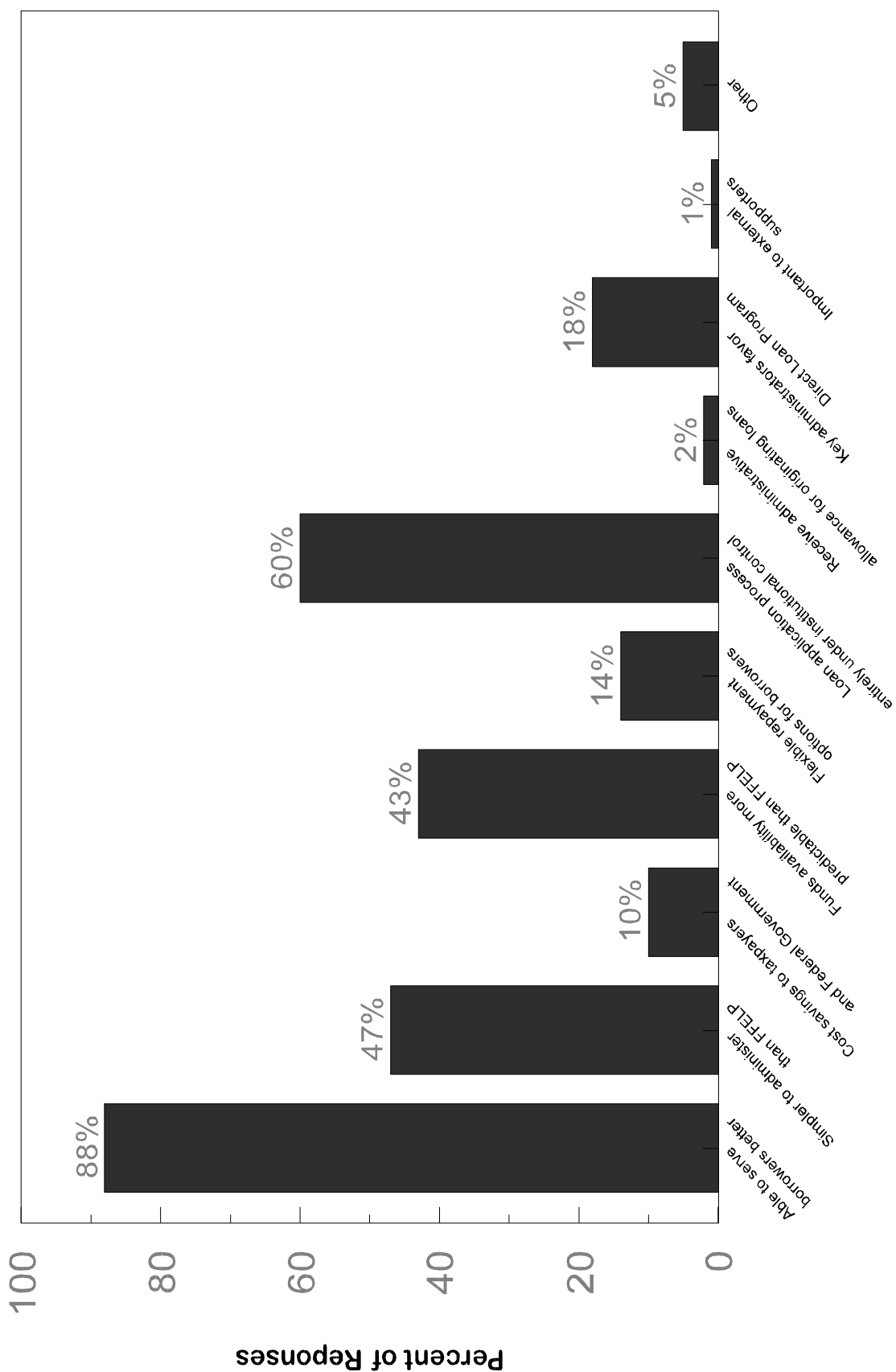
Expected improvements in loan program administration and service to borrowers were the major reasons cited by institutions for their decisions to participate in the Direct Loan Program. As shown in Figure 3 (Table 1.1, Volume Two), the most important factors were:

- Ability to serve borrowers better (88%);
- Institutional control over the loan process (60%);
- Simplicity of administration (47%); and
- Predictability of funds (43%).

