Explanation of Quarterly Customer Service Performance Results

Quarter Ending 12/31/2009

Attachment to March 2010 Electronic Announcement

This document discusses first quarter (October – December 2009) customer service performance results for the Department of Education's (the Department's) four new federal loan servicers. After providing background information and outlining performance measure methodology, we present a summary of the first quarter results. We will use these quarterly measures to assess performance and allocate new loan volume among the servicers.

Background

As explained in previous communications, Federal Student Aid awarded four new contracts in June 2009 to provide additional servicing capacity for loans owned by the Department. These loans include William D. Ford Federal Direct Loan (Direct Loan) Program loans and Federal Family Education Loan (FFEL) Program loans purchased by the Department under the authority granted the Secretary in the Ensuring Continued Access to Student Loans Act (ECASLA) and through methods commonly referred to as a "PUT." In early September 2009, we began assigning FFEL Purchased Loans to the four new servicers on our federal loan servicing team—FedLoan Servicing (PHEAA), Great Lakes Educational Loan Services, Inc., Nelnet, and Sallie Mae.

The Department has provided the new federal loan servicers broad latitude to determine how best to service their assigned loans in order to yield high performing portfolios and high levels of customer satisfaction. Beginning with the second year of servicing in July 2010, we will allocate new loan volume among the four servicers based on five performance metrics.

- Three metrics measure the satisfaction among separate customer groups, including borrowers, financial aid personnel at postsecondary schools participating in the federal student loan programs, and Federal Student Aid and other federal agency personnel or contractors who work with the servicers.

- Two performance metrics measure the success of default prevention efforts as reflected by the percentage of borrowers and percentage of dollars in each servicer's portfolio that go into default.

Quarterly customer satisfaction survey scores and default prevention statistics will be compiled into annual measures for use in determining each servicer's allocation of loan volume. Annual allocations will be determined as described in each servicer's contract under Attachment A-4, Ongoing Allocation Methodology. The actual contracts are available on the ED.gov Web site (http://www2.ed.gov/policy/gen/leg/foia/fsaroom.html#loancontract) under the heading "Title IV Student Loan Management/Servicing Contracts." To supplement the ongoing allocation methodology information, we provide a sample ongoing allocation metric calculation for the case in which four servicers have a fairly even score distribution. This sample is provided in the attachment titled "Sample Ongoing Allocation Metric Calculation for Four Servicers."

Performance Measure Methodology

Customer Satisfaction

The Department has segmented performance scores to ensure comparability across our new federal loan servicers regardless of differences in the types of borrowers or schools serviced. For example, separate borrower customer satisfaction scores were calculated for each loan status (borrowers in repayment, in grace, and in school), and school customer satisfaction scores and default prevention statistics were calculated by type of school (private, proprietary, and public). The average of the three segment scores will be used in our allocation methodology.

The analytical methodology used by our independent vendor, CFI Group, to evaluate the customer satisfaction is consistent with that used in the American Customer Satisfaction Index (ACSI). The ACSI, established in 1994, is a uniform, cross-industry measure of satisfaction with goods and services available to U.S. consumers, including both the private and public sectors. The ACSI summarizes the responses to three uniform survey items that measure customer satisfaction with a score that has a minimum score of 0 and a maximum score of 100. CFI encourages companies that measure customer satisfaction using the ACSI to strive to achieve and maintain overall customer satisfaction scores in the low 80s. The highest ACSI score ever recorded is a 91, and the national average across all economic sectors is 76.

CFI Group specializes in the application of the ACSI methodology to individual organizations and, as our independent vendor, developed the surveys and conducted the analysis. CFI Group's methodology measures quality, satisfaction, and performance, and links them within a structural equation model using a Partial Least Squares method.

Default Prevention

Default prevention measures were generated with simple arithmetic. The Department divided the number of borrowers in repayment that went into default during the quarter by the number of unique borrowers in the repayment portfolio at the end of each quarter to generate each servicer's defaulted borrower "count" statistic. Likewise, we divided the dollar value of the loans that went into default during the quarter by the total value of the repayment portfolio at the end of the quarter to generate each servicer's defaulted borrower "amount" statistic. We rounded all results to the hundredths place.

The Department will calculate and publish customer satisfaction and default prevention results on a quarterly basis.

First Quarter Results

The initial year's first quarter was from October through December 2009. We provide customer service performance results for each of our four new federal loan servicers for this quarter in the attachment titled "First Quarter Customer Service Performance Scores." The attachment includes both customer satisfaction and default prevention results.

Summary

We found no differences among the servicers in the percentages of dollars and borrowers that went into default. In fact, all of the servicers had a zero overall average percentage (0.00%) in both categories. As the overall and segment results show, it was rare for any borrower whose 2007-2008, 2008-2009, or 2009-2010 loan, serviced by one of the servicers, to default between October and December of 2009.

When comparing the first quarter customer satisfaction results, we did note some varying degrees of difference among the servicers in the satisfaction of the three different types of customers. But for most borrower, school, and lender (federal personnel) results, those differences were not statistically significant for this initial sampling taken during the first quarter of the transition period. As the results of the customer satisfaction are based on samples, and indeed on only the first quarter of what will eventually be an average of three quarters of sampling, they all include a potential for a certain degree of sampling error, not to mention varying degrees of transition turbulence unique to each servicer. We expect that as survey data collection proceeds through the remaining quarters and responses are collected from additional customers, the level of uncertainty attributable to sampling noise will be reduced.

Although the borrower satisfaction scores recorded in this first quarter appear to be lower than historical trends for FFEL servicers, it is likely that the gap in satisfaction scores can be partially attributed to customer concerns and experiences related to the transition of FFEL Purchased Loans from the original lender's servicer to the Department's servicers and may very well improve over time. Our own experience demonstrates that rigorous and sustained measurement of customer satisfaction and its drivers helps organizations identify priority areas for improvement and ultimately leads to initiatives that result in improved ratings.

Next Steps

In addition to sharing customer service performance results with our new federal loan servicers so they can learn from and improve upon these results, we are also proceeding with servicer monitoring plans and weekly status meetings. These efforts allow the Department to work with servicers to evaluate, discuss, and remedy potential customer service issues. Some servicers have even developed and implemented their own service-specific surveys through which they obtain feedback from borrower and school customers immediately after they have been served via the servicer's call center or Web site.

As we continue to evaluate customer service performance each quarter, we will share the results with the financial aid community. After each quarter ends, we will post the results via an Electronic Announcement on the Information for Financial Aid Professionals (IFAP) Web site.