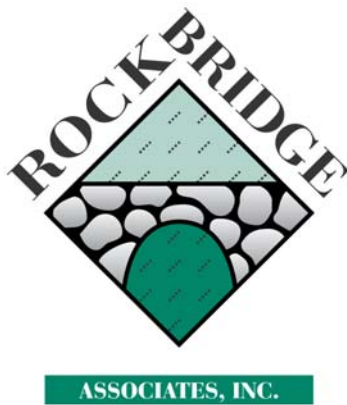


**REASONS BEHIND COLLEGES' DECISIONS
TO SWITCH FROM THE FEDERAL DIRECT LOAN PROGRAM TO
THE FEDERAL FAMILY EDUCATION LOAN PROGRAM**

– Final Research Report –
7/13/05



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BACKGROUND

Rockbridge Associates Inc. conducted a telephone survey of college Financial Aid Administrators (FAAs) belonging to institutions that participate in the Federal Family Education Loan (FFEL) Program and that have either left the Federal Direct Loan (DL) program or intend to do so. This survey was conducted between May 31 and June 15, 2005 among 51 randomly selected FAAs. The purpose of the survey was to learn, from the perspective of FAAs, the reasons behind the schools' decisions to switch from the DL Program to FFEL, and to identify the perceived strengths and drawbacks of each program. The margin of error (95% confidence interval) on a sample of 51 is +/- 14 percentage points.

Nine-in-ten (88%) FAAs surveyed represent two- and four-year colleges, while the remainder represent professional and trade schools. More than nine-in-ten (94%) represent schools that currently offer loans exclusively through the FFEL Program, while the rest do so through both FFEL and the Federal Direct Loan (DL) Program but plan to transition to FFEL exclusively. All have at one point offered loans through DL; less than one-in-ten (8%) participated in the DL Program less than a year ago, one-third (33%) did so between one and three years ago, and over half (59%) last participated in the Direct Loan Program over three years ago.

Note that the sample of FAAs surveyed is limited to those whose schools decided to shift from the DL Program to the FFEL Program. Their opinions may be reflective of this situation and should be understood in this context.¹

FINDINGS

In terms of meeting their schools' needs, the FAAs at schools that left the DL Program for FFEL prefer the FFEL Program by a wide margin. Almost nine-in-ten (86%) believe FFEL is a better program, compared to 14% who say the two programs are about the same. None of the FAAs feel the Direct Loan Program is better in terms of meeting their needs. Moreover, of those who prefer the FFEL Program, nearly three-fourths (73%) believe it is "much better."

Institutions' decisions to stop offering loans through the Direct Loan Program rest most heavily on administration and reconciliation issues (31%) and the related issue of customer service in general (20%). Fees and borrower benefits (22%) are more commonly cited as well. The timeliness of funding (12%) and ease of use/organization (10%) are also issues that led to their school's decisions to stop offering loans through the DL Program. Other points mentioned mainly include other management-related features such as amount of work involved (8%), amount of risk/problems (6%), and services offered (6%).

¹ Sources of schools that have left the Direct Loan program: Department of Education, List of Schools that Have Ceased Direct Loan Commitments; NSLDS, Volume Reports; and School Websites

FAAs view administrative and reconciliation issues as particularly important reasons behind their school's decisions to switch programs. Borrower benefits and the program's system and technology features are also deemed important.

- Nearly all (96%) see administrative and reconciliation issues as at least "somewhat important" (71% view them as "very important") in their school's decisions to switch from the DL Program.
- Nearly nine-in-ten (86%) feel borrower benefits are at least "somewhat important"; more than half (55%) believe this is "very important".
- There is somewhat more variation of opinion with regard to the importance of the program's system and technology features offered to the school. Yet here too, a strong majority (84%) contend these were at least "somewhat important" to their school's decision to change programs. Slightly over half (55%) feel this to be "very important."

Overall, three-fourths of FAAs believe the FFEL Program satisfies their institution's needs, while only 8% feel the DL Program does this. In addition, FAAs are significantly more likely to perceive the FFEL Program as more responsive, easier to manage, and more financially competitive than the DL Program. Regardless of why their school originally left the DL Program, these FAAs now clearly feel they are benefiting from FFEL. (See Table 1.)

- FFEL derives its greatest strengths from its responsiveness, helping FAAs manage default rates, freeing up the FAA's time, and in the choice of loan products offered. Conversely, no more than about one-third of FAAs feel these characteristics describe the DL Program well.
- The characteristic most closely associated with the DL Program ("offers low cost loans through reduced fees or interest rates" – 35%) tends to fall short of the perceived competitiveness of the FFEL Program in this area (73%).