The percentage of responses in the remaining categories ranged from 18 percent for *key administrators at the institution favor the Program* to only 1 percent for *importance to external supporters*.

For each of the institutional characteristics examined, the ability to serve borrowers better was the most frequently mentioned factor affecting institutions' decisions to participate in the Direct Loan Program.

Figure 3: Most Important Factors Affecting the Decision to Apply for the Direct Loan Program



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For institutional control over the loan process, simplicity of administration, and predictability of funds, some variation was found by institutional characteristics:

- Management of the loan process was least important for 2-year private (33%); and proprietary schools (31%).
- Institutional control appeared to be most important for 4-year public schools (85%).
- Simplicity of administration was least important for 2-year private (17%), and proprietary schools (31%).

It appears that administrative simplicity and institutional control over the loan application process are less important for private institutions offering less than 4-year programs. Simplicity of Direct Loan administration was most frequently indicated as important among 2-year public schools (78% of those respondents). The predictability of loan funds was most frequently mentioned by proprietary schools (which have experienced the most frequent problems with lender approvals) as an important decision factor (71% of those respondents) and was least frequently cited by 4-year public schools (24% of those respondents).

Further supporting the differences noted by institutional type and control, simplicity of administration and institutional control were most important among institutions with the largest loan volumes. Predictability of funds was most important among institutions with the smallest loan volumes. Institutional structure also seemed to influence the relative importance of certain decision factors. The percentage of respondents mentioning simplicity of administration as a major decision factor was notably low for institutions with separate financial aid offices.

Tables 1.1 through 1.1G in Volume Two include a detailed breakout of responses by institutional characteristics.

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In addition to the major factors contributing to institutions' decisions to apply for the Program, respondents were asked about factors that influenced their decision to phase in or switch to 100 percent Direct Loans. Approximately three-fourths of the respondents (72%) indicated that they were 100 percent Direct Loan schools (Table 1.2, Volume Two).

Respondents in 100 percent Direct Loan schools were asked to rate several factors that potentially influenced their decision to switch entirely to Direct Loans. On average, the most important of the listed factors was “did not want the complexity of administering two programs” (Table 1.4, Volume Two). The *other* listed reasons included “didn't want to hire additional staff,” “didn't want guarantee agency,” “effective administration of the loan program,” “simply a better program,” “control of the loan process,” “dual programs require extra staff,” and “students wanted the Direct Loan Program.”

Likewise, responding institutions that chose to phase in the Direct Loan Program were asked to rate several factors that possibly influenced this decision. The most important reason was wanting to learn to implement the program on a small scale (Table 1.3, Volume Two). *Other* responses included “phase-in required by the state board” and “consolidation for borrowers.”

About two-thirds (68%) of the institutions indicated that they are participating in the Program as loan originators. Proprietary schools and schools with small loan volumes were more likely to participate in the Program using alternate origination (Tables 1.5A and 1.5B, Volume Two).

Institutions' Comments About Initial Implementation and Their Decision to Participate in the Direct Loan Program

Respondents were asked to provide comments regarding their initial decisions and planning. In general, the comments were very positive. Responses ranged from “We have the entire school's and home office's commitment to making the program work,” to more specific comments such as “The institution and the Financial Aid Servicer worked closely together to make the Direct Loan Program function.” Regarding reasons for involvement in the Program,

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one respondent said that the decision was driven largely by the lack of support from existing lenders and poor service to students. Another stated, “Our institution wanted to be a participant in order to help shape the Program to be a very effective and efficient way to deliver loan service to students.”

Start-up Activities

Ease of Implementation of the Direct Loan Program

Question #15

The following items describe various activities and procedures necessary for the administration of the Direct Loan Program

This question refers to start-up activities only. It does not cover ongoing administration. This may be a question for which you want to consult other staff (such as the Business or Bursar's Office) involved in setting up the process. Please rate the ease of setting up these processes at your institution—where 1 is easy to set up, 2 is moderate level of effort required to set up, and 3 is difficult to set up.

