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 period January 1, 2016, through May 31, 2016, and the allocations that will be in effect through February 28, 2017 are as follows:

- CornerStone

- FedLoan Servicing (PHEAA)

- Granite State – GSMR

- Great Lakes Educational Loan Services, Inc.

- HESC/Edfinancial

- MOHELA

- Navient

- Nelnet

- OSLA

Note: We provide performance results for VSAC Federal Loans; however, we do not provide allocation information for this NFP servicer. VSAC Federal Loans recently requested to cease operations as a member of the federal loan servicer team. Accordingly, the servicer was not included in the final allocation calculation and will not be included in allocation calculations going forward. Additional information about the transition of accounts currently serviced by VSAC Federal Loans will be posted in a forthcoming Electronic Announcement on the Information for Financial Aid Professionals (IFAP) Web site.

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 Department compiles quarterly customer satisfaction survey scores and default prevention statistics for the members of the federal loan servicer team 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 loan 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.

This new statutory requirement prohibits the Department from using the contractually established common metrics as we did prior to March 1, 2016; that is, by comparing the performance of the Title IV Additional Servicers (TIVAS) and Not-For-Profit (NFP) servicers within their separate performance pools. Instead, the statute requires the Department to use the established common metrics to compare servicer performance among "all loan servicers," without regard to their status as a TIVAS or NFP servicer.

To meet the statutory deadline, new allocation percentages were implemented for all servicers on March 1, 2016. These allocations reflect the results of a comparison of performance scores across all servicers using established metrics. Details regarding the March 1, 2016, allocation are available at https://studentaid.ed.gov/sa/about/data-center/business-info/contracts/loan-servicing/servicer-performance#12312015.

At the same time the new allocation percentages were announced, however, the Department noted that we would explore and implement methodological refinements to better support an equitable comparison across servicers. Three of the established allocation metrics compare different aspects of delinquency across servicers. Delinquency risk varies significantly based on certain borrower characteristics, and those characteristics are not evenly distributed across servicers. For example, borrowers who did not graduate are significantly more likely to be delinquent than borrowers who completed their education; borrowers who have recently entered repayment also tend to have significantly higher delinquency rates than borrowers who have been in repayment for an extended period. As another example, consolidation loans tend to have lower delinquency rates than other loan types, possibly because the act of consolidating itself may indicate that a borrower is engaged in actively managing his or her debt. If one servicer's portfolio contains more borrowers within higher-risk groups than another servicer's portfolio, the first servicer may have a higher delinquency rate due to factors outside the servicer's control.

Since the current common metrics were established in 2014, the Department has noted consistently in allocation-related postings and correspondence that the composition of loan portfolios differs substantially between the TIVAS and NFP servicers. 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 TIVAS portfolios, which have high volumes of new borrowers who are more likely to go in and out of delinquency. 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.

To better reflect the impact of these differences, we assessed possible changes to our allocation methodology and developed a revised approach that maintains the established common metrics while better allowing all servicers to compete on a level playing field. As part of this process we reached out to all of our loan servicers to solicit suggestions on how to better reflect the impact of portfolio variation on performance results. In addition, Department data analysts and statisticians reviewed borrower-level risk profiles for the overall servicing portfolios and considered a number of methodological approaches for reflecting variations across servicers.

After due consideration, the Department selected a methodology that subdivides the overall portfolio in terms of delinquency risk. Five borrower segments have been identified: borrowers who graduated less than three years ago; borrowers who graduated more than three years ago; borrowers who did not graduate but left school less than three years ago; borrowers who did not graduate but left school more than three years ago; and borrowers with consolidation or parent PLUS loans. Because one group of particularly high-risk borrowers with a previous history of default—loan rehabilitations—are heavily concentrated with the TIVAS, this group will be excluded from the allocation metrics.

The Department calculated allocations for all members of the federal loan servicer team as follows:

Step 1: Establish Segmented In-Repayment Portfolios by Servicer

After excluding loan rehabilitations, for each performance period—in this case, January 1, 2016-March 31, 2016 and April 1, 2016-May 31, 2016—each servicer's in-repayment portfolio is divided across the following five borrower segments:

- Borrowers with consolidation or parent PLUS loans (S1)

- Borrowers who graduated less than three years ago (S2)

- Borrowers who graduated more than three years ago (S3)

- Borrowers who did not graduate but left school less than three years ago (S4)

- Borrowers who did not graduate but left school more than three years ago (S5)

Step 2: Calculate Base Scores Under Current Portfolio-Based Metrics

- Metric 1 (M1) – For each servicer and each segment, the number of borrowers who are in repayment and no more than 5 days delinquent is divided by the total number of borrowers in repayment.

