

Explanation of Allocation and Performance Measure Methodology

This document discusses allocation and performance measure methodology for each of the Department of Education's (the Department's) federal loan servicers. The federal loan servicers with customer service performance results for the Quarter Ending September 30, 2015, customer performance results for the Quarter Ending December 31, 2015, and the allocations for the Second Period 2015-2016 are as follows:

- CornerStone
- FedLoan Servicing (PHEAA)
- Granite State – GSMR
- Great Lakes Educational Loan Services, Inc.
- HESC/Edfinancial (Formerly ESA/Edfinancial; we are updating our systems.)
- MOHELA
- Navient
- Nelnet
- OSLA
- VSAC Federal Loans

Allocation Methodology

The Department has provided its 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. We use a common set of metrics to measure the performance of each federal loan servicer and a common calculation methodology to allocate new loan volume to all servicers.

The five performance metrics the Department uses to allocate new loan volume among the members of the federal loan servicer team are as follows:

- Two metrics measure the satisfaction among separate customer groups, including borrowers and Federal Student Aid managers who supervise work with the servicers.
- Three metrics measure the success of default prevention efforts as reflected by the percentage of borrowers that are not more than 5 days delinquent, percentage of borrowers that are more than 90 days but less than 271 days delinquent, and percentage of borrowers for whom a delinquency is more than 270 days and less than 361 days.
- The metrics are weighted as follows: percentage of borrowers that are not more than 5 days delinquent – 30% of the overall performance score; percentage of borrowers that are more than 90 but less than 271 days delinquent – 15% of the overall performance score; percentage of borrowers for whom a delinquency is more than 270 days and less than 361 days delinquent – 15% of the overall performance score; borrower survey results – 35% of the overall performance score; and Federal Student Aid manager survey results – 5% of the overall performance score.

The Department compiles quarterly customer satisfaction survey scores and default prevention statistics for the members of the federal loan servicer team into measures every six months to determine each servicer's allocation of loan volume. In addition, the Consolidated Appropriations Act of 2016 included the following provision related to the allocation of new student borrower accounts to federal loan servicers:

Provided, that the Secretary shall, no later than March 1, 2016, allocate new student loan borrower accounts to eligible student loan servicers on the basis of their performance compared to all loan servicers utilizing established common metrics, and on the basis of the capacity of each servicer to process new and existing accounts.

Given this new requirement, beginning on March 1, 2016, new allocation percentages will be based on performance under the established common metrics compared across all loan servicers. As part of our assessment of how best to implement this new provision, we have requested, received, and conducted an initial review of capacity plans from all of our servicers to assess the reasonability and risk of each servicer's staffing, training, system, and other resource planning. We have experience working with each of our servicers and are already familiar with their systems and capabilities. Based on our experience and our initial assessment of the capacity plans, we are confident that all of our servicers can manage and process projected borrower account allocations for the next few months, while the volume of new accounts is relatively low. While we continue the process of completing and documenting our capacity assessment, we will monitor each servicer's performance closely and can modify or discontinue allocations on short notice if any issues arise.

Because we believe that the significant variation in the composition of the loan portfolios between the Title IV Additional Servicer (TIVAS) and Not-For-Profit (NFP) servicers prevents an optimal comparison of their performance using the existing contractually established common metrics which govern loan allocation, we plan to develop new common metrics to take effect no later than July 1, 2016. Those metrics will account for variations in the loan portfolios of TIVAS servicers and the loan portfolios of NFP servicers. We were unable to do this by March 1 because the time between the law's passage and March 1 did not provide adequate time to develop and establish by contract modification new common metrics that would control for variation in loan portfolios. As stated above, we will carefully monitor servicer performance until new metrics are in place and can quickly adjust or discontinue allocations if performance issues arise.

