Explanation of Allocation and Customer Service Performance Measure Methodology

Attachment to September 2014 Electronic Announcement

This document discusses allocation and customer service performance measure methodology for each of the Department of Education's (the Department's) federal loan servicers. The servicers under the Title IV Additional Servicer (TIVAS) contracts with fourth quarter customer service performance results and 2014-2015 allocations are as follows:

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

The servicers under the Not-For Profit (NFP) contracts with fourth quarter customer service performance results and 2014-2015 allocations are as follows:

- Aspire Resources Inc.
- CornerStone
- ESA/Edfinancial
- Granite State – GSMR
- 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 servicing 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. 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 weight. We provide customer service performance results for each of the four federal loan servicers for the fifth year in the attachment titled "Final Calculation for the 2014-2015 Allocation Period for FedLoan Servicing (PHEAA), Great Lakes Educational Loan Services, Inc., Nelnet, and Sallie Mae." 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 among the 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 15 percent and a high of 30 percent of the new volume of loans being awarded to individual servicers.

NFP Members of the Federal Loan Servicing Team

The five performance metrics the Department uses for the NFP members of the federal loan servicing 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.

On September 23, 2013, the Department announced that the first additional allocations of borrower accounts to NFP members of the federal loan servicing team (Aspire Resources Inc., CornerStone, ESA/Edfinancial, Granite State – GSMR, MOHELA, OSLA, and VSAC Federal Loans) would be based on servicer performance scores for the four quarters ending on June 30, 2014. 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 weight. Accordingly, all NFPs will begin to receive allocations of new borrowers starting in early 2015. From that point, NFPs will receive 25 percent of the total new borrowers, with the distribution across NFPs based on percentages determined by their performance scores and the number of eligible and qualified NFPs participating under each contract. We provide customer service performance results for each of the seven NFP servicers for the first year in the attachment titled "Final Calculation for the 2014-2015 Allocation Period for the Not-For-Profit (NFP) Members of the Federal Loan Servicing Team." The attachment includes both customer satisfaction and default prevention results.

The Department factored 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) was awarded seven points on that dimension. The NFP servicer with the next best score was given six points. Third, fourth, fifth, sixth, and seventh place were allocated five points, four points, three points, two points, and one point, respectively. Thus, twenty-eight points (7 + 6 + 5 + 4 + 3 + 2 + 1 = 28) were allocated among the NFP servicers for each of the five performance measures.

To determine the NFP servicer's allocation of new loans, the Department first assigned a base score to each NFP by summing the points each NFP servicer earned across the five performance measures. An extended score was then calculated by multiplying the base score by the number of eligible and qualified NFP entities participating on each team of servicers. (A total of 34 NFP entities participate in a variety of teaming arrangements across the seven NFP servicing contracts. For example, MOHELA has 14 eligible and qualified NFP entities participating in their team; as a result, their extended score was calculated by multiplying their base score by 14.) The Department then divided the NFP servicers' extended scores by 790, the total number of points allocated across all servicers. The result of this division is the servicer's proportion of new work. The application of this allocation methodology yielded a high of 50 percent and a low of 2 percent of the new volume of loans being awarded to the NFP servicers.

Customer Service 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 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 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 Servicing 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.