Explanation of Customer Service Performance Measure Methodology

Attachment to June 2013 Electronic Announcement

This document discusses customer service performance measure methodology for each of the Department of Education's (the Department's) federal loan servicers. The federal loan servicers with second quarter customer performance results are as follows:

- FedLoan Servicing (PHEAA)

- Great Lakes Educational Loan Services, Inc.

- Nelnet

- Sallie Mae

Not-For-Profit (NFP) Members of the Federal Loan Servicer Team

- Aspire Resources Inc.

- CornerStone

- EdManage

- ESA/Edfinancial

- Granite State – GSMR

- KSA Servicing

- MOHELA

- 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 metrics to measure the performance of each federal loan servicer.

There are two sets of performance metrics that we use to allocate new loan volume. One set of performance metrics applies to FedLoan Servicing (PHEAA), Great Lakes Educational Loan Services, Inc., Nelnet, and Sallie Mae. The other set of metrics applies to the NFP Members of the federal loan servicer team.

FedLoan Servicing (PHEAA), Great Lakes Educational Loan Services, Inc., Nelnet, and Sallie Mae

The five performance metrics the Department uses to allocate new loan volume among FedLoan Servicing (PHEAA), Great Lakes Educational Loan Services, Inc., Nelnet, and Sallie Mae are as follows:

- 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 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 for FedLoan Servicing (PHEAA), Great Lakes Educational Loan Services, Inc., Nelnet, and Sallie Mae 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 among the 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 servicer's 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).

NFP Members of the Federal Loan Servicer Team

The five performance metrics the Department uses for the NFP 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 and other federal agency personnel who work with the servicers.

- Three metrics measure the success of default prevention efforts as reflected by the percentage of borrowers that are 30 or fewer days delinquent, percentage of borrowers that are more than 90 days delinquent, and percentage of borrowers for whom a delinquency of more than 180 days was resolved.

The Department does not guarantee that an NFP member of the federal loan servicing team will receive more than its initial allocation of borrower accounts. The first allocation of additional volume for NFP members of the federal loan servicer team will not occur before August 2013.

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 or schools serviced. We calculate separate borrower customer satisfaction scores for each loan status (borrowers in repayment, in grace, and/or 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 segment scores in our allocation methodology.

The analytical methodology used by our independent vendor, CFI Group, to evaluate 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 and rounds all results to the hundredths place.

FedLoan Servicing (PHEAA), Great Lakes Educational Loan Services, Inc., Nelnet, and Sallie Mae

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.

The Department divides 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.

NFP Members of the Federal Loan Servicer Team

The Department divides the number of borrowers in current repayment status who are less than or equal to 30 days delinquent at the end of the quarter by the number of all borrowers in both current and delinquent repayment status at 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 during 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 delinquent" statistic.

The Department divides the number of borrowers who are less than or equal to 30 days delinquent at the end of quarter and who had a delinquency of 180 days or greater at the end of the prior quarter by the

number of borrowers who are 180 days or more delinquent at the end of the quarter to generate the "delinquency resolution of borrowers greater than 180 days delinquent" statistic.