[JAMES MCMAHON:] Giving an idea about what we are going to be talking about today, and I think there are a few major questions that several folks have in mind, which is where are we today in terms of federally-held debt and its servicing; why did we add the additional servicers, what does the new structure look like; where the loan is going and what is coming next. And, again, we also plan on having this as much as possible be somewhat of an informal dialog. If you have questions or comments that you want to make, there is, I was going to say two, I am only seeing one microphone located over there. If you would be kind enough to step up to it for your comments and questions so that they can be shared with everybody in the room without us having to repeat them, that would be great.

So, the first section is where are we today and I am just going to give you a very brief overview of Direct Loan servicing and the Direct Loan servicing portfolio. There is another session, session three, which is on DL servicing that is being offered several times here at the conference, and I would suggest you go to that one if you want to find out some more information about Direct Loan servicing. There is some overlap between the two sessions, and given that we are down to one conference and the number of attendees, we wanted to make sure that everybody had some access to some of the information.

So, several of the next slides, they are more informational. I am not going to spend a lot of time on them unless you have some questions. But up there, you can see, as of the end of September, those are our numbers in terms of what the Direct Loan portfolio looks like. We are talking about over 8-1/2 million active borrowers, and you can see how they are broken up by in-school, grace, repayment, deferment and forbearance and you can also our growth pattern, particularly between ’08 and ’09, much to Arnie and Bill Tagert’s comments this morning. We are definitely seeing an upward slope in terms of those that are receiving loans from us and those that are participating in the Title IV programs.

Actually let me stop and ask how many DL schools do we actually have in the room? Very few. Okay, good.

This will then give you guys that are not DL schools a little bit of an idea on what it is that we do for Direct Loan servicing currently. We do have the websites, the two websites that are offered for both borrowers and for schools and they provide the services probably similar to some of the websites you have access for your portfolio today. I am not going to read through each of the items on there. I am going to assume that you can see them, and unfortunately, I can't really tell from here but given that you don't have the handouts, you can always download them. But, obviously it is a robust set of services that more than exceeds the statutory and regulatory requirements for the servicing of the William D. Ford loan program, and that is both on the borrower’s behalf and on the school’s behalf. There is an excellent school services section that has its own website and also has a specific team set up at the Direct Loan servicing center to field schools’ calls and deal with schools’ concerns, as well.

And here is an idea of what that website looks like, just in case you have never seen it before, and in an effort to at least reduce the number of logins you have, you do use the same logon credentials that you do for the COD website to gain access to the Direct Loan servicing website.

So, and let me ask another question, and so for your FFELP schools, how many of you actually access COD on any kind of a regular basis? Okay, fantastic, good. So I am not speaking Greek when I say COD and you kind of have an idea what I am talking about.

So, in terms of delinquency and default prevention, the DL servicer goes through many of the services that are listed here in terms of trying to make sure they are doing early outreach to the borrowers to make them aware of what they are actually engaging into, make them aware of what their responsibilities are and then also help them along the process. I have done this presentation a few places and for folks that are not aware of what the services that the DL servicing center offers, often these services are actually performed or the school gets assistance from either their lenders or their GAs or other entities, but right now these are the services that DL servicing does actually perform on behalf of the school. So, you can see they do do a series of calls when delinquency starts. They send out letters, so there is proactive outreach to the borrowers to make sure that we are trying to avoid any kind of delinquency or default. We do have special call campaigns for certain subsets of students, particularly those that might be attending medical school and have balances of greater than $80,000 and we do reach out to them in particular to make sure that they know exactly where they stand in terms of their payments and what they need to do to get back in alignment with their payment program.

We are in the midst of producing some literacy materials and this is the latest guide that we have published, and again, you can reach out to edpubs there either online or at that phone number to order some of those publications to assist your students with understanding the repayment of their loans (and I am just going to wait for it to slowly fade in there I guess) about all of the services that are particularly aimed at schools. There is the number. These different letters in terms of providing those letters to schools to send on behalf of the school to the borrowers, the COHORT default assistance, delinquency management, exit counseling, NSLDS, etc. All of those are available currently at the DL servicing center.

Does anybody have any questions about those? I just wanted to provide a foundation for those that are not familiar for federally-held debt that are direct loans, what types of services we currently offer, and those are the same types of services that our additional services are going to be offering, as well, kind of as a baseline.

So, why did we add additional services? As you heard this morning during the general session, with the passage of the ECASLA legislation, the department was asked to help provide the FFELP program with some capital liquidity into the market to allow them to continue to provide loans to your students. So, in doing that, we have the 3 programs that were covered under ECASLA: the participation program, the PUT program and the Conduit program. Conduit is for delinquent loans and currently it really is just a matter of providing different venues for us to provide the capital that will either give us interest in particular loans or the department actually purchases those loans and it has mainly been the latter where there has been a lot of purchasing of the loans.

You can see down in the right hand corner as of the 26th of October, we have purchased nearly $50 billion worth of loans for 3.1 million borrowers. So that closed out the ‘08 and ‘09 PUT program and we still have ‘09, ‘10. So that number is going to increase.

