

## **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, 2017 through June 30, 2017 and the allocations in effect from September 1, 2017 through February 28, 2018 are as follows:

- CornerStone
- FedLoan Servicing (PHEAA)
- Granite State – GSMR
- Great Lakes Educational Loan Services, Inc.
- HESC/Edfinancial
- MOHELA
- Navient
- Nelnet
- OSLA

### **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 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.

The Department will calculate 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 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 will have 15 scored segments for each servicer for each performance period. See example below:

<b>Metric 1 – Percent Current</b>	S1	S2	S3	S4	S5
<b>Metric 2 – Percent 90-270 Days Delinquent</b>	S1	S2	S3	S4	S5
<b>Metric 3 – Percent 271-360 Days Delinquent</b>	S1	S2	S3	S4	S5

*Note:* Metrics 4 and 5, borrower and Federal Student Aid staff customer satisfaction surveys, are not 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 highest 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 Total 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 adjusted weighted scores by segment are added to produce a total average adjusted weighted score.
- For metrics 4 and 5, the customer satisfaction score is calculated for each servicer for the six-month period. (Note: The frequency of the customer satisfaction surveys was changed to every six months beginning in January 2017.)

### **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:
  - Metric 1 (Percent Current) – 30 percent
  - Metric 2 (Percent 91-270 days delinquent) – 15 percent
  - Metric 3 (Percent 271-360 days delinquent) – 15 percent
  - Metric 4 (Borrower Satisfaction Survey) – 35 percent
  - 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 the sum of the rounded percentages does not equal 100.

## **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.