- Installing Department of Education-provided software
- Developing and conducting internal staff training
- Developing procedures to counsel borrowers
- Developing procedures for processing loan applications
- Developing loan disbursement procedures
- Developing promissory note review procedures
- Developing internal recordkeeping systems
- Developing cash management procedures
- Developing reconciliation procedures

The activities judged easiest to implement (1.4 rating) were developing procedures and materials to counsel borrowers, promissory note review, and transmittal procedures.

Reconciliation procedures received a rating of 2.0, indicating a moderate level of effort. Thus, on average, institutions judged all nine specifically mentioned aspects of Direct Loan implementation as requiring a small to moderate level of effort.

For most start-up activities, the majority of those who were *very satisfied* with the Program also found the various activities to be easy to implement. The strictly internal activities of recordkeeping and staff training, as well as reconciliation and were judged as moderately difficult. Other respondents (as opposed to those who were *very satisfied* with the Program)

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tended to describe implementation activities as involving a moderate level of difficulty (Table 6.1, Volume Two).

Upon examination of ease of implementation ratings by various institutional characteristics, few patterns emerged.

- Implementation was slightly more difficult for 2-year private institutions, on average.
- Institutions with multiple campuses, branches, or schools served by separate Financial Aid Offices had a more difficult time with Direct Loan implementation.

Level of Staff Effort Required for Implementation

Institutions were asked to characterize the level of work or staff effort needed to prepare for and start up administration of the Direct Loan Program in each of three areas:

- Financial Aid Office;
- Business Office; and
- Technical Support Staff.

Ratings ranged from *very easy to start up the Direct Loan Program (1)* to *very difficult and time consuming to start up the Direct Loan Program (5)*.

Institutions tended to rate the start-up process as:

- *Relatively easy* for the Business Office (2.2) and

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- Requiring a *moderate amount of effort* for the Financial Aid Office (2.8) and Technical Support staff (3.0).

Reported level of effort for all offices was lower among institutions saying they were *very satisfied* with the Program than among all other institutions:

- Compared to the 13 percent of those who were *very satisfied* with the Program, 29 percent of all other respondents said it was *relatively* or *very difficult* for the Financial Aid Office to implement.
- Compared with none of those that were *very satisfied*, 12 percent of all other respondents with the Program said it was *relatively* or *very difficult* for the Business Office; and
- Compared with 21 percent that were *very satisfied*, 39 percent of all other respondents reported *relatively* or *very difficult* for the Technical Support staff.

The level of staff effort required for implementation within each of nine start-up activities previously listed was examined by various institutional characteristics. Findings were remarkably similar to those found for ease of implementation. When considering institutional type and control, start-up activities required a higher level of effort for 2-year private institutions (with an average rating of 2.1 for all activities). This was true for all three types of administrative staff.

Likewise, each key administrative area at institutions with multiple campuses, branches, or schools served by separate Financial Aid Offices generally required a higher level of effort to implement the Direct Loan Program.

Institutional Suggestions About Start-up Processes

Institutions were asked to provide suggestions regarding start-up processes for future schools entering the Program. Many institutions were pleased with information and support received from the Direct Loan Task Force, the Department of Education, and the servicer. They specifically praised Department of Education-sponsored training sessions, the Internet bulletin boards, and the servicer's customer support staff. Some institutions did suggest beginning training sessions earlier, spending more time dealing with the specific problems institutions with multiple starts experienced, and providing hands-on, on-line training for the first few weeks of implementation.

Several institutions also remarked on the importance of good internal communication within the institution, specifically between the Financial Aid Office and the Business Office. Two institutions recommended forming a task force or work group composed of Financial Aid, Business Office, and computer or systems staff to plan and implement the program.

Several institutions expressed concern over computer system issues. They suggested that the Department of Education provide better documentation for mainframe systems and better technical support for schools using mainframes. A number of institutions suggested careful and early systems planning and heavy involvement in both the planning and implementation stages by institutional computer support personnel.

Administration

Level of Staff Effort Required to Administer the Program on a Day-to-Day Basis

Question #19

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Once the Direct Loan processes were implemented at your institution, how would you characterize the level of work or staff effort needed to administer this program on a day-to-day basis?

The level of effort needed to administer the Direct Loan Program on a day-to-day basis includes both the ease of administering the Program and specific changes in staff effort needed to accomplish day-to-day administration.

