

Explanation of Second Year's Customer Service Performance Results

Year Ending June 30, 2011

Attachment to August 2011 Electronic Announcement

This document discusses customer service performance results for the Department of Education's (the Department's) four federal loan servicers—FedLoan Servicing (PHEAA), Great Lakes Educational Loan Services, Inc., Nelnet, and Sallie Mae—during their second year of serving in this capacity. The Department compiled quarterly measures to assess performance and allocate loan volume among the servicers. We provide background information and outline our performance measure methodology in this document and provide actual second year results in the attachment titled "Final Calculation for Third Year's Allocation."

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." Since September 2009, we have been assigning federally-owned loans to these four federal loan servicers—FedLoan Servicing (PHEAA), Great Lakes Educational Loan Services, Inc., Nelnet, and Sallie Mae.

The Department has provided FedLoan Servicing (PHEAA), Great Lakes Educational Loan Services, Inc., Nelnet, and Sallie Mae broad latitude to determine how best to service their assigned loans in order to yield high performing portfolios and high levels of customer satisfaction. The Department allocates 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.

The Department has compiled quarterly customer satisfaction survey scores and default prevention statistics into annual measures to determine each servicer's allocation of loan volume. Annual allocations have been determined as described in each servicer's contract under Attachment A-4, Ongoing Allocation Methodology.

Note: 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."

Performance Measure Methodology

Customer Satisfaction

The Department has segmented performance scores to ensure comparability across the four federal loan servicers regardless of differences in the types of borrowers or schools serviced. We calculated separate borrower customer satisfaction scores for each loan status (borrowers in repayment, in grace, and in school). We calculated school customer satisfaction scores and default prevention statistics by type of school (private, proprietary, and public). We used the average of the three segment scores 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 zero 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. As our independent vendor, CFI Group developed the surveys and conducted the analysis.

Default Prevention

The Department generates default prevention measures with simple arithmetic. The Department divides the number of borrowers in repayment that go 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 divide 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 round all results to the hundredths place.

Second Year's Results

The Department began assigning loans to the new servicers in September of 2009. Each of the servicer's contracts call for the Department to apply the same allocation methodology based on averaging four quarters of customer satisfaction survey results and loan default statistics, giving each quarter's result equal weighting. Recall that the Department used segmented results to calculate quarterly averages for the borrower (borrowers in repayment, in grace, and in school) and school (private, proprietary, and public) satisfaction scores. We provide customer service performance results for each of our four federal loan servicers—FedLoan Servicing (PHEAA), Great Lakes Educational Loan Services, Inc., Nelnet, and Sallie Mae—for the second year in the attachment titled "Final Calculation for Third Year's Allocation." The attachment includes both customer satisfaction and default prevention results.

The Department factored the servicers' scores on all five of the performance measures into the allocation formula in the same way. The servicer with the best score (highest ACSI score or lowest default statistic) was awarded four points on that dimension. The servicer with the next best score was given three points. Third and fourth place were allocated two points and one point, respectively. Thus, ten points ($4 + 3 + 2 + 1 = 10$) were allocated to among four servicers for each of the five performance measures.

To determine an individual servicer's allocation of new loans, the Department first summed the points that servicer had earned across the five performance measures. The Department then divided this total by 50. The result of this division is the servicer's proportion of new work. The Department divided the servicers' total by 50 because that was the total number of points allocated to all servicers across the five performance measures (10 total points per measure x 5 performance measures = 50). The application of this allocation methodology yielded a low of 16 percent and a high of 32 percent of the new volume of loans being awarded to individual servicers.