Federal Student Aid

DEPARTMENT OF EDUCATION
UNITED STATES OF AMERICA

ANNUAL REPORT FY 2019

Federal Student Aid
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United States Department of Education
Betsy DeVos
Secretary

Federal Student Aid
Mark A. Brown
Chief Operating Officer

Finance Office
Alison L. Doone
Chief Financial Officer

November 15, 2019

This report is also available on the Federal Student Aid website at **StudentAid.gov/FY 2019 Annual Report**.

To connect to Federal Student Aid through social media, please visit the Federal Student Aid website at **StudentAid.gov** or on Twitter at **@FAFSA**.

Federal Student Aid strives to improve and enhance the content quality, report layout, and public accessibility of the *Annual Report*. Suggestions on how this report can be made more informative and useful are welcome. The public and other stakeholders are encouraged to submit all questions and comments to **AFRComments@ed.gov**.

Contents

About This Report

Federal Student Aid (FSA), a principal office of the United States (U.S.) Department of Education (the Department), is required by legislation to produce an Annual Report, which details the organization's fiscal year financial and program performance. The *Federal Student Aid FY 2019 Annual Report (Annual Report)* is a comprehensive document that provides an analysis of FSA's financial and program performance results for Fiscal Year (FY) 2019 and exhibits the organization's effectiveness in accomplishing its mission. The *Annual Report* enables the President of the United States, the U.S. Congress, and the public to assess the organization's performance relative to its mission and determine whether FSA has demonstrated accountability for the resources entrusted to it.

This report presents information about FSA's performance as a Performance-Based Organization, its initiatives, accomplishments, and challenges, as required by Office of Management and Budget Circular A-11, *Preparation, Submission and Execution of the Budget, Part 6, Section 260,* and Circular A-136, *Financial Reporting Requirements*. The report also satisfies the requirements included in the following federal statutes:

- *Higher Education Act of 1965, as amended*
- *Federal Managers' Financial Integrity Act of 1982*
- *Chief Financial Officers Act of 1990*
- *Government Performance and Results Act of 1993*
- *Government Management Reform Act of 1994*
- *Federal Financial Management Improvement Act of 1996*
- *Reports Consolidation Act of 2000*
- *Improper Payments Information Act of 2002, amended*
- *Government Performance and Results Modernization Act of 2010*
- *Improper Payments Elimination and Recovery Act of 2010*
- *Improper Payments Elimination and Recovery Improvement Act of 2012*

The Department produces the ***U.S. Department of Education FY 2019 Agency Financial Report (AFR)***. That report provides a comprehensive view of the Department's stewardship over its resources and includes a summary of the information contained in the *Annual Report.*

The *Annual Report* is available at **StudentAid.gov/strategic-planning-and-reporting.**

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Letter from the Chief Operating Officer of Federal Student Aid

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Letter from the Chief Operating Officer of Federal Student Aid

Dear Federal Student Aid Colleagues, Partners, and Customers:

I am excited to have joined Federal Student Aid (FSA) as Chief Operating Officer in March 2019. I am honored to have the opportunity to present this Fiscal Year (FY) 2019 Annual Report representing much of the incredible work and numerous accomplishments of the entire FSA team.

Mark A. Brown
Chief Operating Officer

As we work each day to help Americans reach their higher education goals, we are reminded that our mission began in a packed Texas gymnasium in November 1965. That day, President Lyndon B. Johnson signed the *Higher Education Act of 1965* (HEA) into law and made a promise to swing open a new door for the young people of America, the door to education.

At the time, just 1 in 10 Americans graduated college, 19 percent of American families lived in poverty, and the median income stood just above $6,000. In 2019—more than 50 years after the HEA became law—the average household income is $58,000; poverty has been cut almost in half; and 35 percent of Americans have 4 or more years of college.

Our nation has made significant progress, but we have more work to do. We so believe in the importance of keeping the promise made in 1965 that we've adjusted our mission statement to read: "*Keeping the Promise: Funding America's Future, One Student at a Time*".

One student—and one parent—at a time, FSA and America's postsecondary institutions partner to deliver more than $120 billion in federal grants, loans, and work-study funds to approximately 10 million students at nearly 6,000 schools.

This report presents FSA's achievements in FY 2019 and demonstrates our many efforts to improve the quality of service to our customers, mitigate risks, foster trust and collaboration among stakeholders, improve operational efficiency and flexibility, and invest in expanded workforce capability.

In FY 2019, we launched the next generation of federal student aid—an initiative called Next Generation FSA (Next Gen FSA)—that is bringing every aspect of what we do into the 21st century. The initiative, well underway, is streamlining our student aid systems and processes through innovations to our online tools from the **StudentAid.gov** website to the myStudentAid mobile app.

More than 1.2 million people downloaded the mobile app since its launch on October 1, 2018. The app's useful and time-saving features allow students and parents to easily and securely complete and submit a *Free Application for Federal Student Aid* (FAFSA®). Throughout the year, FSA enhanced the mobile app, by simplifying the signature process, providing a checklist to guide students and parents through the next steps in the student aid process, enabling push notifications, and adding role-based messaging. In FY 2019, more than 2.1 million people used a mobile device to submit a FAFSA form.

In addition to launching innovative technology during FY 2019, we improved customers' experience with the Teacher Education Assistance for College and Higher Education (TEACH) Grant and Public Service Loan Forgiveness (PSLF) Programs. We established a standard annual certification date—October 31—for all TEACH Grant recipients to simplify the program's requirements and ensure more TEACH Grant recipients have an opportunity to fulfill their service requirement. FSA also introduced a PSLF Help Tool that aids borrowers in assessing whether their employer and loans qualify for PSLF. The tool also helps borrowers know whether they are enrolled in an eligible repayment plan and decide which PSLF-related form to submit. Additionally, the tool allows FSA to use the information we have about the borrowers' federal student loans to explain other actions customers should or must take to benefit from PSLF.

While FSA took major steps to improve student and borrower experiences, we also refocused our oversight efforts on the institutions and other partners, such as federal loan servicers, that are critical to our work. To improve the delivery of world-class service to borrowers, we worked with the Department of Veterans Affairs to identify a new process to automatically relieve total and permanently disabled (TPD) veterans of their student loan debt. As a result of servicer performance issues, we initiated senior-level meetings at all FSA servicers to reinforce FSA's expectations of their performance and future compliance efforts.

We also have laid a solid foundation for the partner-centric element of Next Generation, Partner Participation and Oversight (Next Gen PPO). Next Gen PPO will transform the way FSA interacts with the thousands of schools, financial institutions, and other partners that participate in the federal student aid programs. Our vision is to create a single portal for access to all FSA systems and processes to reduce the administrative burden on schools and other vital partners.

FSA has made major strides to responsibly manage the student aid portfolio by mitigating risk. Our staff continues to expand enterprise risk management capabilities in areas such as governance, setting strategy and objectives, increased oversight, and reporting. In FY 2019, FSA built upon our portfolio view of risk, with a greater emphasis on cybersecurity and fraud risk. FSA also developed our first formal risk appetite statement, which aids our ability to determine appropriate risk responses and increase consistency and transparency in decision making.

FSA continues to foster trust and collaboration among stakeholders, in part, by promoting accountability and transparency. FSA reduced outstanding *Freedom of Information Act* requests by 67 percent in FY 2019 and has continued to engage stakeholders about the Next Gen FSA vision and its benefits to the customers we serve.

Institutional oversight remained an important focus in FY 2019. We conducted oversight for nearly 6,000 institutions; resolved more than 2,400 deficient audits and flagged financial statements; and processed more than 6,400 eligibility-related actions, including recertification applications. We also issued more than 375 Program Review Reports and Final Program Review Determinations (FPRDs) to institutions and third-party servicers subjected to a program review. Our focused oversight resulted in more than $227 million in assessed liabilities against institutions and third-party servicers via the 188 FPRDs issued to those entities throughout the fiscal year.

In addition to ensuring robust oversight of institutions, FSA also collaborated with guaranty agencies to improve retention, graduation, and cohort default rates at minority-serving institutions. Through this pilot program, Project Success, guaranty agencies provide customized resources and support costs to approximately 140 currently participating schools. The program also provides students financial literacy and other resources to help them achieve their higher education goals. Following the results of the first three years, we have extended the program through 2020 and increased its resources to double the number of participating schools and reach even more students.

None of this tremendous work is possible without the dedication and hard work of our 1,251 member workforce in 11 offices throughout the United States. We are investing in employees to enhance their skills and competencies for the 21st-century work that lies before us. I am amazed every day at employees' resolve and commitment to our mission. I commend them on their dedicated public service and thank them for all they do to keep the promise to students.

Students are at the heart of everything we do. In FY 2020, when we unveil the next phase of Next Gen FSA that includes a new "digital front door," a redesigned online and mobile platform, we will do so with students as our focus. When we introduce enhanced financial literacy tools and resources—including a repayment simulator and personalized loan counseling—we will do so with students' needs in mind.

I invite you to join us on this journey—not only to transform our organization, but also to collectively keep the promise and improve opportunities for students and families across America.

Sincerely,

Mark A. Brown
Chief Operating Officer
Federal Student Aid
United States Department of Education
November 15, 2019

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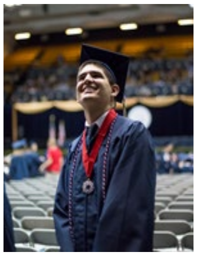
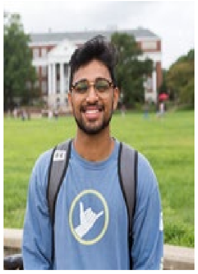
Overview of the Federal Student Aid Annual Report

The *Annual Report* is organized into five sections.



Management's Discussion and Analysis

This Management's Discussion and Analysis provides an overview of the *Annual Report.* It includes a discussion of the FSA mission, its organizational structure, and the fiscal year financial and performance highlights. The section concludes with a discussion of the organization's systems, controls, and compliance with laws and regulations, and the Limitations of Financial Statements.



Annual Performance Report

This Annual Performance Report presents the strategic goals included in the *Federal Student Aid: Strategic Plan, Fiscal Years 2015–19 (FSA FY 2015–19 Strategic Plan)* and a discussion of the results of the performance metrics related to each strategic goal. The section also includes FSA's fiscal year accomplishments; its legislative and regulatory recommendations to the Department; the Annual Bonus Awards; and the Report of the Federal Student Aid Ombudsman.

Financial Section

This Financial Section provides a detailed view of FSA's stewardship and accountability for its resources. The audited financial statements begin the section, followed by the accompanying Notes to the Financial Statements, Required Supplementary Stewardship Information, Required Supplementary Information, and the Independent Auditors' Report.

Other Information

The Other Information includes a summary of the Financial Statement Audit and links to the Summary of Management Assurances, and FSA's Management Challenges included in the ***AFR*****.** The section concludes with the Payment Integrity section, which contains a detailed discussion of FSA's efforts regarding improper payments.

Appendices

The Appendices include Appendix A, which lists the acronyms cited throughout the report and Appendix B, which provides information on the availability of the *Annual Report*.