- Metric 2 (M2) – For each servicer and each segment, the number of borrowers who are in repayment and between 91 and 270 days delinquent is divided by the total number of borrowers in repayment.

- Metric 3 (M3) – For each servicer and each segment, the number of borrowers who are in repayment and between 271 and 360 days delinquent is divided by the total number of borrowers in repayment.

Across the three metrics we have 15 scored segments for each servicer for each performance period. See example below:

Metric 1 – Percent Current	S1	S2	S3	S4	S5
Metric 2 – Percent 91-270 Days Delinquent	S1	S2	S3	S4	S5
Metric 3 – Percent 271-360 Days Delinquent	S1	S2	S3	S4	S5

Note: Metrics 4 and 5, borrower and Federal Student Aid staff customer satisfaction surveys, were not be calculated by segment. Borrowers are already surveyed by status, so additional segmentation is not necessary. Accordingly, steps 3-5 below do not apply to these metrics.

Step 3: Assign Points for Each Segment Based on Relative Placement of Servicers

- For each segment and each performance period, servicer base scores are arrayed from most to least successful (under metric 1, the highest percentage is best, while under metrics 2 and 3 the lowest is best).

- For each segment and each performance period, the servicer with the best score is assigned 9 points, the servicer with the next best score 8 points, and so forth down to the least successful servicer, which receives 1 point. In case of ties, servicers with identical scores divide the placement points equally.

Step 4: Calculate and Apply Weighting Factors Based on Distribution of FSA In-Repayment Portfolio Across Segments

- For the total portfolio of FSA-held borrowers in repayment, the number of borrowers in repayment within each segment for each performance period is divided by the corresponding total number of borrowers in repayment.

- For each servicer and each segment, the points awarded for each performance period are multiplied by the weighting factor for that segment to produce a weighted score by segment.

Step 5: Calculate and Apply Delinquency Adjustment Factor

- For the total portfolio of FSA-held borrowers in repayment, the delinquency rate for each segment for each performance period is divided by the corresponding delinquency rate for the overall portfolio.

- For each servicer and each segment, the weighted score by segment for each performance period is multiplied by the corresponding delinquency adjustment factor for that segment to produce an adjusted weighted score by segment.

.**Step 6: Calculate Average Scores Across the Two Performance Periods**

- For metrics 1, 2, and 3, the adjusted weighted scores by segment for the two performance periods are added together, with the resulting sums divided by two to produce average adjusted weighted scores.

- For each servicer and each metric, the average adjusted weighted scores by segment are added to produce a total average adjusted weighted score.

- For metrics 4 and 5, point totals for each servicer for each performance period are added together, with the resulting sums divided by two to produce average scores.

Step 7: Assign Points Based on Relative Placement of Servicers

- For each metric, servicers are arrayed from highest to lowest by total average adjusted weighted score (for metrics 1, 2, and 3) and average score (for metrics 4 and 5).

- For each metric, the servicer with the best score is assigned 9 points, the servicer with the next best score 8 points, and so forth down to the least successful servicer, which would receive 1 point. In case of ties, servicers with identical scores divide the placement points equally.

Step 8: Apply Metric Weights to Adjusted Weighted Scores

- Metrics are weighted as follows:

  o Metric 1 (Percent Current) – 30 percent

- o Metric 2 (Percent 91-270 days delinquent) – 15 percent

- o Metric 3 (Percent 271-360 days delinquent) – 15 percent

- o Metric 4 (Borrower Satisfaction Survey) – 35 percent

- o Metric 5 (FSA Staff Satisfaction Survey) – 5 percent

- Each servicer's point total for each metric is multiplied by the overall weighting factor for that metric to derive final scores.

Step 9: Calculate Overall Final Scores By Servicer and Allocation Percentages

- For each servicer, final scores for all five metrics are added to produce an overall final score.

- Each servicer's overall final score for the allocation period is divided by the sum of the corresponding overall final score for all servicers to derive the allocation percentage for each servicer.

- The allocation percentage is rounded to the nearest whole number. Highest or lowest allocation percentages are rounded down or up as needed if sum of rounded percentages does not equal 100.

Prior to establishing the July 1 allocation amounts, Federal Student Aid reviewed capacity plans and supporting materials from all federal loan servicers. As part of this process we have identified risks and reviewed mitigation strategies. Based on this review, we believe all servicers currently have sufficient capacity to process new and existing accounts. We will monitor indicators of servicer capacity on an ongoing basis and will adjust allocations as needed if issues arise.

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

As noted above, 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.