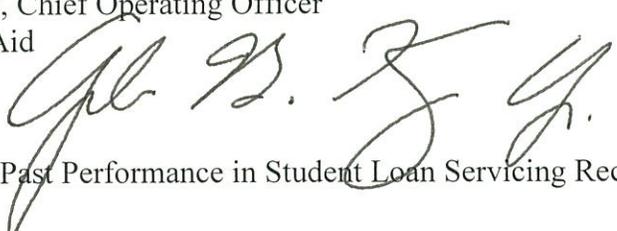




THE SECRETARY OF EDUCATION
WASHINGTON, DC 20202

June 30, 2016

TO: James W. Runcie, Chief Operating Officer
Federal Student Aid

FROM: John B. King, Jr. 

SUBJECT: Consideration of Past Performance in Student Loan Servicing Re compete

Thank you for your work on Phase I of our two-phase source selection procurement effort to acquire new federal student loan servicing capabilities in advance of the expiration of our current loan servicing contracts (Solicitation Number: [FederalAidServicingSolution](#)). This is an important opportunity to improve many facets of the Federal student loan programs, including simplifying the repayment process, better protecting borrowers, and facilitating our oversight of servicing contractors. If successful, the procurement will ensure that we realize the President's priorities outlined in last year's Presidential Memorandum on a Student Aid Bill of Rights (SABOR).

I am issuing this document because of the importance of this procurement in achieving the Administration's goals. A well-crafted solicitation that reflects the Administration's key priorities and a fair and careful evaluation of offerors, including the quality of their relevant past performance, consistent with procurement laws, are the surest ways of achieving our goals and the best way to serve student borrowers.

From the very beginning of our efforts, we identified as a key priority our interest in a new approach to servicing in contrast to our present system. In November 2014, as part of its market research efforts, FSA published a request for information (RFI) specifically noting that, in light of our extensive experience with the current multiservicer, multisystem contract model, we were particularly interested in gathering information on alternative approaches, such as the use of a single servicing platform and the use of specialized vendors to provide discrete services such as call center operations. From this and subsequent outreach and work, we developed as a key policy objective a "one platform, several service vendors" ecosystem. The goal of this policy is, on the one hand, to facilitate a consistent set of servicing expectations, transparency in whether those expectations are being met, and consequent ease of oversight, and, on the other hand, to leverage competition among, and provide opportunities for, multiple partners to specialize in providing services in a manner that improves customer satisfaction and outcomes over the

lifecycle of a borrower's experience. As the procurement team proceeds to prepare the Phase II solicitation, receive proposals, and conduct the evaluation, I am instructing the team to evaluate each proposed solution on its ability to support multiple customer service vendors (among other appropriate factors) and also to consider the risks of the proposed solutions in terms of availability, reliability, capacity, and schedule.

With regard to the past performance evaluation, I am directing the procurement team to make that the most important noncost factor in the evaluation, consistent with applicable procurement regulations. As you know, the Federal Acquisition Regulation (FAR) provides that the past performance of an offeror and its teaming partners and proposed subcontractors is one important indicator of the offeror's ability to perform the contract successfully. In addition, the evaluation must consider "quality of the product or service" including "prior experience, and past performance of the offeror."¹ In light of the direct impact this contract will have on students and families, these factors cannot be weighed lightly.

An offeror's prior interactions with consumers faced with making complex decisions, and the quality of the services the offeror provided those consumers, is critical information in this selection. As SABOR makes clear, we are attempting to make interaction with a person's debt servicer an experience that is simple and provides consistent high level service to borrowers. With the past performance evaluation, we ensure offerors are suitably recognized where their past performance has been exceptional (for instance by receiving high customer satisfaction scores or achieving success in keeping borrowers in good repayment status) while instances of less-than-satisfactory performance are fairly and fully assessed. Any proven performance failures that involved borrowers being misled, ignored, or provided wrong information must be given particular attention (following of course all procedural requirements and considering the reliability, relevance, currency, and context of the information and the general trends in the offeror's performance). Improper or abusive customer service speaks to a disregard for student and debtor needs that does not meet the standards we have set and the important policy priority outlined in the SABOR.

This procurement process is an important opportunity to improve the experiences and outcomes for student loan borrowers. We must take this opportunity to ensure that the system we put in place is driven by the needs of borrowers, both in recognition of those tools and services they most value and in response to the shortcomings of the current system. In my view, the ecosystem we envision must incentivize high quality, transparent, and consistent servicing for borrowers and must have meaningful consequences for vendors who come up short. These considerations should be reflected in the procurement materials and in the outcome of the evaluation.

¹ 20 U.S.C. § 1018a(d) (3)(A); 48 C.F.R. 15.304(c)(2).