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Management's Discussion and Analysis (Unaudited)

Overview of the Management's Discussion and Analysis

The Management's Discussion and Analysis provides an overview of the *Annual Report*. It includes the following subsections:

Fiscal Year 2019 Organizational Highlights

Fiscal Year 2019 Organizational Highlights presents Looking Forward at Federal Student Aid, which details the most important events and challenges that FSA faces and discusses the actions taken and progress made by FSA in addressing those challenges. This subsection also includes a presentation of FSA by the Numbers.

Mission and Organizational Structure

Mission and Organizational Structure provides the history of FSA and discussion of its federal student aid programs. This subsection also highlights the mission, vision, and values of FSA as presented in the *FSA FY 2015–19 Strategic Plan*.

Performance Management

Performance Management presents an overview of FSA's strategic and performance-planning framework, an overview of the *FSA FY 2015–19 Strategic Plan*, and the results of the FY 2019 performance metrics.

Analysis of Financial Statements

Analysis of Financial Statements provides an overview of FSA's financial data, an analysis of the financial data presented in the audited financial statements, and a discussion of FSA's financial management highlights.

Analysis of Systems, Controls, and Legal Compliance

Analysis of Systems, Controls, and Legal Compliance provides FSA's management assessment in conjunction with the Department's assessment on FSA's internal controls related to the *Federal Manager's Financial Integrity Act of 1982.* This subsection discusses the organization's compliance with the *Federal Financial Management Improvement Act of 1996,* and other laws and regulations related to the compliance of financial systems with federal requirements.

Limitations of Financial Statements

Limitations of Financial Statements details the limitations of the financial statements and recommends that the financial statements be read and reviewed in conjunction with the Notes to the Financial Statements.

Fiscal Year 2019 Organizational Highlights

Looking Forward at Federal Student Aid

As FSA moves into FY 2020, one of the first major milestones is the release of the *FSA FY 2020-24 Strategic Plan*. The *FSA FY 2020–24 Strategic Plan* will outline new goals and objectives to assist FSA in meeting the deliverables it has established to improve customer service and transform the loan servicing program for students, borrowers and taxpayers. In conjunction with executing a new strategic plan, FSA will continue to develop major elements of its 21st century vision to continue the momentum associated with organizational change that began in FY 2019.

FSA's primary focus for FY 2020 and beyond is to deliver on the promise of Next Gen FSA. Through Next Gen FSA, FSA will transform the experience of applying for, receiving, and repaying federal student aid for millions of students, parents, and borrowers, as well as over 5,700 postsecondary institutions. More specifically, Next Gen FSA will create a customer and partner experience throughout the life cycle of student financing that will ensure:

- Easier, more seamless customer and partner interactions, primarily through new FSA-branded web and mobile technology that provides state-of-the-art capabilities all customers and partners can use to perform tasks simply and intuitively;
- Features and tools are designed based on direct customer feedback on what works for them, and refined through ongoing customer and partner data and feedback; and
- Customers better understand the financial implications of their student debt and make more informed decisions regarding the various repayment options and protections available to Federal customers.

In addition, Next Gen FSA will improve FSA's operational flexibility by creating a modern technology and contract environment that can efficiently and effectively integrate new and existing capabilities and features, continuously improve and innovate, and adjust to stay in compliance with changing Federal rules, regulations, and laws. Next Gen FSA will also drive greater efficiency; reduce complexity; improve the stability, resiliency, enterprise risk management, and cybersecurity of our systems; and ensure effective and efficient use of taxpayer dollars.

Next Gen FSA also will enable FSA to improve customer outcomes; facilitate compliance with Federal consumer protection standards and the legal requirements of Title IV of *the Higher Education Act of 1965*, as amended (Title IV); and hold ourselves and our vendors accountable for performance. Explicit standards and accessible data will be used to leverage greater transparency and improved outcomes, with specific goals including:

- Increased customer satisfaction;
- Better informed borrowing decisions;
- Decreased percentage of borrowers in delinquency or default;
- Fewer borrowers in deferment and forbearance;
- Increased digital self-service by customers (instead of calls to FSA); and
- Reduced mail correspondence and payments (in favor of digital solutions that provide faster, better service).

Development of the Next Generation Partner Participation and Oversight (Next Gen PPO) platform will transform the way FSA interacts with the thousands of schools, financial institutions and other partners that participate in FSA programs. Goals for Next Gen PPO include a single portal through which institutions can access all FSA systems and processes; streamlined processes for submitting and reviewing program participation and other eligibility materials; and improved FSA workflow tools to support faster decision-making.

Customer engagement is the motivation behind FSA's current and future efforts. FSA will continue to ensure accurate and timely information is available and promoted through the Department's multiple engagement and information dissemination channels, (including FSA's social media properties, customer facing websites, outreach with counselors and partners, promotional campaigns, and targeted emails), with a continued focus on providing information geared toward the needs of students at each stage of the student aid life cycle.

FSA is confident that over the next several years it can support positive change in student lending. One avenue is to increase oversight and monitoring of federal student loan servicers to ensure they meet their contractual obligations and improve their services to borrowers. In alignment with servicer accountability, FSA also will conduct outreach efforts to student loan borrowers and perform listening sessions of customer call center interactions to identify areas for continual improvement in service and the customer experience.

To mitigate future risk to the portfolio as well as aid borrowers in a proactive way, FSA will incorporate delinquency and default prevention strategies in Next Gen FSA. These strategies include early targeted outreach and counseling for at-risk borrowers; and the use of mobile and other digital engagement tools to maintain contact with borrowers and provide information on repayment options and other strategies to avoid default. FSA also will have more targeted and intensive outreach during the later stages of delinquency, with the goal of increasing students' and parents' awareness of and access to information, tools and assistance to help them repay their loans.

As always, FSA will continue to evaluate, monitor, and report on non-default federal student loan servicers' performance as well as continue adjusting servicers' allocation percentages (i.e., volume of new borrowers received) to benefit customer service outcomes. Lastly, FSA will continue to work with its partners at the Department to operationalize the College Scorecard measures in the National Student Loan Data System (NSLDS) on debt and related federal student aid metrics. By automating this functionality and others in the student aid environment, and ensuring valuable information is available for prospective and current student aid recipients, FSA will continue to change the long-term success outcomes of its most important stakeholder—the students.

Federal Student Aid Fiscal Year 2019 by the Numbers

Figure 1: Federal Student Aid Net Outlays[1]
Fiscal Years 2015–19

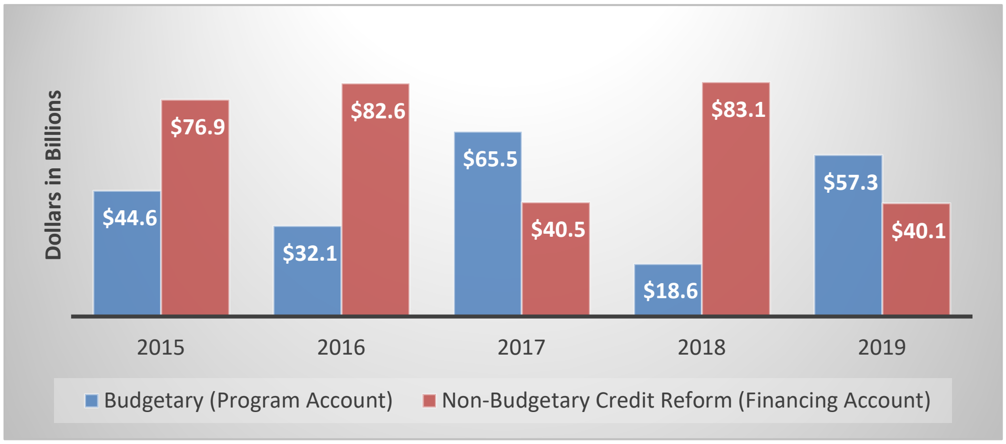


Figure 2: Federal Student Aid Administrative Budget
Fiscal Years 2015–19

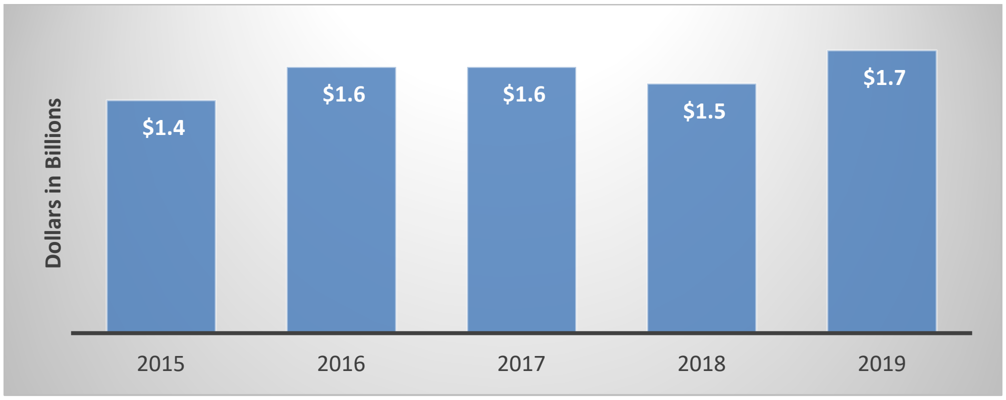
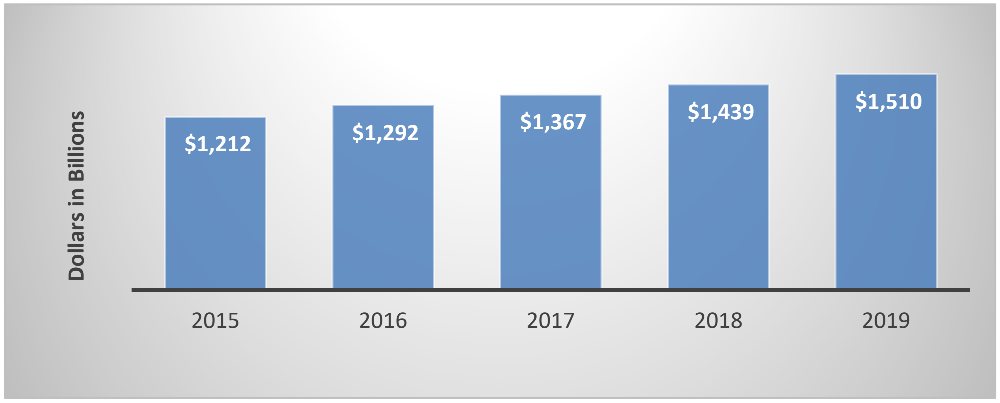


Figure 3: Federal Student Aid Student Loan Portfolio[2]
Fiscal Years 2015–19



[1]The Budgetary account is also known as the Program account; the Non-budgetary credit reform account is also known as the Financing account. For more information on these two accounts, please refer to Note 5.

[2]The amounts in Figure 3 include both lender-held FFEL loans and School-held Perkins loans.