So with that type of volume coming into the department for loan servicing, we needed some assistance in terms of dealing with that additional volume that we had not necessarily, not too long ago, not planned for. So we wanted to make sure we were in a position to be able to handle those volumes and any other additional volumes we might have to deal with. So therefore, we reached out and put out a competition for some additional servicers to provide us that type of support.

As you can see, it says to ensure the Department of Education can handle loan volumes, etc. etc. and the agreements, just so everybody knows, are for servicing only. They are not for the origination of this portion of the student aid lifecycle. It is just after disbursements are made, those loans are booked and once that student gets into their in-school and grace and then repayment statuses. What is being proposed coming down the pike, again Arnie and Mr. Tagert talked about 100% direct loans, we are prepared for passage of that legislation should it occur, and then also there has been talk about changes in the Perkins Loans program. Much like Mr. Tagert, I am not a policy person. I am consciously ignorant of what the possible changes in that program may be and can't answer any detailed questions about what that might ultimately end up looking like, but obviously there are several proposals on the table and the details are yet to be worked out.

So just to give you an idea in terms of the growth we had talked about, have experienced and are talking about possibly experiencing, you can see what our portfolio size in terms of the loans we service are during FY 09, FY 10 and then, tomorrow is if we were to look at the entire portfolio and move that into our category of what that ultimately would look like. The yellowish color there is direct loans. The baby blue is the ECASLA and the dark blue is any portion of that portfolio that either is sold to us, those schools transitioned voluntarily, or if the legislation that makes it 100% DL occurs and is passed.

So, as I have said, we decided to reach out and ask for additional help so we have the capacity to deal with increased volume. We had a competitive solicitation process. Ultimately four vendors were chosen, and they are listed there. The names are probably familiar because they have been in the industry for quite some time. We do have our current servicer for DL servicing, ACS. The 4 additional were Great Lakes, Nelnet, Sallie Mae and AES/PHEAA.

The first bullet there is really important. We created an environment of competition to ensure students and borrowers receive the best in business services. And let me just spend a minute on that right now, and it will help probably inform some of the slides we are going to be walking through, which is the department had tried to do multiple servicers. We followed that approach back in the 90s, if anybody has been around long enough to remember that. It wasn't necessarily particularly successful. So they decided to take a slightly different approach. And one of the ways to do that was to realize that each of these servicers has core capabilities in the servicing market. They have services and talents that have made them excel and do particularly well in that market. So we should let them leverage them. What we did when we did a multiple servicer back in the 90s is basically got those companies all to try to conform to a very consistent look and feel and experience, and some of the analysis we did internally said that perhaps that wasn't the best idea. Perhaps really if we want to have multiple servicers, which inherently means there is going to be increased competition for that type of business, we should let them leverage the distinctions and the uniqueness of each of them to perform as best they can to give us those services and ultimately give the borrowers and the schools the best services they can. So, in terms of how they are going to present themselves to you, schools and to the borrowers, they have been given great latitude. The websites are not going to look the same. The letters are not going to look the same. There is the possibility when they answer the phone they may not say U.S. Department of Education, they may say Federal Loan Servicing or they may say Nelnet Loan Services or something along those lines.

So basically the only constraints we have really put on them is to make sure that they are adhering to legislation and regulation at the very minimum. The other is that really the way their contract is structured and the way they will receive additional business, additional loan volume from us, is going to be based on four primary performance indicators. Three of them are based around customer service satisfaction surveys. One goes out to borrowers, one goes out to schools and the third goes out to department employees and our trading partners that have direct interaction with those and David is going to spend a lot more time on this, so I am going to gloss over it really quickly, because he is going to get down into the detail. And then the last indicator is really broken into two pieces, and that is around default version. So in terms of how low is their default rate, both in terms of percentage of borrowers in their portfolio and in terms of percentage of dollars in their portfolio. So we are tracking that on an ongoing basis. That feeds into kind of a performance number then directly affects the percentage of incoming loans that servicer will receive.

So, is there anything on the slide I didn't already cover?

The left hand talks pretty much about the approach. On the right hand really we ask the servicers, and this is one of the sticking points in doing these presentations, is folks, particularly the administrators, are very curious about, well, when I am interacting with Servicer Y, exactly what are the services they can provide? And we do not have a comprehensive list of what all 4 servicers can provide because they are in competition, they are unique and they may be changing. But we did ask them, based on their proposals, to come up with a quick list of the types of services, and those are enumerated there, just at a high level on the right-hand side in terms of single point of contact for schools per servicer, financial literacy materials, predictive call modeling and robust skip tracing and web chat.

So what does all of this mean for schools? Will schools have to work with multiple servicers? Yes. Schools will ultimately have to work with all, I would imagine in very few cases it will not be, but all five servicers.

Can a school designate which servicer they want to service their loan portfolio? No. Schools cannot designate.