Ease of Operation

The majority of schools found day-to-day administration of the Direct Loan Program to be *easy*.

- 16 percent said it was *very easy*.
- 43 percent said it was *relatively easy*.
- 15 percent found administration to be *difficult*.
- 26 percent reported day-to-day Program administration to require a *moderate* amount of effort (Table 4.1, Volume Two).

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Two-year private schools appeared to have the most difficulty with Direct Loan administration, with four out of the six schools in this category reporting difficulty. In comparison, 71 percent of the 4-year private, 78 percent of the 2-year public, and 62 percent of the 4-year public schools report that administration is either *very or relatively easy*. Half of proprietary schools also find the Program *very or relatively easy* to administer.

Computer Systems

It was expected that the type of computer environment a school used before the Direct Loan Program would be related to the ease of Program administration, but the survey responses do not support this. Two-thirds (67%) of the schools operated in a mainframe or mainframe and PC environment, compared to less than one-quarter (21%) that operated exclusively in a PC environment before participation. Almost equal proportions of these two groups reported the same level of effort for operation (Table 4.4G, Volume Two).

It was also expected that the current use of EDEExpress for processing Pell Grants would enable schools to operate more easily using the same software for the Direct Loan Program. This hypothesis is only partly supported by the survey responses.

- EDEExpress users are slightly more likely (63%) to report easy day-to-day Direct Loan Program operation than non-EDEExpress users (50%),
- Almost twice the proportion of EDEExpress users (17%) report having difficulty compared to non-EDEExpress users (8%) (Table 4.4F, Volume Two).

Level of Staff Effort Required to Administer the Federal Family Education Loan Program on a Day-to-Day basis

In general, institutions reported that the Direct Loan Program was easier to administer than the Federal Family Education Loan Program:

- Over half of responding institutions, 51 percent, described the Federal Family Education Loan Program as *very to relatively labor-intensive to administer* compared to only 14 percent for the Direct Loan Program.
- Only 25 percent of institutions described the Federal Family Education Loan Program as *very to relatively easy to administer* compared to 59 percent for the Direct Loan Program.

Similar to satisfaction level, an inverse relationship was found between the levels of effort required for Direct Loan administration versus Federal Family Education Loan Program administration. Institutions that reported that the Direct Loan Program was *very to relatively easy to administer* were more likely to report that the Federal Family Education Loan Program was *very to relatively labor-intensive to administer*:

- 41 percent of institutions that reported that the Direct Loan Program was *very easy to administer* reported that Federal Family Education Loan Program was *very labor-intensive to administer*.
- 33 percent of institutions that reported that the Direct Loan Program was *very labor-intensive to administer* reported that Federal Family Education Loan Program was *relatively easy to administer*.

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Neither annual loan volume nor the number of loans certified seemed to have any relationship to the perceived ease of administering the Direct Loan Program (Tables 4.4B and 4.4C, Volume Two).

Changes in Workload

Question #24

For each of the administrative functions [listed below] please respond to the following questions by indicating the corresponding effect or action.

- Has your institution seen a change in workload due to or caused by implementing the Direct Loan Program?
- Where there have been changes in workload, have the changes been large or small?
 - Advising students on status of loans
 - Counseling borrowers on Direct Loan Program
 - Training Financial Aid staff
 - Processing of loan application/creation of loan origination record
 - Request and receipt loan funds by institution
 - Enrollment verification
 - Disbursement of loan funds to students
 - Cash management
 - Reconciliation
 - Recordkeeping and reporting
 - Other
 - Overall workload

In general, schools tended to equally report increases versus decreases in workload, but significant decreases were reported more often than significant increases.

- Almost equal proportions of schools reported an increase 42 percent versus a decrease in overall workload 39percent.
- More schools report a *large decrease* (23%) than a *large increase* (19%) in workload.

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Generally speaking, the larger the loan volume and number of loans certified, the more likely the school was to report a large decrease in overall effort related to Direct Loan implementation. The inverse also tended to be true—the fewer the loans, the more likely a *large increase in effort* (Tables 4.5B and 4.5C, Volume Two). Economies of scale also operate in Direct Loan loan processing time—as schools' loan volume increased, the average time required to process loans decreased (Table 4.6, Volume Two).

