Explanation of Allocation and Performance Measure Methodology

Attachment to September 2015 Electronic Announcement

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 Fourth Quarter customer service performance results and First Period 2015-2016 allocations are as follows:

Title IV Additional Servicer (TIVAS) Team

- FedLoan Servicing (PHEAA)
- Great Lakes Educational Loan Services, Inc.
- Navient
- Nelnet

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

- CornerStone
- ESA/Edfinancial
- Granite State – GSMR
- MOHELA
- OSLA
- VSAC Federal Loans

Note: We provide Fourth Quarter performance results for Aspire Resources Inc. (Aspire); however, we do not provide allocation information for this NFP servicer. As explained in a July 22, 2015 Electronic Announcement, Aspire requested to cease operations as a member of the federal loan servicer team. Accordingly, the servicer was not included in the final calculation of the First Period 2015-2016 allocations and will not be included in allocation calculations going forward.

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 personnel 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. Allocations are determined twice per year as described in each servicer's contract under Attachment A-4, Ongoing Allocation Methodology. (Because NFP allocations did not begin until January 1, 2015, the allocation percentage for NFP servicers was not reset on March 1, 2015. Accordingly, NFP allocations for the period beginning on September 1, 2015, were calculated using the previous three quarters of performance statistics, all those under the revised metrics that went into effect for the NFP servicers on October 1, 2014.)

When calculating allocations, the Department combines servicers in like groups—those under TIVAS contracts and those under NFP contracts—for scoring purposes.

For FedLoan Servicing (PHEAA), Great Lakes Educational Loan Services, Inc., Navient, and Nelnet

- 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 American Customer Satisfaction Index (ACSI) score or highest/lowest default statistic, as appropriate) 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 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 the TIVAS.

For NFP Members of the Federal Loan Servicer Team

- The Department factors the NFP servicers' scores on all five of the performance measures into the allocation formula in the same way. The NFP servicer with the best score (highest ACSI score or highest/lowest default statistic, as appropriate) is awarded six points on that dimension. The NFP servicer with the next best score is given five points. Third, fourth, fifth, and sixth place are allocated five points, four points, three points, two points, and one point, respectively. Thus, twenty-one points (6 + 5 + 4 + 3 + 2 + 1 = 21) are allocated among the NFP 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 the NFP 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.

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.

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 default prevention statistics 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 transferred. 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.