Will a school know which servicer has their borrowers? Yes, and those right on the slide there mentions, and this is particularly around PUT, mentions NSLDS is a good resource for looking up based on individual by individual which servicer is helping a student with a particular loan. The servicers also have websites that, again, are based around providing services to schools. They will have reporting capabilities that will also help you identify exactly who in your portfolio that attends your school is being serviced by which servicer.

And will schools have a venue for providing feedback on the performance of a servicer? And again, David is going to talk a little bit more about that, but that is primarily around the customer satisfaction surveys.

So we have kind of hid this, the one point we did not mention is obviously the ongoing compliance reviews that the department is going to be performing, and again, those are more based around programmatic compliance to ensure that they are adhering to legislation and regulation, and that we are maintaining the integrity of the program, so hopefully those will not be particularly impactful for you schools and hopefully relatively transparent to you, but will have a big impact on the servicers themselves.

[AUDIENCE:] Can you hear me okay?

[MCMAHON:] Yeah.

[AUDIENCE:] One concern I have, I come from a school. We do list, I will just use Sallie Mae because that is one of the vendors we use, and also we do direct loans. What I have been seeing happening recently here with the loans being purchased is, which is I understand your perspective for the schools, but for the borrowers, they may have loans that are serviced to Sallie Mae, owned by Sallie Mae and also loans owned by the Department and serviced by Sallie Mae, and for the student that is a huge concern. Does anybody…? And, I mean, I work in default management, so, you know, I handhold them and I do everything I can. What are you guys going to do about that? I mean, do I take them and I say go to Direct Loans and consolidate and then I have been working with some students on that end, as well, and then it seems like that process is backed up, as well.

[MCMAHON:] Okay. And I… stay there just in case we dialog a little bit, and I do not think I have ever gotten this far in this presentation, a lot of reason I have not mentioned it thus far is because normally I get a question before then. One of the concepts that we are trying to operationalize and moving forward with additional servicers is that for each student, for all of their federally-held debt, they will end up getting serviced by a single servicer at some point. So, yes, there are certain, you know, right now is not a particularly good time and people really have, you know, have some issues around my credibility when I have to say that, because the way the PUTs have come in, we weren't able to necessarily execute that during this initial phase. Just to give you guys an idea of time, and obviously ECASLA passed a little while ago. Ultimately, these contracts were awarded in mid-June. These folks were ready at the end of August. That is an extraordinarily tight time frame. They moved from what was their commercial servicing over to kind of the federal model.

So, we have mechanisms in place to identify what we are referring to as "split borrowers," so if a borrower for their federally-held debt is getting service some over here and some over here that we are going to make them whole. So, we have not gone through that process yet.

[AUDIENCE:] Under one servicer?

[MCMAHON:] Under on servicer.

[AUDIENCE:] But you do not have a time frame or anything?

[MCMAHON:] I would have to go back and double check on time frame. During this initial period, it's going to be as, you know, moving forward we are going to make that part; we are going to get smarter and try to identify those ahead of time, which for the PUT program, that is a very hard thing, because which loans are included in terms of the lender selling us, you know, we do not know until they kind of give us a notice and then we have a very short period of time to kind of figure that out, but we are going to institute a process that is done every couple of months to make sure those people come back and become whole and are serviced by one servicer. So that should hopefully, I know it is not a good answer right now. It is not making people happy right now. It is part of the growing pains of the transition and over to this new model.

[AUDIENCE:] But at least it is something for me to tell the students.

[MCMAHON:] Yes, yes it is.

[AUDIENCE:] That their loans are not going to be this way forever.

[MCMAHON:] Right. No, they are not, no they are not.

[AUDIENCE:] Thank you.

[MCMAHON:] Sure.

[AUDIENCE:] On your one slide, you mention the clearinghouse? We are a school that downloads to the clearinghouse. Is there going to be more involvement with that? Because we still have some lenders in that that refuse to go online to the clearinghouse? Is this going to be pushed more?

[MCMAHON:] In terms of who actually participates with the clearinghouse, that is kind of their relationship with the lenders or schools. So, obviously, in terms of trying to get a unified picture for schools and students of all of their loans, both federally-held and private, it would seem to make the most sense. And now I am just speaking from Jim McMahon's personal opinion and if I was talking to somebody from the clearinghouse, I would say, hmm, you probably should think about doing that, but I think they actually work very hard to try to maintain and increase those relationships because it is also helpful to them, that makes their data more valuable to a greater variety of people.

[AUDIENCE:] It makes it a lot easier for the schools, too.

[MCMAHON:] Yeah, unfortunately, we don't really have that relationship to kind of make that happen to certain degree, so.

[AUDIENCE:] All right, thank you.

[MCMAHON:] Sure.

[AUDIENCE:] Hi. We are moving from FALSA DL for next year, and my understanding with the servicers is that a student will be assigned a servicer once the loan has been booked. This is correct, right?

[MCMAHON:] Yes.

[AUDIENCE:] Okay. I have suggested actually at NASA and I would like to suggest it again. If there is any possibility that the department could send the schools some sort of, essentially in the common line form we would call it a response file?