The structure of the Financial Aid Office within an institution appeared to be associated with the overall workload involved in administering the Direct Loan Program on a day-to-day basis:

- Schools with decentralized Financial Aid Offices most frequently reported *large increases* in workload (59%) (Table 4.5D, Volume Two),
- Approximately 36 percent of single-campus schools with one Financial Aid Office reported *large increases* in some activities.
- Only two multi-campus schools with one Financial Aid Office reported a *large increase*.

The most frequently cited area in which schools reported a large reduction in workload was the disbursement of loan funds to students (41%). Large decreases were also reported for the following tasks:

- Advising students on loan status (27%);
- Requesting and receiving funds (28%); and
- Processing loan applications or loan origination records (25%).

Schools were more likely to report small increases in workload than large increases. Small increases were most frequently cited for training staff (47%) and reconciliation (43%). Large increases were only reported, as follows:

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- Training Financial aid staff (25%);
- Reconciliation (37%);
- Cash management (14%);
- Requesting loan funds (9%); and
- Processing loan applications or creating loan origination records (17%).

Recordkeeping was also reported to have increased significantly the workload of 16 percent of the schools (Table 4.2, Volume Two).

Four-year public and 2-year public schools (56% each) were more likely to report decreases in overall levels of effort, while 2-year private (100%) and proprietary schools (52%) were more likely to report increases. Four-year private schools were almost equally divided among the increased, no change, and decreased categories of response about workload (Table 4.5A, Volume Two).

There were notable differences in the proportions reporting workload changes across type and control of schools.

Regarding the task of advising students on loan status:

- *Large decrease* in effort was reported by half of the public 4-year schools; almost one-third of 4-year private schools; and almost one-quarter of 2-year public schools.
- *Large increase in effort* was reported by two-thirds of 2-year private schools.
- *No effect on effort* was reported by 77 percent of the proprietary schools.

About half of all schools reported staff training as a small increase in effort, but all 2-year private schools saw this task as requiring a large increase.

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The decrease in effort associated with disbursing loan funds to students appeared to be related to institutional size and type:

- Public 4-year schools (64%);
- Public 2-year schools (43%);
- Private 4-year schools (33%); and
- Proprietary schools (30%).

No 2-year private schools experienced a decrease with this task (Table 4.5A, Volume Two).

There appeared to be a linear relationship between loan volume and the number of schools reporting a decrease in effort for loan disbursement—the higher the loan volume, the more schools were likely to report a decreased effort (Tables 4.5B and 4.5C, Volume Two).

Changes in computer environment from the academic year before Direct Loan implementation showed a slight association with reported changes in workload. For example, 67 percent of institutions that changed from mainframe only to combination mainframe and PC systems reported workload increases. This compares to the following frequencies of reported workload increases for institutions with no major systems changes:

- Mainframe and PC users (39%);
- PC only users (40%); and
- Contracted servicers (17%)

Changes in Financial Aid Resources Resulting from Implementation of the Direct Loan Program

Schools were asked for their perceptions of resource utilization in four areas:

- Staff changes;
- Equipment and supplies;
- Training and travel; and
- Computer programming.

While changes in staff for the Direct Loan Program are likely to be long-term, resources expended for equipment, training (in-house, by Department of Education or other sources) and travel, and computer programming are more likely to be one-time, start-up costs. There was little or no reported change in staffing, but most schools reported small to significant increases in all other categories of resources.

Staff Changes

Staff resources were categorized as follows:

- FAO and Business Office staff positions;
- Staff used for technical support; and
- Current staff work hours.

More than 70 percent of the schools reported no change in Financial Aid Office (FAO) or Business Office staff positions, or staff used for technical support.

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More than 26 percent reported a small increase in the use of technical staff, and 17 percent, reported a small increase in FAO staff.

Given the need for additional training and knowledge of how to operate the new Program, it is not surprising that almost 29 percent of the schools reported an increase in current staff hours, with 14 percent of those reporting a significant increase. This is counterbalanced in part by a decrease in work hours reported by 16 percent of schools (Table 4.9, Volume Two).