Federal Student Aid Fiscal Year 2019 by the Numbers (continued)

Figure 4: Total FAFSAs[3] Processed and Total Students Receiving Aid Fiscal Years 2015–19

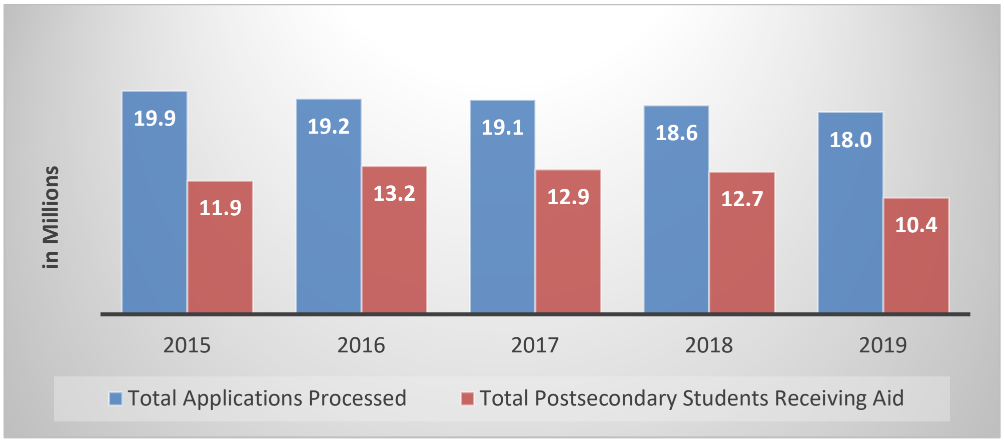


Figure 5: Total Federal Student Aid Delivered Fiscal Years 2015-19

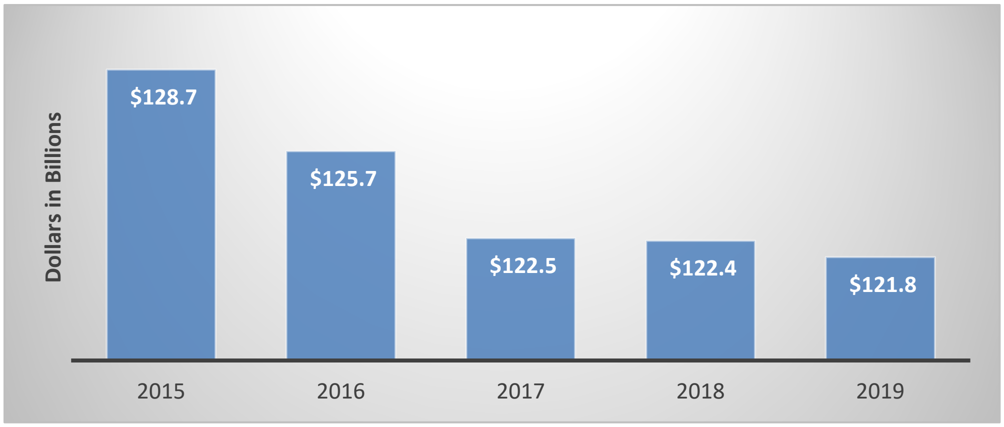
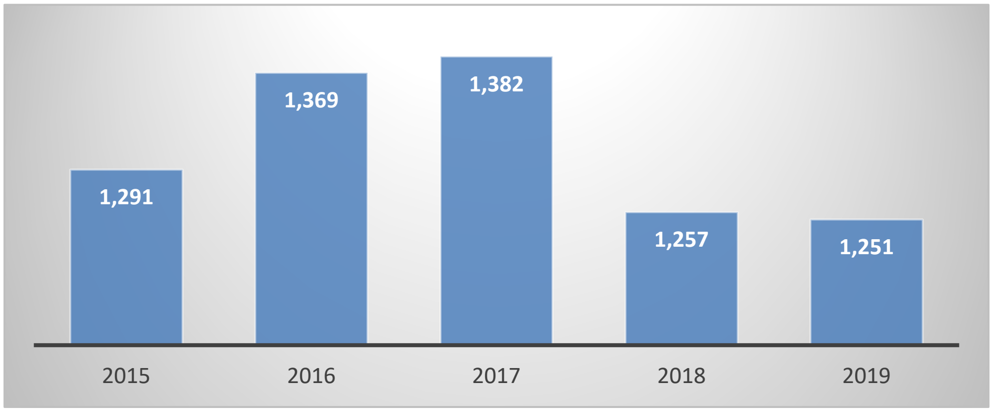


Figure 6: Federal Student Aid Federal Employees Fiscal Years 2015-19



[3]Free Applications for Federal Student Aid.

Mission and Organizational Structure

FSA, a principal office of the U.S. Department of Education (the Department), seeks to ensure that all eligible individuals can benefit from federal financial assistance for education beyond high school. As the nation's largest provider of student financial aid, FSA is responsible for implementing and managing federal student financial assistance programs authorized under the *Higher Education Act of 1965,* as amended (HEA). Specifically, Title IV of the HEA (Title IV) authorizes the federal student assistance programs for which FSA is responsible. These programs provide grants, loans, and work-study funds to students attending colleges or career and technical schools.

To execute the Title IV programs, FSA is responsible for a range of functions across the student aid lifecycle, which include:

- informing students and families about the availability of the federal student aid programs and the process of applying for and receiving aid from those programs;
- processing millions of Free Applications for Federal Student Aid (FAFSA®);
- accurately disbursing, reconciling, and accounting for billions of dollars of federal student aid funds that are delivered to students annually;
- managing the outstanding federal student loan portfolio and securing repayment from federal student loan borrowers;
- offering free assistance to students, parents, and borrowers throughout the entire financial aid process; and
- providing oversight and monitoring of all program participants—schools, financial entities, and students—to ensure compliance with the laws, regulations, and policies governing federal student aid programs.

This complex, multifaceted mission calls on a range of staff skills and demands coordination by all levels of management. Designated as a Performance-Based Organization (PBO) by Congress in 1998, FSA emphasizes tangible results and efficient performance, as well as continuous improvement of the processes and systems that support its mission.

Significant Legislation that Directs the Federal Student Aid Mission

Several legislative acts guide FSA's mission. The *Higher Education Amendments of 1998* established FSA as a PBO to administer the Title IV programs. The following table, while not all-inclusive, identifies additional significant legislation that has influenced FSA's mission.

Overview of Legislative Authority

Legislation	Purpose
Higher Education Act of 1965, as amended	Created the federal student financial assistance programs known as Title IV programs.
Student Loan Reform Act of 1993	Authorized a multi-year phased implementation of the William D. Ford Federal Direct Loan Program.
Higher Education Reconciliation Act of 2005	Allowed graduate and professional students to use the PLUS Loan Program.
College Cost Reduction and Access Act of 2007	Authorized the Teacher Education Assistance for College and Higher Education Grant Program, created the Public Service Loan Forgiveness Program, and established Income Based Repayment plans.
Ensuring Continued Access to Student Loans Act of 2008	Provided the Department with the authority to implement programs to ensure eligible students and parents were not denied access to federal student loans during the credit market disruptions of 2008.
SAFRA Act of 2009	Provided that, beginning July 1, 2010, no new loans would be originated under the Federal Family Education Loan Program.
Bipartisan Student Loan Certainty Act of 2013	Established that federal student loan interest rates will be tied to financial markets and that each loan will have a fixed interest rate for the life of the loan.
Consolidated Appropriations Act, 2014	Transferred all Health Education Assistance Loan Program loans as of July 1, 2014 from the U.S. Department of Health and Human Services to the Department.

FSA Stakeholders

The community of stakeholders in the student aid delivery system includes students and parents, lenders, guaranty agencies, postsecondary institutions, contracted servicers and collection agencies, as well as taxpayers and other federal entities such as Congress and the U.S. Office of Management and Budget (OMB).

Role of FSA and Participants in the Federal Student Aid System

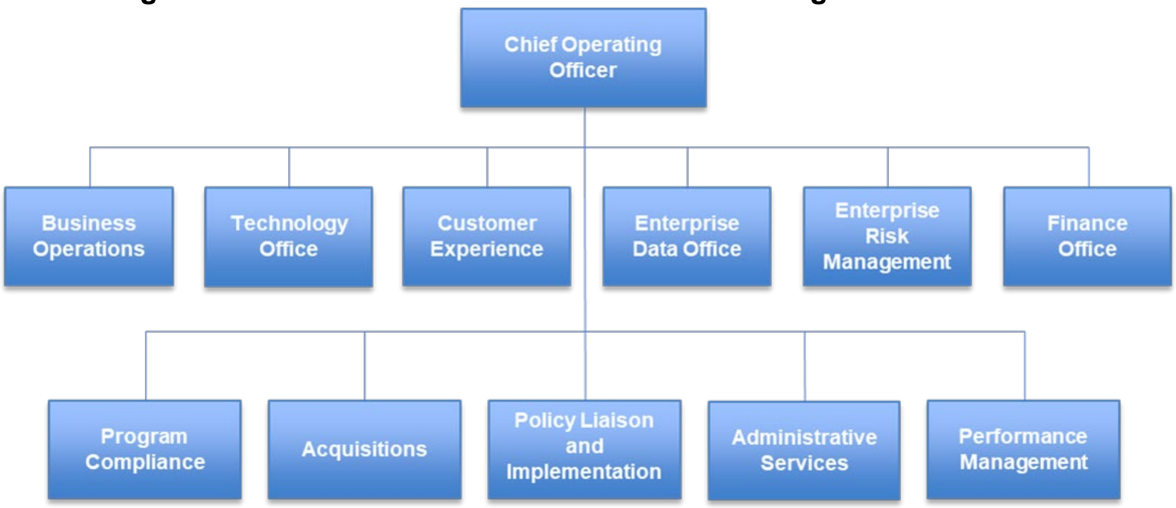
Participants	Participants' Role	FSA's Engagement with Participants
Students	• Receive student aid and repay student aid loans used to finance postsecondary education.	• Increasing awareness of federal student aid and the process for applying for and receiving aid; • Identifying students for whom financial assistance can make a difference; • Protecting students from unfair, deceptive, or fraudulent practices in the student aid marketplace; and • Informing borrowers of their repayment options and securing repayment from borrowers.
Guaranty Agencies	• Insure Federal Family Education Loan Program loans and service their defaulted loan portfolios.	• Monitoring compliance; • Assisting Guaranty Agencies in meeting requirements; • Providing education regarding policy; and • Paying default claims.
Federal Family Education Loan Program Lenders	• Hold and service outstanding Federal Family Education Loan Program loans to students.	• Monitoring compliance; • Paying interest and Special Allowance Payments; and • Providing education regarding policy.
FSA-Contracted Loan Servicers	• Service William D. Ford Federal Direct Loan Program portfolio and portions of Federal Family Education Loan Program portfolio; • Provide systems and services to support FSA's core operations (e.g., applications, disbursements); and • Recover funds from defaulted loans.	• Acquiring services; • Setting performance standards; and • Overseeing operations.
Postsecondary Institutions	• Determine students' aid packages and disburse funds.	• Monitoring compliance; • Providing education regarding policy; and • Assisting institutions in meeting requirements.
Congress	• Set statutory standards on student aid funding and appropriate student aid and FSA funding.	• Providing data and information for decision making; and • Providing updates on operational performance.
The President, the Department and others in the Executive Branch	• Set regulatory standards and policy on student aid funding.	• Providing data and information for decision making; and • Providing recommendations for implementation.