[MCMAHON:] Okay.

[AUDIENCE:] To let us know who the servicer was, because while it will exist in NSLDS, that means that we are going to have to leave our financial aid system and go to NSLDS or the student will have to leave their system and go to NSLDS, and I know not every school has it, but we have a fairly robust student side system, and if we could provide all of that information for our students there, as well as still being able to run exit information out of our system so that the servicer would already be there. That would be very helpful.

[MCMAHON:] Okay.

[AUDIENCE:] To us, and I really think will help allay some of the FFELPs schools concerns about moving to DL and all of the servicing, we do not know where anything is going to be.

[MCMAHON:] Sure. Yeah, I mean two points were in that. One is there is a presumption that those DL loans will be going to those additional servers. We do not have a definitive timeline for exactly that, when that will be happening, and then pay no attention to the man in the corner. Alex, is it origination or is it booking?

[AUDIENCE:] Booked.

[MCMAHON:] So, yeah, it is booked.

[AUDIENCE:] I am from a direct loan, actually two direct loan schools in. I am a big DL supporter and we were a year one school when we came in and David remembers this. We were told when we went in, there would be one servicer, there would be one phone number, there would be all of these things. I think David remembers this. And so this is what probably my biggest disappointment about the nation going to 100% DL is that for, what, since 1994, so for 15 years, 14 years, we have been having, we had one number to call for servicing, we had one number for a borrower to call for service questions, we had a separate number for consolidation, but we could also do it through the main servicing number, and going to five servicers is a real, it is a disappointment, because that was one of the biggest advantages of going to DL was that no matter where our student was, no matter how long after they had gone, they only had one number to call. The other is that with allowing all of the servicers to do their best, one of the things that DL was very successful in was bringing in a servicer we thought had a questionable reputation in terms of customer service, and bring them in with whatever they did, whatever you guys did, that we never had a complaint about servicing in these years. We have never had a complaint about service problems and we understood that to be because of the contract or whatever rules, guidelines were set up by the department when they went into this contract and we have been very pleased with servicing. So, I guess I am looking for some reassurance that those kinds of standards are still going to be upheld under this new system.

[MCMAHON:] Yeah, I mean, I will not point fingers, but several of those servicers are here in the room and they are here because they want to hear these types of concerns, and again, David is going to spend some more time on it, but your satisfaction and your borrower's satisfaction, their business relies on it, so they are going, I would anticipate, work very hard to make sure that they are going to make this as painless as possible and the transition, you know, is not going to be seamless, because we are moving from one to multiple and there is kind of no way to get around that. So that is the model we are working at and we are trying to have it be based around trying to increase the quality of the services for schools and for borrowers and definitely during transition times, it is never going to feel like that is our objective, but it really is. So, I think that we are very sensitive to that. I think they are becoming increasingly sensitive to that and are hoping to get that type of input to figure out the best way to perform to deliver those services so that the comment, you know, a year down from now isn't, well when it was one it was this easy and now that we have multiple it is this hard, because that is certainly not the place we want to put you or them or us.

Okay, I am going to move on. These slides are simply just a picture so you can see in NSLDS exactly what they look like. They have new GA numbers, and then you can see how they are listed. The first one there is our current loan servicer, the Department of Ed, ACS, and you can see Sallie Mae, the Department of Ed, Sallie Mae the Department of Ed Fed Loan Servicing (FIA), Department of Ed Nelnet and Department of Ed Great Lakes, sorry.

So, the way we structure this implementation was around three phases. The first one is complete, and that was to get them up to be able to handle the foot programs. The next deadline is in March, and that is more of an internal and accounting and some additional services for us, and the final one is aimed at the end of August there and is around making them ready to be able to also process direct loans, should the need arise.

Where are the loans going? At this point, this is where I hand it over to David, and he is going to talk a little more about our allocation methodology, the surveys and how we have this structured.

[DAVID RHODES:] Thanks Jim. Jim sort of touched on a couple of the things I am going to talk on. I hope he has not teased it too much. It really is really quite simple. What I am going to do during my portion of this presentation is explain how the department is going to go about changing from having one servicer that we are telling how to do everything to having multiple servicers doing things differently, but getting us what we want. Even though we acknowledge there are different ways to service loans and different strengths among the servicers, we still want the same thing from all of the four servicers, and that is what that slide represents.

We want borrowers to be satisfied with the servicing they are getting. We want the schools to be satisfied with the interactions they have with the servicers. We want to be satisfied with the interactions we have with the servicers, and most importantly, we want to keep defaults as low as possible, and we want to have a performance score for each servicer that sums up how well they are doing on each of these four areas.

So, how are we going to do that? There is the developed and allocation methodology. This methodology was established in the contracts with the four servicers. They entered into a business relationship with the department with the understanding that future loan value would be determined based on this methodology. As Jim mentioned, there are going to be three customer satisfaction surveys: borrowers, schools and federal personnel who work with the servicers. There are going to be two default statistics that are going to feed into this methodology. We are going to use those five measures to develop five rank-ordered lists of the servicers. Sallie Mae could be number one on one measure, number two on a second measure, number three, number four on other measures. Okay, and then we are going to combine those four measurements in such a way that we will be able to determine their portion of future loan volume coming down the pike, and I will get to that in a few seconds.