In their assessment of the pros and cons of each program, FAAs identify a wide range of benefits to FFEL, led by the funding process (31%), service and support (24%), and the time and effort the program requires (20%). FAAs are also significantly less likely to identify drawbacks to the FFEL Program. (See table 2).

- Additional perceived benefits of the FFEL Program include problem resolution (14%), the control over the funding process (14%), the ability to track where students are in the process (12%), the reconciliation process (10%), benefits to the students (10%), and the choice of lenders (10%).

- Six-in-ten FAAs feel there are no drawbacks to the FFEL Program, versus only 6% who feel there are no drawbacks to the DL Program. Of those factors FAAs do mention as drawbacks of FFEL, the funding process is most often mentioned (10%), along with the number of lenders (8%).

FAAs are not as clear about the benefits of the Direct Loan Program. One quarter feel there are no benefits to the DL Program (27%), while another 18% are unsure or prefer not to answer. Of the benefits FAAs do associate with DL, the degree of control over funding (12%), the funding process in general (10%), and entrance loan counseling (8%) are most frequently mentioned.

Further, some of the program qualities regarded as benefits in the case of the FFEL Program, such as the reconciliation process, are instead seen as drawbacks of the DL Program.

- FAAs most often mention the reconciliation process (29%), service and support (22%), resolving problems (20%), and the time and effort required (16%) as drawbacks of the DL Program.

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TABLE 1
Percent of FAAs Who Feel Statement Describes Program
(n=51)

	FFEL Program		Direct Loan Program	
	Describes FFEL very well (Top 3 Box) (%)	Does not describe FFEL (Bottom 3 Box) (%)	Describes Direct Loan very well (Top 3 Box) (%)	Does not describe Direct Loan (Bottom 3 Box) (%)
Overall, satisfies your institution's needs	78H	0	8	18
Responds to your institution's needs	84H	0	12	12
Quick to make improvements and/or introduce new technologies	78H	0	12	6
Helps you manage default rates with exit counseling and repayment programs	76H	0	27	10
Solves problems on a timely basis	75H	0	12	22
Offers borrowers a choice of loan products and service providers that best meet their needs	75H	2	14	12
Frees up time to focus on helping students meet their financial aid needs	75H	2	18	16
Offers lower cost loans through reduced fees or interest rates	73H	2	35	16
Supports your student access and retention efforts	69H	4	18	16
Allows you to make effective use of your time and resources in general	65H	0	18	16
Gives you control over the funding process	63H	2	25	6

Q9. How well does this statement describe the Direct Loan Program/the FFEL Program on a scale of 1 to 10, where 1 means "does not describe at all" and 10 means "describes very well"?

Top 3 Box = Rated an 8, 9, or 10 out of 10. Bottom 3 Box = Rated a 1, 2, or 3 out of 10

Base: FAAs whose institutions have left or plan to leave the Direct Loan Program for the FFEL Program

H = Number of FAAs who say this describes FFEL is significantly higher than number who say this describes DL

Percent of FAAs who don't know how to rate these statements ranges from 0-6% for FFEL and 14-22% for DL

TABLE 2
FAAs' Mentions of Program Benefits/Drawbacks
(n=51)

	FFEL Program		Direct Loan Program	
	Benefits (%)	Drawbacks (%)	Benefits (%)	Drawbacks (%)
The funding process	31	10	10	10
Service/support	24	0	0	22
Time and effort required	20	2	6	16
Resolving problems	14	2	0	20
Degree of control over funding process	14	4	12	6
Ability to track where students are in process	12	0	4	2
The reconciliation process	10	0	0	29
Benefits to the students/borrowers	10	0	4	10
Choice of lenders	10	0	0	0
Responsibility and risks taken on	8	4	0	6
Ease of use/Organization	6	0	0	4
Entrance loan counseling	6	0	8	4
Exit loan counseling	6	0	0	2
Convenience	4	0	0	2
Degree of control over application process	4	4	6	4
EFT contract requirements	0	0	0	2
Knowing who lender is	0	0	6	0
Borrowers, unspecified	0	0	2	6
Number of lenders	0	8	0	0
Ease of access (e.g. program, report)	0	0	4	0
Other	8	6	10	6
No benefits/No drawbacks	0	59H	27	6
Don't know/Refused	2	6	18	8

- Q10 What benefits, if any, did your institution find with the Direct Loan Program?
 Q11 What drawbacks, if any, did your institution find with the Direct Loan Program?
 Q12 What benefits, if any, does your institution find with the FFEL Program?
 Q13 What drawbacks, if any, does your institution find with the FFEL Program?

Base: Mentions by FAAs whose institutions have left or plan to leave the Direct Loan Program for the FFEL Program

Note – FAAs may give multiple responses for each question, therefore percents will total more than 100%

H = Number of FAAs who say FFEL has no drawbacks is significantly higher than number who say DL has no drawbacks