Explanation of Customer Service Performance Measure Methodology

FedLoan Servicing (PHEAA), Great Lakes, Nelnet, and Sallie Mae

Attachment to November 2011 Electronic Announcement

This document discusses customer service performance measure methodology for four of the Department of Education's (the Department's) federal loan servicers—FedLoan Servicing (PHEAA), Great Lakes Educational Loan Services, Inc., Nelnet, and Sallie Mae. We first provide background information and then outline our performance measure methodology.

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

- The Department factors 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) is awarded four points on that dimension. The servicer with the next best score is given three points. Third and fourth place are allocated two points and one point, respectively. Thus, ten points (4 + 3 + 2 + 1 = 10) are 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 sums the points that servicer earns across the five performance measures. The Department then divides this total by 50. The result of this division is the servicer's proportion of new work. The

Department divides the servicers' total by 50 because that is the total number of points allocated to all servicers across the five performance measures (10 total points per measure x 5 performance measures = 50).

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 calculate separate borrower customer satisfaction scores for each loan status (borrowers in repayment, in grace, and in school). We calculate school customer satisfaction scores and default prevention statistics by type of school (private, proprietary, and public). We use 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 develops the surveys and conducts 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 go 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.