But the whole idea is to equate server performance with their future allocation. We want to make it their business interest to be our leads in our partners needs, the schools' and the customers' needs, the borrowers. So, we want to align their business interests with our interests through this methodology. We are somewhat indifferent on what kind of end result this ends up in terms of who gets what proportion of our business. We do not care how large a slice of the pie goes to each of the four servicers going forward; we just want that slice of the pie to be determined based on their past performance. So, depending on how the servicers perform on these measures, we might have a very different mix of the portfolio going forward, and we are indifferent of that.

The first one on the top right, servicer three, the blue had done the best on our methodology and therefore gets a larger section of the next business and so on.

I am going to default statistics, a little bit more detail than that. As Jim mentioned, there are two default statistics. Simply the percentage of repayment dollars that go into default and the percentage of unique borrowers in repayment who go into default. Obviously, these two measures are highly correlated. It would be surprising if they had a different rank ordering of the four servicers. It is like it is logically possible, but probably unlikely. This is sort of giving default performance a larger play in the methodology.

In terms of the customer satisfaction surveys, we have turned to a contractor CFI group out of Ann Arbor, Michigan, who has developed the American Customer Satisfaction Index. This allows a uniform measure of customer satisfaction across the servicers, and it is also a widely-used measure across corporate America and within the government. There are a lot of different entities, both public and private, who use this survey to measure the satisfaction of their customers. The benefit of using this common metric is that we can compare the performance of our servicers to other entities in the world and make sense of the information that we are getting. You know, if you get a score on a survey or, remember back when you were in school you took a test and you got a 72, okay? Well, 72 could be failing or an A, depending upon how else everybody else did on that test, okay? So, if 72 were the top score in the class, that was an A, but if it was the bottom score in the class, you might be in trouble. It was not just the percentage of questions you got right; it was how well you did relative to other people. It also uses a methodology that puts that satisfaction score in context. It lets us see why are people satisfied or dissatisfied with this servicer? What about the services that they are delivering do they like? What about the services that they are delivering do they not like? It allows us to see what is causing that satisfaction to go up and down when we look across the different servicers.

As mentioned before, we are going to do three customer surveys. We are going to do three different groups: borrowers, school personnel and federal personnel. We are going to do these surveys every quarter. Every three months we are going to be doing a survey and, in fact, the first survey started yesterday amongst borrowers and school personnel. Some of you might have a voicemail message when you get back from this conference asking for your cooperation in this survey. And federal personnel, that email inviting them to go fill out their web survey is going out tomorrow.

Who are we going to survey amongst the borrowers? We are going to survey 1000 respondents every quarter, 250 for each servicer, and then we are going to roll that up every year so each servicer will have 1000. So, Jim mentioned before there are three million borrowers and 4000 of them are going to be selected into this survey and asked sort of their experience with their servicer. They are going to be selected randomly, but we are going to do some stratifying based on repayment status, and we are going to equalize the differences between the servicers in terms of who they are servicing in terms of the repayment status of the borrower. So, we are going to make that all the same across the borrowers. So, 4000 out of 3 million, the borrower’s chance is not that great to be brought into the survey, but there are going to be phone surveys and we are going to ask them to cooperate. The survey will take less than 10 minutes once we get in touch with people.

School personnel, we are going to do a random sample of 300 every quarter. So, every quarter, if there are 6000 schools, you have a 1 in 20 chance of being brought into this sample if you have a student who has a loan that is being serviced by any one of the four services in this capacity. Any federally-held debt that is being served by this servicer. The chances are eventually you will get a call, okay. The sample based on institutional type, we want to equalize the distribution of institutions across the servicers and we are going to ask the school personnel about their dealings with only one servicer. You might be dealing with all four of them, and probably in the future you probably will be dealing with all four of them, but the survey is going to ask you to focus in on only one of those servicers, and that will be identified during the call. You are going to be asked to provide feedback only on their servicing of federally-held debt, not on other relationships you have with that servicer or past experiences you have had with that servicer. We really want to evaluate their work in this capacity only. To be fair to them and for the purpose of the survey is how well are you doing this work for us, in terms of we want to give you more work like this. It didn't strike us as fair or accurate to base it on their past reputation or past experience with you all. There’s a question?

[AUDIENCE:] The reason I ask this is that some school directors do not process loans, we have loan processors.