Schools with loan volume exceeding \$2 million were more likely than those with lower loan volume to have small increases in staff and small to significant increases in staff hours.

Equipment and Supplies

Many schools have purchased new equipment, such as computers, printers, modems, and other computer hardware to administer the Direct Loan Program.

- 83 percent have increased computer resources (31% report significant increases, and 52%, small increases).
- Only 4 schools reported a decrease in this category.

Half of the responding schools reported needing increased supplies for the Direct Loan Program. This included such items as postage for mailing promissory notes, publicity for the Program and reprinting in-school financial aid brochures. However, 40 percent of schools reported only a small increase in this category (Table 4.9, Volume Two).

Schools with separate Financial Aid Offices for each campus or branch were more likely than other types of schools to have significant increases in computer costs (Table 4.10D, Volume Two).

Training and Travel

Resources for staff training and travel increased for 47 percent and 60 percent of institutions, respectively. For most, however, the reported increases were small (Table 4.9, Volume Two).

Schools with separate Financial Aid Offices for each campus were more likely to have significant increases in this category of resources (Table 4.10D, Volume Two).

Computer Programming

Slightly more than three-quarters of the schools reported using increased resources for developing or modifying computer programs or procedures; 41 percent of respondents, however, reported only small increases (Table 4.9, Volume Two).

Least likely to have significant computer programming increases were the proprietary schools (18%).

Significant increased use of computer programming resources was reported most often by: public 4-year schools (47%), and 2-year private schools (50%) (Table 4.10A, Volume Two).

Also, schools with separate Financial Aid Offices for each campus were more likely than other schools (40% versus 20% for schools with centralized aid processing) to have experienced a significant increase in use of this resource (Table 4.10D, Volume Two).

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In general, however, overall Program satisfaction does not seem to have been greatly influenced by the resources required for implementation. Perhaps this is because institutions may view the additional resources as temporary or necessary to promote more efficient financial aid processing.

Advice and Suggestions from Respondents

Institutions were asked to provide advice to other institutions implementing the Program as well as suggestions for the Department of Education in improving the Program. The response rate for these optional questions was very high, with more than 30 providing some comments.

Advice to Other Institutions

The most frequently mentioned advice was to begin planning for implementation as early as possible and to contact similar institutions for assistance and ideas. A number of institutions suggested forming working teams involving staff from other offices in the implementation. Several advised other institutions to make sure that adequate computer and technical support is available.

Other suggestions were for schools: to document their processes of implementation for use in future training; to invest in computer hardware; to convert to mainframe processing if the number of loans exceeds 10,000; and to budget additional funds for travel, training, equipment, and postage. One school advised others to have at least 1 year of experience using EDEXpress with Pell before implementing the Direct Loan Program. Another institution believes that it is important to ensure the commitment of the institution as a whole.

When asked what methods were successful in overcoming problems with first-year implementation of the Direct Loan Program, some institutions gave very specific responses, including: intervention of senior administrators to solve cross-departmental problems and assign priorities; including a special handout containing instructions to borrowers with each Stafford promissory note; developing and implementing a system of edit checks on the school's mainframe to eliminate potential errors before transmission to the servicer; and tracking promissory notes through clearly identified return envelopes. One school praised the team

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approach to implementation, and another advised schools to call the servicer or the Task Force with a problem.

Advice for Department of Education

As expected, suggestions for improving specific services dominated among the responses provided. Most of the specific comments again related to software and training. One institution suggested that the Department “iron out the wrinkles of software interface between the servicer and EDEExpress.” Several respondents referred to the need for additional help with and training on reconciliation. Another institution complained of the lack of protection from liability for late reconciliation or excess cash problems caused by the servicer under alternate origination. A specific suggestion for aiding schools with borrower counseling was for the Department to give schools copies of information the Department of Education prepares for borrowers at graduation about amount borrowed and monthly payments. Relative to communications, one administrator noted that the electronic bulletin board needs improvement, and another proclaimed “Keep communications open!”

Summary

Schools were satisfied with their first-year experience in the Direct Loan Program. They were particularly pleased with the Department of Education's responsiveness to their problems and with Department of Education-provided services. Institutions noted many improvements, however, that are needed in EDEExpress software to make loan processing more efficient and to facilitate the transition to the Program. Less than 10 percent of institutions were dissatisfied with any aspect of the Program and/or with Department of Education-provided services.