For the period from March 1, 2016 until revised metrics are in place, the Department will calculate allocations for all members of the federal loan servicer team as follows:

- The Department factors the 10 servicers' scores on all five of the performance measures into the allocation formula in the same way. The servicer with the best score (highest American Customer Satisfaction Index (ACSI) score or highest/lowest default statistic, as appropriate) is awarded ten points on that dimension. The servicer with the next best score is given nine points. Third through tenth place are allocated eight, seven, six, five, four, three, two, and one points, respectively. Thus, 55 points ($10 + 9 + 8 + 7 + 6 + 5 + 4 + 3 + 2 + 1 = 55$) are allocated among the servicers for each of the five performance measures.

- To determine an individual servicer's allocation of new loans, the Department first adjusts the points for each category by applying the weights and then sums the adjusted points that servicer earns across the five performance measures. The result is the servicer's proportion of new work assigned to all servicers.

Performance Measure Methodology

Customer Satisfaction

As applicable, the Department has segmented performance scores to ensure comparability across the federal loan servicers regardless of differences in the types of borrowers serviced. We calculate separate borrower customer satisfaction scores for each loan status (borrowers in repayment, in grace, in school, and delinquent). We use the average of the segment scores in our allocation methodology.

Because NFP servicers originally received allocations of borrowers who were in repayment and did not receive allocations of new borrowers prior to January 1, 2015, customer satisfaction surveys for these servicers have not included in-school or in-grace borrowers. Accordingly, for the allocation period beginning March 1, 2016, we have dropped borrowers in these statuses for the TIVAS surveys as well to create identical metrics for all servicers, consistent with the requirement of the Consolidated Appropriations Act.

The analytical methodology used by our independent vendor, [CFI Group](#), to evaluate customer satisfaction is consistent with that used in the 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. The CFI Group 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.

Note: Beginning with the July – September 2015 surveys, the mode of data collection for borrowers changed from telephone interviews to a Web-based survey where respondents are invited to complete the questionnaire via an e-mail that contains a user-specific link to the survey. There is a well-documented effect sometimes referred to as “social response bias” in which respondents give more positive assessments to live (phone or in-person) interviewers than they would online or on paper, the presumption being that people do not wish to appear overly harsh or negative to a live interviewer. CFI Group has seen this consistently in our work within the measurement framework and a 5 to 10 point difference on our 0 to 100 point scale between ‘live’ and ‘non-live’ modes of data collection is typical.

Default Prevention

The Department generates default prevention measures with simple arithmetic and rounds all results to the hundredths place.

The Department divides the number of borrowers in current repayment status who are not more than 5 days delinquent at the end of the quarter by the number of all borrowers in both current and delinquent repayment status at the end of each quarter to generate the percent of “borrowers in current repayment status” statistic.

The Department divides the number of borrowers who are greater than 90 days delinquent and less than 271 days delinquent at the end of the quarter by the number of borrowers in both current and delinquent repayment status at the end of each quarter to generate the percent of “borrowers greater than 90 days but less than 271 days delinquent” statistic.

The Department divides the number of borrowers who are greater than 270 days delinquent and less than 361 days delinquent at the end of the quarter by the number of borrowers in both current and delinquent repayment status at the end of each quarter to generate the percent of “borrowers greater than 270 days and less than 361 days delinquent” statistic.

Note: The performance scores of the NFP members of the federal loan servicer team should not be directly compared to the other federal loan servicers (FedLoan Servicing (PHEAA), Great Lakes Educational Loan Services, Inc., Navient, and Nelnet) due to differences in their portfolio composition. The NFP portfolio is overwhelmingly made up of accounts received from the Direct Loan Servicing Center in 2011-2012. These loans were already in repayment and current at the time they were selected for transfer. As a result, the loans are more stable and mature than the portfolios of the other federal loan servicers. FedLoan Servicing (PHEAA), Great Lakes Educational Loan Services, Inc., Navient, and Nelnet have high volumes of new borrowers who are more likely to go in and out of delinquency. These four federal loan servicers also service Federal Family Education Loan (FFEL) Program loans purchased through the Ensuring Continued Access to Student Loans Act of 2008 (ECASLA), Pub. L. 110-227 and loans of all statuses received from the Direct Loan Servicing Center. Although the NFP members of the federal loan servicer team began receiving new borrowers in early 2015, most of those loans are still in an in-school status.