FSA's responsibilities include coordinating and monitoring the activity of the large number of federal, state, nonprofit, and private entities involved in delivering federal student aid within the statutory framework established by Congress and regulatory framework established by the Department.

FSA Organizational Structure

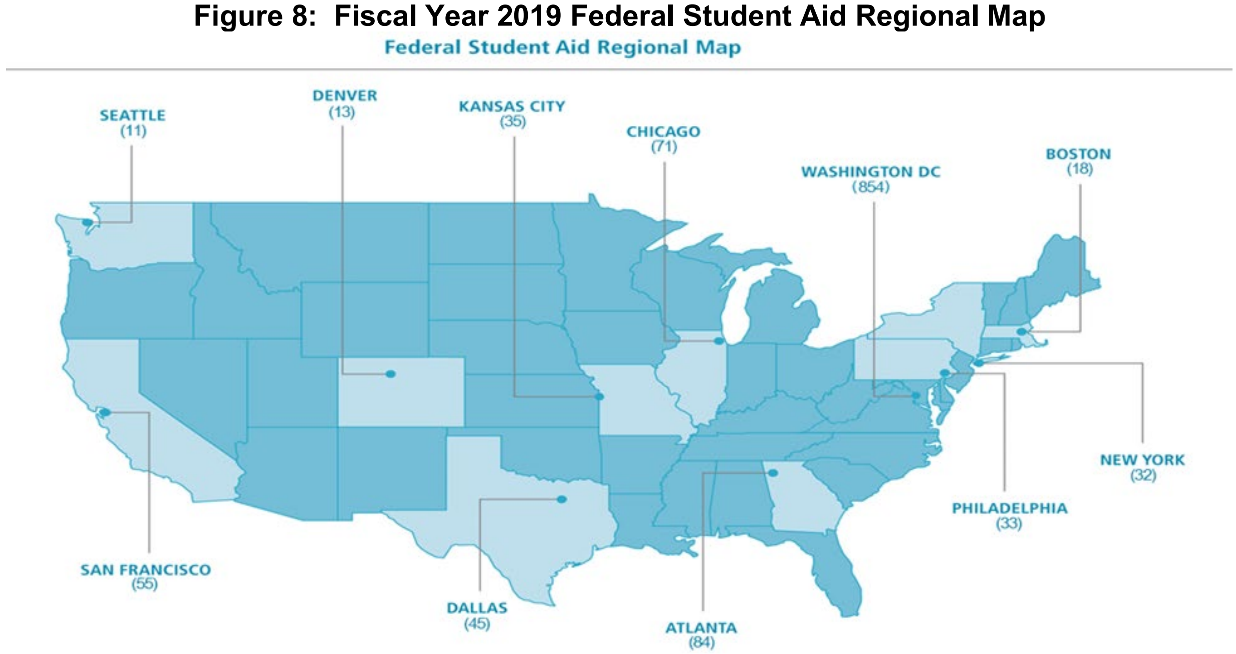
In Fiscal Year (FY) 2019, FSA operated under a functional organizational structure that aligned the organization with its strategic drivers, business objectives, and mission goals. A Chief Operating Officer (COO) is appointed by the Secretary of Education (Secretary) to lead FSA. In March 2019, the Secretary appointed Mark A. Brown as the FSA COO. Figure 7 illustrates the functional organizations within FSA.

Figure 7: Fiscal Year 2019 Federal Student Aid Organizational Chart



During FY 2019, FSA operated on an annual administrative budget of approximately $1.7 billion. As of September 30, 2019, FSA is staffed by 1,251 full-time employees and augmented by contractors who provide outsourced business operations. The workforce is primarily based in FSA's headquarters located in Washington, DC, with ten regional offices located throughout the country as reflected in the following Figure 8. The number of full-time employees at each location is shown in parentheses immediately following the location name.

Figure 8: Fiscal Year 2019 Federal Student Aid Regional Map



Federal Student Financial Aid Programs

Each year, FSA delivers billions of dollars in financial aid to students through Title IV programs. These programs collectively represent the nation's largest source of federal financial aid for postsecondary education students. This aid covers expenses such as tuition and fees, room and board, books and supplies, and transportation. Federal financial aid is mainly distributed to students through:

- Loans
  - Student aid funds that are borrowed to help pay for eligible education programs and must be repaid with interest;
- Grants
  - Student aid funds that do not have to be repaid, unless other conditions apply; and
- Work-Study
  - A part-time employment program that allows students enrolled in college to earn money to help pay for school.

To obtain federal financial aid, prospective aid recipients must complete the FAFSA. In FY 2019, FSA processed more than 18.0 million FAFSAs, resulting in the delivery of approximately $121.8 billion in Title IV aid to over 10.4 million postsecondary students and their families. These students attend 5,767 active institutions of postsecondary education that participate in student aid programs and are accredited by dozens of agencies.

The following table presents a comparison of the amounts of Title IV aid disbursed to students by program in FY 2019 and FY 2018. A summary discussion of each Title IV program is presented in the paragraphs after the table.

Table 1: Summary of Federal Aid Disbursed to Students by Program[4]

(Dollars in Millions)

Programs	2019 Aid Disbursed to Students	2018 Aid Disbursed to Students	Difference	Percentage Change
Federal Loan Programs				
William D. Ford Federal Direct Loan Program	$ 90,156.0	$ 91,484.6	$ (1,328.6)	(1.5)%
Federal Perkins Loan Program	630.5	886.3	(255.8)	(28.9)
Other Loan Programs	-	(0.1)	0.1	(100.0)
Subtotal Loan Programs	**$ 90,786.5**	**$ 92,370.8**	**$ (1,584.3)**	**(1.7)%**
Federal Grant Programs				
Federal Pell Grant Program	$ 28,974.7	$ 28,249.8	$ 724.9	2.6%
Federal Supplemental Educational Opportunity Grant Program	853.5	750.1	103.4	13.8
The Teacher Education Assistance for College and Higher Education Grant Program	78.5	83.9	(5.4)	(6.4)
Other Grant Programs	0.4	0.3	0.1	33.3
Subtotal Grant Programs	**$ 29,907.1**	**$ 29,084.1**	**$ 823.0**	**2.8%**
Federal Work-Study Program				
Federal Work-Study Program	$ 1,078.5	$ 983.3	$ 95.2	9.7%
Rounding	(0.1)	0.1	0.0	-
Grand Total	**$ 121,772.2**	**$ 122,438.3**	**$ (666.1)**	**(0.5)%**

[4]Aid disbursed to students as cited in the table above, and in the following sections concerning the Federal Loan Programs, the Federal Grant Programs, and the Federal Work-Study Program in the Management's Discussion and Analysis, excluding the Federal Perkins Loan Program amounts, are derived from amounts from FSA's and the Department's financial systems. All amounts are fiscal year amounts, except for the Federal Perkins Loan Program, which is reported as the prior award year amount (e.g., Award Year 2017–18 reported in FY 2019). The number of awards or recipients reported in the Management's Discussion and Analysis is derived from a variety of sources including FSA's Common Origination and Disbursement System and data used to support the President's Budget. Recipient counts are based on award year.

Federal Loan Programs

In fulfilling its program responsibilities, FSA directly manages or oversees a loan portfolio of over $1.5 trillion, representing almost 210 million student loans to more than 45 million borrowers. These loans were made primarily through the first two federal student loan programs described below.

The William D. Ford Federal Direct Loan (Direct Loan) Program lends funds directly to students and parents through participating schools. Created in 1993, this program is funded primarily by borrowings from the U.S. Department of the Treasury (Treasury), as well as an appropriation for subsidy costs. Four different types of direct loans are available for borrowers:

- Direct Subsidized Loans
  - Federal loans based on financial need made to undergraduate students for which the federal government generally does not charge interest while the borrower is in school, in grace, or in deferment status. For Direct Subsidized Loans first disbursed between July 1, 2012, and July 1, 2014, the borrower is responsible for paying any interest that accrues during the grace period. If the interest is not paid during the grace period, the interest is added to the loan's principal balance.

- Direct Unsubsidized Loans
  - Federal loans made to undergraduate students and graduate students for which the borrower is fully responsible for paying the interest regardless of the loan status. Interest on unsubsidized loans accrues from the date of disbursement and continues throughout the life of the loan.

- Direct PLUS Loans
  - Federal loans made to graduate or professional students and parents of dependent undergraduate students for which the borrower is fully responsible for paying the interest regardless of the loan status.

- Direct Consolidation Loans
  - Federal loans that allow the borrower to combine multiple existing federal student loans into one new loan. The borrower will only have to make one monthly payment on the consolidation loan, and the repayment term of the loan may be longer than the terms of the original loans, which may result in a lower monthly payment.

As of September 30, 2019, FSA's portfolio of Direct Loans included $1,123.7 billion in credit program receivables, net. In FY 2019, the Department made $90.2 billion[5] in net loans to 8.8 million recipients.

Under the **Federal Family Education Loan (FFEL) Program,** students and parents obtained federal loans through private lenders. Guaranty agencies insure lenders against borrower default; the federal government, in turn, reinsures the guaranty agencies. Federal subsidies ensure private lenders earn a certain yield on the loans they made.

The passage of the *SAFRA Act*, which was included in the *Health Care and Education Reconciliation Act of 2010* (HCERA) (Pub. L. 111-152), ended the origination of new FFEL Program loans as of July 1, 2010. Nevertheless, FSA, lenders, and guaranty agencies continue to service and collect outstanding FFEL Program loans. FSA, FFEL lenders, and guaranty

[5]Excludes consolidation loans of $39.8 billion.

agencies held a FFEL Program loan portfolio of approximately $261.6 billion as of September 30, 2019. Of this portfolio, $76.8 billion represented FSA's credit program receivables, net. In FY 2019, FSA made gross payments of approximately $1.3 billion to lenders for interest and special allowance subsidies and $5.7 billion to guaranty agencies for reinsurance claims and fees paid for account maintenance, default aversion, and collection activities.

The *Ensuring Continued Access to Student Loans Act of 2008* (ECASLA) authorized the Department to implement a number of programs to ensure credit market disruptions did not deny eligible students and parents access to federal student loans for the 2008–09 and 2009–10 academic years. The authority of two ECASLA Programs, the Loan Purchase Commitment Program and the Loan Participation Interest Purchase Program, expired after September 30, 2010. The third ECASLA Program, the Asset-Backed Commercial Paper Conduit (ABCP Conduit) Program, ended in January 2014.

As of September 30, 2019, FSA-held FFEL credit program receivables, net totaled $76.8 billion, comprising $23.0 billion acquired under the "traditional" (Non-ECASLA) guaranteed loan program, and $53.7 billion in loans acquired under the ECASLA authorization.