[RHODES:] Right, right. Currently what we are going to be doing, we only have one piece of contact information for schools, one uniform piece of contact information for schools. We have the financial aid administrators’ telephone number. That is who will get the call. The call will ask them: do you have any direct dealings with the servicer that you are going to be surveyed about? If you don't, who on your campus does? And you will be asked to forward the call. That is on the next slide. But, we realize there will be kind of a phone tree, you know, the data collection people are prepared not to get the right person on the phone the first call. So, if you do get a call, please respond, follow the instructions that the time life operator on the phone is going to give you about what your responses are supposed to be about, and if you are not the person on your campus who deals with this servicer, direct the call to who is. If you don't have any dealings with this servicer, let the person who is calling know that too. You were selected into the survey because you had a student who has a loan that is being serviced in the capacity. Just because you have met that criteria doesn't necessarily mean, especially this first year, that you have had any dealing with this servicer, and if you haven't had any dealings, you don't have any satisfaction or dissatisfaction, you could be excused from the call. There is a question?

[AUDIENCE:] So is it only the four new services that are subject to this survey? The existing servicer will not be surveyed in the same manner?

[RHODES:] There are currently, it is in process to establish, to bring this new survey methodology to the existing servicer. I don't know where that stands. It is a contractual relationship between ACS and the Department, but that is the goal.

[AUDIENCE:] I only ask due to the percentages you are giving are only for four servicers, so, or the numbers.

[RHODES:] Right, right now is only for four servicers.

[AUDIENCE:] I know that you have been asking, or kind of talking about the schools. I wonder, I was kind of reflecting on some of my notes from an earlier slide that just with the quantification of borrowers being 3.1 million that were just, I think, the statistic had something about those new ones that you had through the PUT and such, 1000 borrowers, I just want to make sure that that is correct, is the only amount that is going to be surveyed annually?"

[RHODES:] We will bring in 1000 people per servicer each year to get a good measure.

[AUDIENCE:] So you are saying 4000 is the amount? Is that a statistically-significant number, proportional, you know what I mean, kind of just using stats, how are you going to weigh that? You mentioned something to try to get an overall, you made some kind of statement…

[RHODES:] The distribution of the different repayment types, yes.

[AUDIENCE:] So I mean, does that mean that you are going to try to survey the experience for high-debtors, meaning like you know graduate students who might have over $80,000 of debt and then have some who have, you know, smaller portions, or is that by school type? Does that mean that, you know, you are going to try to have something so of the 250 per servicer per quarter, that you have some that are community college, some of them who have different types of educational experiences?

[RHODES:] We try to keep it as simple as possible. Right now we are only looking at repayment status. The issue right now, since a lot of these loans, all of these loans were purchased in 2008-09, so a lot of these students are still in school and the majority of students in the portfolio are still in school and we came to the realization that those students who were still in school have fewer interactions with the servicers and other borrowers, that these borrowers themselves will have later on in their loan history. So, therefore, we did not want to spend a lot of our data collection collecting information from 70% of the borrowers who are currently in school who do not have any interaction with the servicer yet.

[AUDIENCE:] Can I ask another question?

[RHODES:] Sure.

[AUDIENCE:] It's kind of going back to the default analysis, those two items that you are going to be scoring on. Knowing that when you look nationally by school type that the result of an overall COHORT default rate may be skewed based on a portfolio which you are managing that might be predominately proprietary or predominately graduate. Can you please comment on how, as the Department is distributing its loans to these different servicers, how that is being taken into account so as to not unduly judge one of your servicers because they may have a disproportionate number?

[RHODES:] That is a very good question, and I failed to mention, when we do those default calculations, we statistically adjust for what the differences between the servicers' portfolios are in terms of the students' proneness to default.

[AUDIENCE:] So are you trying to say that you try to normalize the statistic across the board.

[RHODES:] Yes.

[AUDIENCE:] Or like you just kind of know for the nation's community colleges that this is kind of an average rate and then you are proportionalizing their score based on that national average?

[RHODES:] Exactly.

[AUDIENCE:] Okay, thank you.

[RHODES:] And the survey, getting back to the slide, if you do call, it is only 10 minutes and there are quite a few skip patterns in the survey, so if you haven't had a certain type of interaction, you do not have to answer those types of questions.

Federal personnel: We are establishing a list of federal personnel who have had dealings with the servicers, and they will have to complete a survey every quarter. They will be asked to provide feedback on one servicer at a time. Who they assign that first quarter will be determined randomly, and then they will cycle through the other three. So, over the course of the year, they will have an opportunity to provide feedback on everybody, as long as there are only four, but they won't be put in the situation of trying to fill up a survey for multiple servicers. That is a difficult task to ask any respondent to do.

So what is the basic plan for the surveys? We want to interview enough people to support precise measurement, okay? So we have samples of schools and samples of borrowers that will support a precise measurement. We are surveying the universe of federal personnel. Anybody that has had significant dealings with these servicers, we are going to be including in our survey, okay? The goal of this is to detect real differences between the services, okay? It is possible on some measures that the servicers do not differ, or that we with our statistical, although with a certain-sized sample, we cannot distinguish an observed difference from a difference that might happen by chance. Just because we have a sample, you have introduced some chance. So we want to treat those statistically insignificant differences as ties. Okay, so we are not going to have, unless it is a statistically significant difference, we are not going to treat it as a difference. And then with those caveats in mind, we are going to generate a three-rank list of servicers, one for each type of customer. And then we are going to combine the five rankings. Okay, the three customer servicers' satisfaction surveys and the two default surveys. And the methodology works like this: I had to read this contract a couple of times before I understood it because I could not believe that it was taking me so long when it was so simple, and it really is that simple, okay?

