**Explanation of Customer Service Performance Measure Methodology**

**Quarter Ending March 31, 2015**

**Attachment to July 2015 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 quarterly customer performance results 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

- 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.

While a common set of performance metrics is used to allocate new loan volume for all loan servicers, for the current allocation period, two calculation methodologies are used: one that applies to FedLoan Servicing (PHEAA), Great Lakes Educational Loan Services, Inc., Navient, and Nelnet and one that applies to the NFP members of the federal loan servicer team. Beginning on September 1, 2015, we will use the same calculation methodology for all servicers.

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

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

- 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.

***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 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 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 seven points on that dimension. The NFP servicer with the next best score is given six points. Third, fourth, fifth, sixth, and seventh place are 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) 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.

Beginning early 2015, NFPs began to receive allocations of new borrowers; across all NFPs these allocations total 25 percent of the total of new borrowers for the period during which NFPs received accounts. The Department compiles quarterly customer satisfaction scores and default prevention statistics for NFP servicers' into measures twice per year to determine each servicer's allocation of loan volume. Because NFP allocations did not begin until January 1, 2015, we will not begin resetting their allocation percentage twice a year until the allocation period beginning on September 1, 2015.

## 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.