The **Federal Perkins Loan Program** is one of three campus-based student aid programs. These federal loans were made by schools to undergraduate and graduate students who demonstrate financial need. Historically, participating schools received a certain amount of funds each year from FSA for distribution under this program, which supplemented funds in a school's revolving fund, from which new disbursements were made. These funds enabled eligible institutions to offer low-interest loans to students based on financial need. Once the full amount of the school's funds had been awarded to students, no additional loans were to be made under this program for the year. In FY 2019, FSA reported Award Year 2017–18 disbursements of approximately $630.5 million of funds, comprising approximately 256,000 awards to eligible students.

The **Health Education Assistance Loan (HEAL) Program** was transferred to the Department from the U.S. Department of Health and Human Services in FY 2014 under the *Consolidated Appropriations Act, 2014* (Pub. L. 113-76). This program enabled graduate students in schools of medicine, osteopathy, dentistry, veterinary medicine, optometry, podiatry, public health, pharmacy, chiropractic, or programs in health administration and clinical psychology to obtain federally insured loans through participating lenders. Since September 30, 1998, no new loans have originated through this program; however, borrowers are still obligated to repay any outstanding loans obtained through the program.

The Department assumed responsibility for the program and the authority to administer, service, collect, and enforce the loans. Credit program receivables, net of allowance for subsidy, were $394.7 million for FY 2019.

Federal Grant Programs

In its responsibility for administering Title IV aid, FSA oversaw the disbursement of $29.9 billion in grants to 8.2 million recipients. The following provides a summary for each grant program, including aid disbursed in FY 2019.

The **Federal Pell Grant (Pell Grant) Program** helps ensure financial access to postsecondary education by providing grant aid to low-income and middle-income undergraduate students. Considered the foundation of a student's financial aid package, Pell Grants vary according to the financial circumstances of students and their families. In FY 2019, the Department disbursed $29.0 billion in Pell Grants averaging approximately $4,168 to almost 8.2 million students. The maximum Pell Grant award was $6,095 in the 2018–19 award year and increased to $6,195 in the 2019–20 award year.

The **Federal Supplemental Educational Opportunity Grant Program** is one of three campus-based programs through which the Department provides funds directly to eligible institutions. Funds provided through this program enable eligible institutions to offer grants to students based on need. Federal grants distributed under this program are administered directly by the financial aid office at each participating school. Each participating school receives a certain amount of Federal Supplemental Educational Opportunity Grant funds each year from FSA. Once the full amount of the school's grant funds has been awarded to students, no additional awards can be made under this program for the year. This form of aid does not require repayment. In FY 2019, approximately $853.5 million were disbursed through approximately 1.7 million campus-based awards.

The Teacher Education Assistance for College and Higher Education (TEACH) Grant Program provides individual awards up to $4,000 per year to students agreeing to teach mathematics, science, or other specialized subjects in a high-poverty school for at least four years within eight years of their graduation. This grant program began in the 2008–09 school year, starting July 1, 2008. For any 2019–20 TEACH Grant first disbursed on or after October 1, 2018, and before October 1, 2019, the maximum award is $3,752. For any 2019–20 TEACH Grant first disbursed on or after October 1, 2019, and before October 1, 2020, the maximum award is $3,764. If students fail to fulfill the service requirements specific to the program, their TEACH Grants convert to Direct Unsubsidized Loans, with interest accruing from the time of the award. In FY 2019, the Department disbursed more than 35,000 grants totaling $78.5 million under the TEACH Grant Program.

The Iraq and Afghanistan Service Grant Program, which became effective July 1, 2010, provides non-need-based grants to students whose parent or guardian was a member of the Armed Forces and died in Iraq or Afghanistan as a result of military service after September 11, 2001. These grants are awarded to students who are not eligible for a Federal Pell Grant based on financial need, but meet the remaining Federal Pell Grant eligibility requirements, and:

- Have a parent or guardian who was a member of the U.S. Armed Forces and died as a result of military service in Iraq or Afghanistan after the 9/11 events, and;
- Were under 24 years old or enrolled in college at least part-time at the time of the parent or guardian's death.

For any 2019–20 Iraq and Afghanistan Service Grant first disbursed on or after October 1, 2018, and before October 1, 2019, the maximum award amount is $5,810.91. For any 2019–20 Iraq and Afghanistan Service Grant first disbursed on or after October 1, 2019, and before October 1, 2020, the maximum award amount is $5,829.50. The Department disbursed approximately $407,000 to support fewer than 100 awards in FY 2019.

Federal Work-Study Program

The **Federal Work-Study Program** is one of three campus-based programs through which the Department provides funds directly to eligible institutions. Funds provided through this program enable eligible institutions to offer part-time employment to undergraduate, graduate, and professional students based on financial need, allowing them to earn money to help pay education expenses. The program is available to full-time or part-time students and encourages community service work. The work is often related to the student's course of study. In FY 2019, approximately $1.1 billion were disbursed through more than 700,000 campus-based awards.

Mission, Vision, and Core Values

FSA's mission is student-focused. This mission drives the organization's vision to be a reliable provider of federal student aid and services and to be the most trusted source of postsecondary education information to students and their families. As part of its vision, FSA strives to assist students and families in making better decisions about their postsecondary education funding options. The core values reflect a culture of integrity, excellence, and collaboration—key components in building a high-performing organization.

FSA Mission, Vision, and Core Values

MISSION	
MISSION	*Funding America's Future, One Student at a Time*[6]
VISION	
VISION	To be the most trusted and reliable source of student financial aid, information, and services in the nation.
VALUES	
Integrity	Do the right thing above other interests and hold everyone accountable.
Customer Service	Know what our customers want and ensure we meet their expectations.
Excellence	Strive to be the very best in all we do by embracing a culture of continuous improvement.
Respect	Value individuals by acknowledging the diversity of their contributions, ideas, and beliefs.
Stewardship	Uphold the sacred trust of taxpayers as we work to support the goals of Congress and the Administration.
Teamwork	Work in collaboration with our colleagues and partners to produce the best possible results.

As discussed in detail in the next section, FSA has translated this vision into a set of clearly defined strategic goals and objectives, with related measurable performance metrics. The realization of these goals will enable the organization to accomplish its mission successfully.

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[6]The mission stated above represents the Federal Student Aid's mission statement as published in the FY 2015–19 FSA Strategic Plan. A new mission statement, *Keeping the Promise: Funding America's Future, One Student at a Time*, has been developed and will be published in the new FSA Strategic Plan.

Performance Management

The FSA *Annual Report* provides a detailed view of the past year's goals, challenges, and accomplishments in the context of the *FSA FY 2015–19 Strategic Plan*.

This section of the *Annual Report* provides a general overview of the performance management processes at FSA. It includes a summary of FSA's FY 2019 performance metrics, objectives, and results; discussion of FSA's Agency Priority Goals; and discussion of FSA's efforts to validate the quality of performance data reported.

Performance Management Processes at Federal Student Aid

During FY 2019, FSA used three tools to establish goals and communicate, measure, and report performance:

- FSA FY 2015–19 Strategic Plan;
- Annual Performance Report; and
- Annual Organizational Performance Review.

FSA FY 2015–19 Strategic Plan

As part of the strategic planning process, FSA continuously identifies and evaluates key drivers that significantly influence FSA's long-term goals and objectives. FSA analyzes these drivers to identify long-term core strategic goals that will serve as the foundation of FSA's strategic planning. These strategic goals collectively provide the framework for continuous improvement at FSA, guiding the organization in managing its programs more effectively, and providing clear strategic direction to all of FSA's internal and external constituencies. The five-year strategic goals developed must be:

- Appropriate to the mission of the organization;
- Realistic and measurable;
- Achievable in the time frame established and challenging in their targets; and
- Understandable to the layperson with language that is unambiguous, and terminology that is adequately defined.

Each strategic goal encompasses objectives and identifies performance metrics to measure FSA's level of success in meeting the strategic goal. For each performance metric, FSA identifies a target level of performance for each fiscal year. FSA sets the target level of performance at a challenging, but realistic level that is achievable within the timeframe. Meeting or exceeding the target indicates that FSA succeeded in attaining the established performance metric, while falling short of the target indicates that FSA did not attain the performance metric. The following table summarizes the key components of the *FSA FY 2015–19 Strategic Plan*.

Key Components of the *FSA FY 2015–19 Strategic Plan*

Key Component	Description
Strategic Goals	Statements of long-term purpose outlined in the *FSA FY 2015–19 Strategic Plan* that define how FSA will accomplish its mission. These goals are aligned to FSA's responsibilities as a PBO.
Objectives	Statements that describe the tactical activities FSA will perform to achieve the associated strategic goal.
Performance Metrics	Levels of performance over a certain timeframe used to gauge FSA's success in reaching its strategic goals. These metrics include targets and timeframes.
Targets	Indicators of the desired performance levels or specific desired results targeted for a given fiscal year. Targets are expressed in quantifiable terms and are compared to the actual result to determine level of performance.

Throughout the fiscal year, FSA measures and analyzes performance based upon performance metric results. For any performance metrics not on track, FSA's analysis includes identifying the root cause of the unexpected result and determining the appropriate corrective actions necessary to improve performance.

Annual Performance Report

To report progress on meeting the strategic goals, FSA prepares and publishes an *Annual Performance Report,* which is included in FSA's *Annual Report.* In addition to the *Annual Performance Report*, the *Annual Report* includes FSA management's discussion and analysis of financial and performance results, its audited financial statements and notes, and the report of the independent auditors.

Annual Organizational Performance Review

The annual Organizational Performance Review (OPR) is part of the Department-wide performance management system. It operates at the principal office level and is designed to integrate and align all of the Department's performance management elements, including the *U.S. Department of Education Strategic Plan for Fiscal Years 2018–22,* Agency Priority Goals, the priorities of the principal offices, and other requirements of law and of the President. The OPR framework primarily focuses on process improvements and capacity building, providing principal offices an opportunity to establish specific milestones. FSA tracks the status of its OPR metrics and reports on its progress to the Department.

Fiscal Year 2019 Strategic Goals, Objectives, and Performance Metrics

The *FSA FY 2015–19 Strategic Plan* reflects the organization's focus on quality of service as well as increasing analytical and research capabilities. Key strategic drivers, listed below, influenced the development and implementation of FSA's strategic plan, as well as the development and tracking of performance measures.

Key Strategic Drivers Relevant to FSA Strategic Planning

Key Strategic Driver	Relevance to FSA's Strategic Planning Process
The Higher Education Act of 1965 legislation	Prescribes Title IV program and PBO requirements (i.e., improve service, reduce costs, improve and integrate support systems, develop delivery and information systems, and enhance staff development and talent).
Student and borrower needs	Students and borrowers are key customers of FSA services and products.
Key trends and conditions for the financial aid environment	Indicates student aid environment within which FSA must operate. Listed below are key trends that may affect the financial aid environment. • Changing demand for Federal Student Aid. • Continuing growth of student debt and focus on delinquency and default. • Increasing pressure to improve student interaction within the aid system. • Increasing demand for accountability in the use of federal funds. • Increasing attention to availability and uses of data. • Continuing focus on data security.
The Department's Five-Year *Strategic Plan*	Requires FSA's support of the Department's strategic goals related to postsecondary education.
The Office of Inspector General's Management Challenges	Requires the Department and FSA senior management's consideration for establishing priorities. The Office of Inspector General's Management Challenges for FY 2019 include: • Improper Payments; • Information Technology Security; • Oversight and Monitoring; and • Data Quality and Reporting.
The Office of Inspector General and Government Accountability Office audits	Requires FSA senior management's consideration for establishing priorities to address findings and recommendations.
Federal financial management laws and regulations	Prescribes financial management requirements.