The servicer who scores best on any one of our four dimensions, or five dimensions, whatever, five measures, gets the score equal to the number of servicers. So for this first year, that is four, okay. So Nelnet finished first on default, in terms of the borrowers. They get four, okay? Great Lakes gets second place. How many points do you think Great Lakes gets? Three, okay? What's the other one I didn't mention? Nelnet. Nelnet gets third. How many points do you think Nelnet gets? Two, okay? What's the next one? Sallie Mae comes in last and gets, how many points? One. If we only had one measure, how many fingers am I holding up? All ten, okay? So there are ten possible points. Okay, if there were only one measure, it would be ten possible points, okay? First place got four of them. What percentage of new loans if there was only one measure would they get? Four divided by 10, or 40%, okay? Sallie Mae, the last place, got one point. They would get 10% of new loans. Let's say there are two measures instead of one, and Sallie Mae got first place on that. They would have five points. But since there is a second measure, now there are 20 points possible, okay? So, what percentage of new loans would Sallie Mae get if there were two measures and Sallie Mae scored last on one and first on the other? They would get 5 divided by 20, or 25%, or one-quarter. So, you see there is a continuum between an uneven distribution of new work versus a complete equitable distribution of new work depending on how even the four different servicers are on these measures. Does that make sense to everybody?

There were additional reasons we chose the CFI group to do our survey in addition, beyond just getting these ranked-ordered lists. I mentioned the comparable benchmarks. This is called models, so we can understand the results we got and identify areas that might be worth investing in improvements. I would like to share some results briefly with you with a previous survey that CFI group did for us on the FEL servicing surveys in 2008.

We not only got the overall satisfaction of DL servicing and FFEL servicing, we were able to compare them to each other and to different industry standards. E-commerce overall, individual banks, these are all the results on the same survey items. There are three customer satisfaction survey items that the CFI group does. They ask you to rank your satisfaction overall, they ask you to rank your satisfaction versus your expectation and they ask you to rank your satisfaction versus your ideal. So they ask you the question three different ways and they get the average of it and they express it as a number between 1 and 100.

In addition to having benchmarks to compare, we get an econometric model that links different aspects of the servicing process to the overall satisfaction. It is reasonable to assume that people's experience with electronic data, statements, websites, voice response units and the call center, the borrowers experience at least five different elements, would affect their overall satisfaction. And what this model does is allows us to measure each of those components separately and then estimate the relationship to the overall satisfaction. And we get results, in the blue circles, you get the overall score. In this first one, we see that people are very satisfied with electronic debit, but it has almost no effect on their overall customer satisfaction. That is what the number in the black box indicates. So when we get these results, we could look for areas that have relatively low satisfaction, that also have an effect on the overall customer satisfaction. So we are looking at two different numbers here, and this is what the methodology allows us to do and we hope allows the servicers to do, because ultimately this will give them feedback on their process and see why their scores are higher or lower than their peers.

And to finish up the session and talk about what is coming next, I am turning it back over to Jim.

[MCMAHON:] All right. We are coming down on time and I want to make sure we also have room if anybody has additional questions. The next series of slides actually are also some overlap of some of the other sessions we have. I do not have the session number handy, but there is a specific session around DL transition for those that are interested. Again, going back to some of the statements that were made at the general session, we are very much in a ready and waiting mode to support folks transitioning over to DL and I have created structures to help support those types of efforts. The FSA and COD customer service centers are ready to help folks with their onboarding process. We have taken some behind-the-scenes steps to already kind of grease the skids for that to happen, but obviously, in order to become an active DL participant, we need to do outreach to them and get some information and set up some accounts, etc. etc. to begin processing your data that way. There are specific teams based on types of schools and areas. They have dedicated transition experts. As it says there, focus on onboarding, point of contact team, focus teams around grad professional schools, career colleges, small schools and foreign schools and colleges.

Again, you have to remember these folks do have experience. We still have a lot of folks that are there and have been since the start of COD, where we were basically onboarding everybody there to that new process with the COD system. We used a very similar structure, which was because we found it very effective.

So we have also developed structures to respond quickly to community needs. Hopefully, and I will, you know, await your feedback on whether you think we are being responsive enough, providing communication quickly enough and comprehensively enough to help folks that are onboarding because we really want to ensure smooth transitions. And the DL transition teams and multiple subteams, we kind of just kind of covered those. I am sorry, that keeps on doing that.

Here are some of the points around what the transition teams and subteams have: They help with planning communications, the training plans, system capacity and development, publication updates, targeted outreach and the school-set requirements and options, and almost all of that data is also available on IFAP, as well, but obviously, if you need someone to help figure out your specific needs or point you directly where, please call the COD customer service number, which is, it is not on the slide. I thought it was on the slide. But there are, obviously, the websites there, as well as a direct contact for one of our FSA team leads for the transition effort with Mason, and then there is the email address for the COD support.