The level of difficulty in implementing the Program varied slightly according to institutional type and control, structure for administration of financial aid, and type of computer system used for processing financial aid. Two-year public institutions, those with centralized administration of financial aid, and those with no change this year in their computer systems were most satisfied. Satisfaction with the Program seemed to be most strongly related to perceptions of the likelihood of the Program achieving desired outcomes, such as better service to borrowers and improved institutional cashflow. Additionally, overall satisfaction with the Program appeared to be inversely related to previous satisfaction with the Federal Family Education Loan Program. Many schools cited dissatisfaction with Federal Family Education Loan Program as a factor in deciding to participate in the Direct Loan Program.

**Survey of
Institutions Participating in the
Federal Direct
Student Loan Program**

Conducted by Macro International Inc.
Under Contract to the U.S. Department of Education
Contract No. EA93085001

Macro International Inc.
11785 Beltsville Drive
Calverton, MD 20705

February 27, 1995

Expires September 30, 1995

Survey of Institutions Participating in the Federal Direct Student Loan Program

Introduction

The Federal Direct Student Loan Program (Direct Loan Program) began disbursing loans on July 1, 1994. The U.S. Department of Education (ED) has contracted Macro International Inc. to conduct an evaluation of this effort. The purpose of this survey, which is one component of the overall evaluation, is to gather information about schools' experiences with the administration of the Federal Family Educational Loans (FFEL) Program as well as their initial implementation and experiences with the new Direct Loan Program. This information will be used to help ED better understand the new program from the viewpoint of the institutions as well as improve the Direct Loan Program for future years.

Instructions

For this survey, we would like the Financial Aid Director to be the key contact. However, there may be some questions that will require input from the Business Office or other offices involved with the loan programs.

This survey has been sent to your institution, based on your Department of Education ID Number. Some institutions may have multiple campuses, branches, or schools within an institution that are served by separate Financial Aid Offices. If your institution is decentralized in this manner and these divisions operate under a single Department of Education ID Number, you may need to consult with other Financial Aid Offices to provide your answers or to determine who should fill out the survey. Please call Sadie Bennett at (800) 292-4460 if you have questions.

Some of these questions may not be applicable to your institution or may not address your specific situation. Please answer these questions to the best of your ability and feel free to comment in the space provided regarding your particular situation. If you have any questions, please contact Sadie Bennett at Macro International Inc.

Our Thanks

We know how busy Financial Aid staff are, especially during this period of transition to the Federal Direct Student Loan Program. We are grateful for your cooperation and hope you view this as an opportunity to provide input regarding the initial Federal Direct Student Loan Program activities and areas for improvement as this program progresses.

To ensure that your questionnaire is received in time to be included in the survey results, please return it in the enclosed postage-paid envelope by March 8, 1995.

Please return this survey to:

Macro International Inc.
11785 Beltsville Drive
Suite 300
Calverton, MD 20705
ATTN: Sadie Bennett

Phone: (301) 572-0200
Toll Free: (800) 292-4460
Fax: (301) 572-0999

Identifying Information

[Institutional Label]

Is the information on the above label correct? If not, please change any incorrect information.

In the spaces provided below, please enter your name, title, telephone number, and the date on which you completed this questionnaire.

Name of Person Completing Form _____

Title _____

Telephone Number _____

Date _____

Confidentiality

Although we ask for identifying information for follow-up purposes, identities of institutions and names of individuals will be kept strictly confidential by Macro International Inc. All information obtained from this survey will be presented in aggregate form.

About This Survey

As part of its commitment to continual improvement of the Direct Loan Program and to customer service, the Department of Education has asked Macro to conduct a survey of institutions on a periodic basis to determine strengths and areas for improvement. A large sample of institutions (both Direct Loan and FFEL institutions) is being surveyed regarding their experiences in administering their respective programs as part of this effort. This survey covers both your experiences during the start-up of Direct Loan as well as the actual administration of the program. We welcome any thoughts or suggestions you might have regarding this survey (please see the items in Section 8).

Again, **thank you for your time and cooperation.**