Key Strategic Driver	Relevance to FSA's Strategic Planning Process
Federal performance reporting legislation and requirements	Prescribes performance and reporting requirements.
Federal budget deficits	Requires FSA to look for opportunities to reduce operating costs through improved efficiency.

FSA's five Strategic Goals, based upon analysis of the above key strategic drivers, are:

- **Strategic Goal A:** Improve quality of service for customers across the entire student aid life cycle.
- **Strategic Goal B:** Proactively manage the student aid portfolio to mitigate risk.
- **Strategic Goal C:** Improve operational efficiency and flexibility.
- **Strategic Goal D:** Foster trust and collaboration among stakeholders.
- **Strategic Goal E:** Invest in expanded workforce capability.

The remainder of this section provides a discussion of each strategic goal, including the associated objectives and a summary of performance metric results. For a more detailed discussion, refer to the ***Annual Performance Report*** section of this document.

How the Remainder of this Section is Organized. This section is organized by the five strategic goals. For each strategic goal, this section provides an overview of the goal, lists the associated objectives that support the strategic goal, and details the performance metrics used to measure performance. Specifically, the following information is included for each strategic goal:

- **Strategic Goal:** States the strategic goal and provides a discussion of the relevance of the goal to FSA's mission.
- **Objective:** Includes a brief discussion of the objectives identified for the strategic goal.
- **Performance Metrics:** Includes a summary of FSA's performance as measured by the performance metrics for the strategic goal. This summary is followed by a performance metric table that details, the prior years' actual results; the current reporting period target; the current year actual result; and the page reference to the detailed discussion located in the ***Annual Performance Report*** section of this document. The following is the legend for the performance result indicator included in the table.

Performance Result Indicator Legend

Performance Result	Indicator
Performance result met or exceeded the target.	**Met** ✓
Performance result did not meet the target.	**Not met** X
Performance result is not applicable because the performance metric was not developed, the performance metric was not implemented, or the required data were not available in time for inclusion.	**N/A** —

The performance metric results reported are as of fiscal year-end, September 30, 2019, unless otherwise noted. If the required data are not available as of fiscal year-end in time for inclusion in this report, data as of the most recent period available are used. Data as of fiscal year-end may not be available in some instances, where the required data are obtained from external sources including state and private nonprofit guaranty agencies, lenders and loan servicers, and grant and loan recipients.

Strategic Goal A: *Improve quality of service for customers across the entire student aid life cycle.*

FSA recognizes the importance of continuing to strive for improvements in quality of service. Connecting customers with the appropriate resources is a cornerstone of FSA's mission. To achieve this goal, FSA continues to work on providing increased outreach and information on all aspects of the student aid environment. These efforts allow students and families to make decisions in the most well-informed manner. FSA also takes great care to ascertain that high-quality service does not begin and end with aid disbursement and ensures customers remain connected to the best resources available at every stage of the student aid lifecycle.

Strategic Goal A focuses directly on student/aid recipient awareness and giving individuals and families the best resources to ensure sound financial decisions while also working to identify patterns and trends to deliver information to customers proactively rather than reactively.

Objectives supported: To support this strategic goal, FSA identified a set of objectives, which includes detailed initiatives designed to assist with meeting each objective. Meeting each objective will result in accomplishing the strategic goal. The objectives that support this strategic goal include:

- **Objective 1:** Improve outreach and awareness efforts to support aid recipients and their families in making sound financial decisions.
- **Objective 2:** Optimize the borrower service model to improve the customer experience.
- **Objective 3:** Predict, identify, and understand existing and emerging customer trends and patterns.
- **Objective 4:** Enhance outreach, training, and tools to improve institutional performance and help postsecondary institutions understand responsibilities and requirements under the Higher Education Act.

Performance Metrics measured: To determine the success of FSA's efforts to meet this strategic goal, FSA identified a set of performance metrics, including a target level of performance. For this strategic goal, the following tables display the performance metrics, prior-year actual results, FY 2019 target and actual performance levels, result (met or not met), and reference to supporting detail in the ***Annual Performance Report*** section of this document. In summary, FSA met the target for four of the performance metrics and did not meet the target for one of the performance metrics under this strategic goal.

Performance Summary for Strategic Goal A

Table 2: Performance Metric A.1*
Percent of First-Time FAFSA Filers Among High School Seniors

Metric Status	2017	2018	2019	Reference page
Target	–	66.4%–68.4%	67.0%–69.0%	64
Actual	–	67.4%	65.9%	
Result	N/A	✓	X	

*Note: This performance metric was revised in FY 2018; prior-year data not available under revised method.

Table 3: Performance Metric A.2
Persistence Among First-Time Filing Aid Recipients

Metric Status	2017	2018	2019	Reference page
Target	78.7%–80.7%	81.6%–83.6%	82.0%–84.0%	66
Actual	82.6%	82.5%	82.8%	
Result	✓	✓	✓	

Table 4: Performance Metric A.3
Customer Visits to StudentAid.gov

Metric Status	2017	2018	2019	Reference page
Target	>=43.3 million	>=43.3 million	>=150.0 million	67
Actual	44.3 million	44.5 million	183.7 million	
Result	✓	✓	✓	

Table 5: Performance Metric A.4
Social Media Channel Subscribership

Metric Status	2017	2018	2019	Reference page
Target	>=500,000	>=590,000	>=615,000	68
Actual	584,241	607,241	634,556	
Result	✓	✓	✓	

Table 6: Performance Metric A.5
ACSI Aid Life Cycle Surveys

Metric Status	2017	2018	2019	Reference page
Target	69.4–71.4	68.9–70.9	70.0–72.0	69
Actual	69.9	70.6	70.0	
Result	✓	✓	✓	

Strategic Goal B: *Proactively manage the student aid portfolio to mitigate risk.*

FSA has committed to an increased effort in the expansion and enhancement of analytical and data-driven processes. These efforts play a vital role in the mitigation of risk by identifying and resolving problematic elements. FSA's risk mitigation effort also extends to students and families potentially affected by misleading practices within the student aid environment. Using increased analytical tools and data-driven resources, FSA continues its leadership role in the universe of postsecondary education funding to ensure that all system participants effectively serve the interests of students.

Strategic Goal B aims to increase operational effectiveness and strengthen FSA's role in working to ensure protection of customers and holding stakeholders accountable for their actions. FSA strives to provide the opportunity of postsecondary education to all Americans, and a critical element of this task is ensuring effective identification and mitigation of risks to ensure a safe and accountable environment surrounding the student aid lifecycle.

Objectives supported: To support this strategic goal, FSA identified a set of objectives, which includes detailed initiatives designed to assist FSA with meeting each objective. Meeting each objective will result in accomplishing the strategic goal. The objectives that support this strategic goal include:

- **Objective 1:** Enhance analytical and research capabilities to proactively identify operational and reputational risk.
- **Objective 2:** Develop robust, data-driven processes to manage identified risks.
- **Objective 3:** Provide access to resources to protect students and families from unfair, deceptive, or fraudulent practices in the student aid marketplace.

Performance Metrics measured: To determine the success of FSA's efforts to meet this strategic goal, FSA identified a set of performance metrics, including a target level of performance. For this strategic goal, the following tables display the performance metrics, prior-year actual results, FY 2019 target and actual performance levels, result (met or not met), and reference to supporting detail in the ***Annual Performance Report*** section of this document. In summary, FSA met the target for both performance metrics under this strategic goal.

Performance Summary for Strategic Goal B

Table 7: Performance Metric B.1*
Improper Payment Rate

Metric Status	2017	2018	2019	Reference page
Target	4.85%	4.97%	4.95%	70
Actual	4.97%	4.95%	0.93%	
Result	X	✓	✓	

*Note: This performance metric methodology was revised in FY 2019.

Table 8: Performance Metric B.2*
Percent of Borrowers > 90 Days Delinquent

Metric Status	2017	2018	2019	Reference page
Target	7.4%	8.2%	10.1%	72
Actual	8.3%	7.4%	9.8%	
Result	X	✓	✓	

*Note: This performance metric methodology was revised in FY 2019.

Strategic Goal C: *Improve operational efficiency and flexibility.*

FSA continues to recognize the need for flexibility relating to changes in the environment of postsecondary education as well as the world itself. As part of the federal government push to migrate to more cost-effective operating models, FSA began implementation of new efficient governance processes that will enable the organization to more readily adapt to changing policies and needs, while continuing to effectively manage and deliver student aid programs.

FSA has implemented several initiatives focused on developing mechanisms to facilitate collaboration and information sharing across the organization that will help the organization accurately and effectively analyze its data. FSA has also refined acquisition strategies to ensure the most efficient and economic acquisition of products and services.

Recent technological improvements in processing and analyzing data have greatly increased FSA's ability to serve its customers. However, the rising sophistication of external network threats necessitates a proactive approach to identify and prevent unauthorized access and accidental or deliberate data loss. FSA places a high priority on strengthening its Information Technology (IT) systems' security in order to ensure appropriate identification and management of potential threats.

Strategic Goal C aims to pursue further efficiencies and flexibilities on an enterprise level at FSA. These efforts will increase collaboration between business units and reduce waste resulting from outdated and inefficient processes.

Objectives supported: To support this strategic goal, FSA identified a set of objectives, which includes detailed initiatives designed to assist FSA with meeting each objective. Meeting each objective will result in accomplishing the strategic goal. The objectives that support this strategic goal include:

- **Objective 1:** Link disparate data sources to improve cross-organizational information exchange.
- **Objective 2:** Refine acquisition management to ensure that services and products are consistent with business objectives.
- **Objective 3:** Enhance governance processes to support enterprise decision-making.
- **Objective 4:** Strengthen FSA's information technology (IT) systems' security.

Performance Metrics measured: To determine the success of FSA's efforts to meet this strategic goal, FSA identified a set of performance metrics, including a target level of performance. For this strategic goal, the following tables display the performance metrics, prior-year actual results, FY 2019 target and actual performance levels, result (met or not met), and reference to supporting detail in the ***Annual Performance Report*** section of this document. In summary, FSA met the target for both performance metrics under this strategic goal.

Performance Summary for Strategic Goal C

Table 9: Performance Metric C.1
Aid Delivery Costs Per Application

Metric Status	2017	2018	2019	Reference page
Target	$11.46	$12.16	$11.99	74
Actual	$10.68	$8.83	$9.55	
Result	✓	✓	✓	

Table 10: Performance Metric C.2
Outstanding Direct Loan Portfolio in Current Repayment Status

Metric Status	2017	2018	2019	Reference page
Target	84.9%–85.9%	85.0%–86.0%	85.5%–86.6%	75
Actual	85.7%	86.5%	86.7%	
Result	✓	✓	✓	

Strategic Goal D: *Foster trust and collaboration among stakeholders.*

As the nation's largest provider of federal student assistance, FSA's role requires the organization to provide careful oversight of taxpayer dollars. In FY 2019, FSA disbursed approximately $121.8 billion in aid and administered a loan portfolio valued at over $1.5 trillion. FSA has increased collaboration with all stakeholders in the Title IV process and worked to promote its commitment to transparency and accountability.