We have begun the suite of Direct Loan webinars and are repeating those on an ongoing basis and will be repeating those this spring, and actually some of these you know COD systems, Prima, etc. are a lot of the sessions that are also being presented here at the conference to help bring everybody up to speed, or at least give you a general knowledge of exactly the differences between COD and non-COD and what that would look like again, and this just gives you a list. Again, these slides were put in here for you to be able to refer to and get more information so that you can kind of plan your conference attendance and find the areas that we have broken down in sets of knowledge in terms of preparation for transition over to DL into to help you prepare when needed.

Direct loan resources: Again, IFAP, the direct loan website and the National Direct Student Loan Coalition, and there is the number. I knew it was in here somewhere: 1-800-848-0978.

And in terms of the overall presentation, there is David's and my contact information. Feel free to drop us an email. Please, please, please, please fill out the evaluation forms, and particularly where there is, I do not know what they look like this year, if there is space for free form because we do review the comments, and this is our first session this conference, and we do try to tune it even along the way and we are offering it 3 more times during this conference, so any feedback you can give us we would greatly appreciate.

Again, thank you all very much. Does anyone have any additional questions before I wrap it up? David and I will kind of linger.

Yes, go ahead.

[AUDIENCE:] One of the, I think, most valuable services that the FFELP lenders provide us right now is the school outreach, the school visits and the in-person exit counseling sessions for our students. Would that be an option for DL?

[MCMAHON:] For DL? Again, I think that we got this question around something similar in one of the last sessions and I don't necessarily have a list of exactly what services they are going to be offering. Again, giving that feedback so that they are trying to increase your customer satisfaction survey scores from the school's perspective is something they are going to be attuned to, so if you think that is a good idea, doing outreach to them would be good. Doing outreach to us, again, we have also made a commitment because we are doing this as kind of a competitive cooperation thing, as any time we get this type of feedback, if I knew they weren't here, I would try to pass that back to them.

One of the things I did want to mention, as well, is that each of the servicers does have a PC down in the PC lab and each of those are staffed, so all five servicers have folks here to answer any of your questions, be able to bring up their websites and the tools they offer to schools and/or students to make you familiar with them if you have any specific questions. Sir?

[AUDIENCE:] Can you talk a little bit about how the loans that were initially put to the Department of Ed, how those were allocated among the servicers?

[MCMAHON:] Okay.

[AUDIENCE:] I understand the first priority was not to create split servicing, so if the loan was originated by Sallie Mae, it would continue to be serviced by Sallie Mae, but understanding kind of the dynamics around that.

[MCMAHON:] Yep. That gentleman got it entirely right. The number 1 priority for us in taking on the PUT loans was to try to keep those borrowers whole and keep them with 1 particular servicer, so if they were a Sallie Mae loan in almost all cases, and I try not to use, you know, absolutes because somebody always points out how I am wrong, they would stay with Sallie Mae. Subsequent to the major processing we did and our biggest sale was on October 15, which was basically the end of the 08/09 PUT program, that obviously led to Sallie Mae actually, having giving they had the largest FFELP portfolio. They currently have the largest additional servicer PUT loan portfolio. We are trying to kind of, before we move in and just as we are gearing up with the customer satisfaction survey, kind of even those numbers out so at least from a baseline perspective, we are going to try to provide an even playing field to then let those performance indicators begin to drive allocation thereafter. So, via conduit, via 09/10 PUTS, we are beginning to kind of take away some of those inequities that were there just based on that initial. I think we are also in a better position now to do research and try to keep those borrowers whole and we will get that standardly timed, you know, split and borrower processed, to unsplit the borrowers in place, which will help ease that transition, as well.

[AUDIENCE:] I guess this is more than a comment and a concern. I come from a very large FFELP institution, over $160 million, and we have already selected our servicer. Based on customer service satisfaction, based on an excellent default prevention program, based on location, which is literally 5 miles away, I am completely satisfied with Great Lakes. So, a very large concern is why am I now being surveyed so that you can decide what percentage of our student loans go to all of these other servicers when your big selling point for going 100% DL is supposedly a one-stop-shop. So, it becomes very confusing and very concerning for me as a businesswoman and for my clients and my borrowers and my parents and my students.

[MCMAHON:] No, I understand. I definitely understand how that can be a concern. Again, the transition period will be rocky. I mean, as far as I understand, it is the clients who are supposed to be able to choose who the lender is, and the lender ultimately determines who their servicer is, their business relationship there. So really, divergence from the current process in terms of statute and regulation, there is no great divergence. The model currently exists where there could be the multiple servicers already. So, it is going to be more pronounced now as we move forward and part of that, again, is the timeline we had to implement the programs, but also in trying to do it in a way that was as thoughtful as we could be given the time frame to try to focus in on customer satisfaction for those three segments of the population we have been talking about: students, borrowers and the department.

Any additional questions?

Well, thank you all very much for coming again. Please fill out your surveys, and enjoy the rest of the conference.