The education environment includes a significant number of stakeholders with a variety of needs, objectives, and priorities. This diversity presents opportunities for FSA to strengthen effective partnerships with internal partners in the federal government and external stakeholders in the field of higher education to address priorities that serve the best interest of students. FSA also understands that different stakeholders have different communication needs, interests, and familiarity with federal financial aid programs. This has resulted in the expansion of available resources as well as the use of an increasing number of outreach methods.

Strategic Goal D aims to build trust between FSA and stakeholders through collaborative efforts and a continuous dialogue. Transparent operations allow stakeholders vastly improved accessibility to data and information from the student aid universe and help to foster well-informed discussions and partnerships.

Objectives supported: To support this strategic goal, FSA identified a set of objectives, which includes detailed initiatives designed to assist FSA with meeting each objective. Meeting each objective will result in accomplishing the strategic goal. The objectives that support this strategic goal include:

- **Objective 1:** Engage with stakeholders to be the most trusted and reliable source of information on federal student aid.
- **Objective 2:** Provide timely and proactive communication to promote accurate, consistent messaging on federal funding of postsecondary education.
- **Objective 3:** Promote transparency and accountability within FSA and across the higher education environment.

Performance Metrics measured: To determine the success of FSA's efforts to meet this strategic goal, FSA identified a set of performance metrics, including a target level of performance. For this strategic goal, the following tables display the performance metrics, prior-year actual results, FY 2019 target and actual performance levels, result (met or not met), and reference to supporting detail in the ***Annual Performance Report*** section of this document. In summary, FSA met the target for all of the performance metrics under this strategic goal.

Performance Summary for Strategic Goal D

Table 11: Performance Metric D.1
Ease of Doing Business with FSA

Metric Status	2017	2018	2019	Reference page
Target	71.3–73.3	71.9–74.9	73.4–75.4	76
Actual	73.4	74.5	74.0	
Result	✓	✓	✓	

Table 12: Performance Metric D.2
Percentage of Contract Dollars Competed by FSA

Metric Status	2017	2018	2019	Reference page
Target	89.3%-91.3%	89.3%–91.3%	95.8%–97.8%	77
Actual	95.2%	96.8%	97.6%	
Result	✓	✓	✓	

Table 13: Performance Metric D.3
Collection Rate

Metric Status	2017	2018	2019	Reference page
Target	$51.68	$59.24	$53.30	78
Actual	$59.69	$62.15	$58.56	
Result	✓	✓	✓	

Strategic Goal E: *Invest in expanded workforce capability.*

As the environment of postsecondary education and student aid continues to evolve, FSA must ensure that its workforce has the capabilities to adapt to changing business needs and priorities, which reflect the needs of FSA customers. Acquiring talent and maintaining a skilled workforce remain priority areas for FSA. FSA has launched several initiatives to increase the capability of its workforce ranging from a streamlined hiring process to coaching and competency based training programs.

Strategic Goal E aims to maintain a diverse workforce that is well-versed in the specialty skill sets necessary to address evolving models of higher education delivery.

Objectives supported: To support this strategic goal, FSA identified a set of objectives, which includes detailed initiatives designed to assist FSA with meeting each objective. Meeting each objective will result in accomplishing the strategic goal. The objectives that support this strategic goal include:

- **Objective 1:** Create an enterprise-wide workforce plan to attract, develop, and retain employees with the skills required to meet evolving business needs.
- **Objective 2:** Develop a succession planning strategy to identify and create opportunities for future leadership talent.

Performance Metric measured: To determine the success of FSA's efforts to meet this strategic goal, FSA identified a performance metric, including a target level of performance. For this strategic goal, the following table displays the performance metric, prior-year actual results, FY 2019 target and actual performance levels, result (met, or not met), and reference to supporting detail in the ***Annual Performance Report*** section of this document. In summary, FSA met the target for the performance metric under this strategic goal.

Performance Summary for Strategic Goal E

Table 14: Performance Metric E.1
Employee Engagement Index

Metric Status	2017	2018	2019	Reference page
Target	65.4%–69.4%	68.7%–70.7%	61.0%–63.0%	79
Actual	69.7%	62.0%	61.0%	
Result	✓	x	✓	

Agency Priority Goals

Agency Priority Goals (APGs) are a performance accountability structure of the *Government Performance and Results Modernization Act of 2010* (Pub. L. 111-352) that provide agencies a mechanism to focus on leadership priorities, set outcomes, and measure results, bringing focus to mission areas where agencies need to drive significant progress and change.

APG statements are outcome-oriented, ambitious, and measurable with specific targets set that reflect a near-term result or achievement agency leadership wants to accomplish within approximately 24 months.

For the 24 months commencing October 1, 2017, the Department established four APGs in support of its broader mission to promote student achievement and preparation for global competitiveness by fostering educational excellence and ensuring equal access. Of the four APGs, two were closely tied to FSA's mission and were supported by FSA during FY 2019. They are:

- Goal 2.4: Improve Borrowers' Access to Quality Customer Service; and
- Goal 3.2: Improve Student Privacy and Data Security at Institutions of Higher Education through Outreach and Compliance Efforts.

Each quarter, the Department analyzes the progress toward accomplishing the Departmental APGs, with the objective of successfully accomplishing the current APGs by September 30, 2019. In FY 2018, Quarter 4, with the transition to a new paradigm of student loan processing, Next Generation Financial Services Environment (Next Gen FSA), FSA proposed a change to the Goal 2.4 APG and the associated metrics. The revised APG offered the following metrics as improved indicators of performance:

- Number of downloads of the myStudentAid mobile app;
- Number of customers checking loan balances via the myStudentAid mobile app;
- Number of customers submitting the FAFSA via a mobile platform—either through the myStudentAid mobile app or mobile-optimized FAFSA.gov; and
- Number of visits (sessions) to the redesigned StudentAid.gov website.

In FY 2019, Quarter 1, the Department approved FSA's proposed change to the APG and provided feedback on the associated metrics. Through Quarter 1, FSA baselined the APG metrics and used that information to forecast the annual APG target goals which incorporated Departmental recommendations. The FY 2019 approved Goal 2.4 APG statement is:

> By September 30, 2019, the Office of Federal Student Aid (FSA) will advance the adoption of the Next Generation Financial Services Environment, enabling over 1.8 million customers to submit their Free Application for Federal Student Aid (FAFSA) through the FSA mobile platform and 30,000 customers to use the mobile platform to check on their loan balances.

The new APG addressed the lack of quality and efficient loan information available to students and borrowers which has impacted their ability to make informed financial decisions. During FY 2019, FSA tracked, monitored, and reported all the APG metrics each quarter to the Department's Performance Improvement Office in accordance with the Quarterly Performance Review. For FY 2019, all metrics associated with the Goal 2.4 APG were met.

For data validation purposes, mobile app and FAFSA data are collected from Apple's App Store, Google Play, and FSA's online platform analytics. For number of downloads of the app, FSA generates a monthly report directly from Apple's App Store and Google Play. The data are reported as a cumulative number for all three months within the quarter, and summarily for the entire fiscal year reporting.

For the Goal 3.2 APG, FSA works with the Department's Office of the Chief Information Officer (OCIO). The Goal 3.2 APG statement is:

> By September 30, 2019, the Department of Education will increase information security program outreach activities to institutions of higher education (IHEs) by 40 percent in order to help protect IT systems and data privacy; and begin receiving audits of IHEs subject to the *Single Audit and Gramm-Leach-Bliley Act* (GLBA), resulting in 36 IHEs (from a baseline of zero) completing an audit of GLBA-related information security safeguards with no significant findings.

The Goal 3.2 APG target set by FSA and the Department with respect to security outreach activities for the FY 2018–19 measurement period was 31 (14 and 17 in FY 2018 and FY 2019, respectively). FSA and the Department exceeded the target in both FY 2018 and FY 2019 and overall by engaging in 63, 40, and 103 outreach activities in each period respectively, that targeted data privacy and the IT security requirements of IHEs.

FSA and the Department did not meet the APG target for 36 IHEs to complete an audit of GLBA-related information security safeguards with no significant findings. New audit standards for GLBA-related information security safeguards were published in the June 2019 2 Code of Federal Regulations Part 200 Appendix IX Compliance Supplement and impacted the requirement of IHEs to conduct and submit an audited assessment of data security programs. IHEs subject to the Single Audit Act have nine months from their fiscal year end to submit the audits to the Department; therefore IHEs did not include the newly required standards in time to meet the Department's FY 2019 APG target. However, from March–September 2019, FSA engaged with 708 IHEs for technical assistance when they reported a potential breach at the 1-3 severity level. FSA's contact with these institutions consisted of discussing industry best practices, mitigation strategies, guidance for improving processes, and documentation to improve their security postures.

For data validation purposes regarding the outreach metric, the activity records maintained by FSA are on a secure SharePoint site. Those activities, completed by the Department's OCIO through the Department's Privacy Technical Assistance Center, are also recorded on a SharePoint site. Based on actions by contractors, Department personnel, and FSA personnel, data accuracy is high, reliable and consistent. In addition, in FY 2019, FSA tracked, monitored, and reported all the Goal 3.2 APG metrics each quarter to the Department's Performance Improvement Office in accordance with the Quarterly Performance Review procedure.

The metric results were also made available on **Performance.gov** each quarter for public view.

Quality of Performance Data

Ensuring the integrity of the data required to determine performance results is a critical step in reporting performance. For this step, FSA developed and implemented a Validation and Verification Matrix. Specifically, FSA uses this matrix as a tool to validate the completeness and reliability of the underlying data gathered and used to calculate each performance metric for the reporting period, including the performance results reported in this *Annual Report*.

For each performance metric, this matrix is used to document the following: measurement definition and owner; data source, availability, security procedures, and known limitations; whether data are subject to FSA's OMB Circular A-123 Internal Control Review process; and procedures for accessing the data, calculating the performance metric, and validating and verifying the data gathered.

For a discussion of data quality and limitations for each performance metric, please see the section Performance Results by Strategic Goal, contained in the ***Annual Performance Report*** section.

Analysis of Financial Statements

Introduction

The Financial Analysis section provides an overview of FSA's financial results for FY 2019. This section assists readers in understanding FSA's financial results, position, and condition as reflected in the financial statements and notes located in the Financial Section of this report. The financial analysis explains major changes in assets, liabilities, costs, and budgetary resources. It also includes comparisons of the current year to the four prior years and discusses the relevance of significant balances, amounts, and trends reflected in the financial statements and notes.

FSA is committed to providing sound management, financial systems, and controls to ensure students receive aid and repay loans according to applicable laws and regulations. FSA's financial statements are prepared in accordance with established federal accounting standards and reporting requirements. The financial statements are subject to an annual independent audit to determine whether FSA's financial statements fairly present FSA's financial position, net cost, changes in net position, and budgetary resources. In FY 2019, FSA achieved an unmodified audit opinion on its financial statements for the eighteenth consecutive year.

FSA presents its financial statements and notes in the format required by OMB Circular A-136, *Financial Reporting Requirements*. For FY 2019 and FY 2018, the Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position were prepared on a consolidated basis, whereas the Statement of Budgetary Resources was prepared on a combined basis. These financial statements, along with the Independent Auditors' Report on these statements, can be found in the **Financial Section** of this *Annual Report*.

FSA has oversight responsibilities for over $1.5 trillion in federal student loans, of which it directly owns and manages nearly $1.4 trillion. The remaining balance represents non-defaulted FFEL Guaranteed loans owned by lenders and Federal Perkins loans owned by schools, as detailed in **Note 5** and **Note 13**. As described in **Note 1** and **Note 5**, FSA reports its portfolio of federal student loans on its Balance Sheet, on the line item Credit Program Receivables, Net. This is the gross amount of loans and interest receivable less an allowance for the present value of amounts not expected to be recovered (Allowance for Subsidy). Subsidy Expense is a factor included in the Allowance for Subsidy and represents an estimate in present value terms of the cost to the government of direct loans and loan guarantees. Subsidy Expense is recorded in the year a loan is disbursed and updated annually through a re-estimation process. It includes default costs (net of recoveries), contractual payments paid to third-party private collection agencies (PCAs), and net borrowing costs, less any origination or other fees collected. If the net cost to the government is greater than zero, then the subsidy expense is said to be positive. However, the subsidy expense may also be zero (break-even), or it may be negative if the estimated cost of providing loans to borrowers is less than the value of collections received as interest and fees. As of September 30, 2019, FSA reported $1.2 trillion in Credit Program Receivables, Net after deducting an Allowance for Subsidy of approximately $160.7 billion. Credit Program Receivables, Net was 0.6 percent less than the prior-year amount which resulted from a 7.0 percent increase in FSA's underlying portfolio of credit program receivables that was offset by adjustments that increased the FY 2019 Allowance for Subsidy by almost 150 percent from the FY 2018 amount. The reasons for the adjustment to the Allowance for Subsidy estimate are explained in **Note 5**.

The FY 2019 FSA Financial Highlights tables presented below provide a condensed summary of the significant balances in FSA's Balance Sheets and Statements of Net Cost over a five-year period, beginning with FY 2015. The tables also show the percentage change between the prior and current fiscal years as of September 30, 2018 and 2019, respectively. The figures and tables presented in this section include rounding adjustments to ensure that the component line items sum to the corresponding total. As a result, there may be small discrepancies between the amounts shown in a particular figure or table when compared to similar items discussed in the text or presented in other areas of the Annual Report.

Table 15: Federal Student Aid Financial Highlights
Condensed Balance Sheets
Fiscal Years 2015–19

(Dollars in millions)	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	Percentage Change[7]
Fund Balance with Treasury	$ 67,985	$ 60,358	$ 74,032	$ 73,405	$ 62,567	(14.8%)
Credit Program Receivables, Net	1,016,425	1,075,227	1,145,406	1,209,495	1,202,092	(0.6)
Remaining Assets	1,648	1,334	2,256	2,365	2,217	(6.3)
Total Assets	**$ 1,086,058**	**$ 1,136,919**	**$ 1,221,694**	**$ 1,285,265**	**$ 1,266,876**	**(1.4%)**
Debt	$ 1,050,344	$ 1,126,345	$ 1,178,473	$ 1,258,481	$ 1,287,494	2.3%
Subsidy due to Treasury General Fund[8]	8,237	2,642	7,013	7,528	10,302	36.8
Remaining Liabilities	7,169	9,614	13,000	10,197	13,971	37.0
Total Liabilities	**$ 1,065,750**	**$ 1,138,601**	**$ 1,198,486**	**$ 1,276,206**	**$ 1,311,767**	**2.8%**
Unexpended Appropriations	$ 28,325	$ 26,531	$ 28,524	$ 32,487	$ 31,400	(3.3%)
Cumulative Results of Operations	(8,017)	(28,213)	(5,316)	(23,428)	(76,291)	225.6
Net Position	**$ 20,308**	**$ (1,682)**	**$ 23,208**	**$ 9,059**	**$ (44,891)**	**(595.5%)**
Total Liabilities & Net Position	**$ 1,086,058**	**$ 1,136,919**	**$ 1,221,694**	**$ 1,285,265**	**$ 1,266,876**	**(1.4%)**

Table 16: Statements of Net Cost
(Summarized)
Fiscal Years 2015–19

(Dollars in millions)	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	Percentage Change[9]
Gross Cost	$ 59,500	$ 93,032	$ 73,771	$ 71,232	$ 144,865	103.4%
Less: Earned Revenue	(31,547)	(34,260)	(35,825)	(36,224)	(36,820)	1.6
Net Cost of Operations	**$ 27,953**	**$ 58,772**	**$ 37,946**	**$ 35,008**	**$ 108,045**	**208.6%**

[7]The percentage change is calculated as the difference between FY 2018 and FY 2019, divided by the FY 2018 amount. In some instances, where the current-year amount has an opposite sign to the prior-year amount, the percentage change may be negative even though the annual change is positive (and vice versa). Similarly, if the current-year negative amount has a larger negative value than the prior-year negative amount, the difference will be negative, but the percentage change will be positive.

[8]Prior to FY 2016, *Subsidy due to Treasury General Fund* was included in the Condensed Balance Sheet line item, *Other Intragovernmental Liabilities*. Beginning in FY 2016, *Subsidy due to Treasury General Fund* is reported separately, while *Other Intragovernmental Liabilities* is now included in the category *Remaining Liabilities*. Data for FY 2015 have been restated using the FY 2016 format.

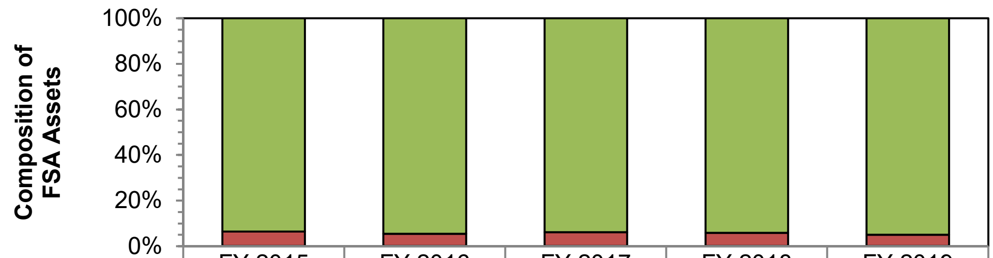
[9]Refer to Footnote 7.

Balance Sheet

The Balance Sheet presents the recorded value of assets and liabilities retained or managed by FSA as of a specific point in time. The assets represent resources available for use by FSA to pay its liabilities or to satisfy its future service needs. The liabilities are amounts FSA owes, the probable and measurable future outflows of its resources arising from past transactions or events. The difference between the assets and the liabilities represents FSA's net position.

Composition of FSA Assets. The consolidated Balance Sheet shows that FSA had total assets of $1,266.9 billion as of September 30, 2019, a decrease of $18.4 billion, or 1.4 percent over the September 30, 2018 total assets balance of $1,285.3 billion. The difference resulted primarily from a 14.8 percent reduction in Fund Balance with Treasury ($10.8 billion), combined with a 0.6 percent decrease in net Credit Program Receivables ($7.4 billion). Together, FSA's Fund Balance with Treasury and its net Credit Program Receivables accounted for approximately 99.8 percent of Total Assets as of September 30, 2019, as illustrated in the Composition of Assets chart (Figure 9). The Comparison of Assets chart (Figure 10) presents changes in these two principal Balance Sheet line items over the past five fiscal years.

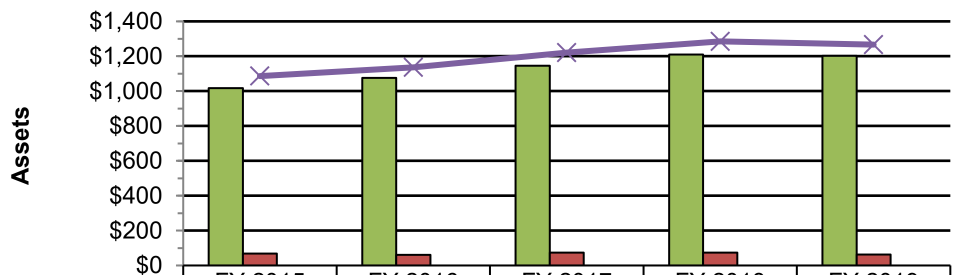
Figure 9: Composition of Federal Student Aid Assets*
Fiscal Years 2015–19



	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Credit Program Receivables, Net	93.6%	94.6%	93.8%	94.1%	94.9%
Fund Balance with Treasury	6.3%	5.3%	6.1%	5.7%	4.9%
Remaining Assets	0.1%	0.1%	0.1%	0.2%	0.2%

*Note: Line items may include rounding adjustments to reconcile to the total amount being reported.

Figure 10: Comparison of Federal Student Aid Assets*
Fiscal Years 2015–19
(Dollars in Billions)

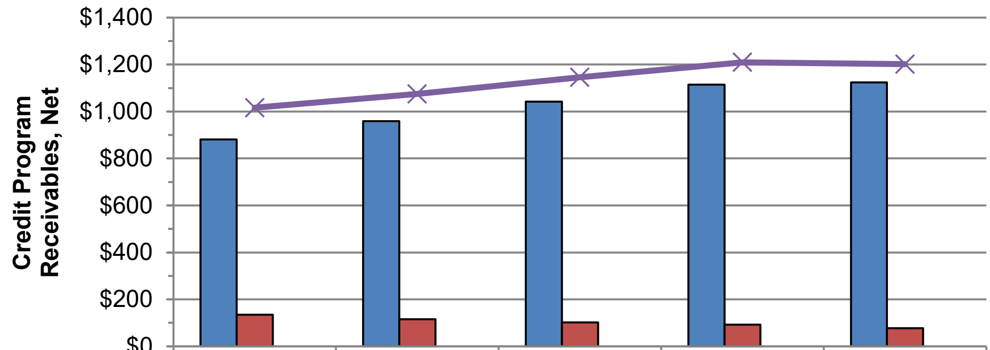


	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Credit Program Receivables, Net	$1,016.4	$1,075.2	$1,145.4	$1,209.5	$1,202.1
Fund Balance with Treasury	$68.0	$60.4	$74.0	$73.4	$62.6
Remaining Assets	$1.7	$1.4	$2.3	$2.4	$2.2
Total Assets	$1,086.1	$1,137.0	$1,221.7	$1,285.3	$1,266.9

*Note: Line items may include rounding adjustments to reconcile to the total amount being reported.

Credit Program Receivables, Net. With a $1,202.1 billion balance as of September 30, 2019, Credit Program Receivables, Net represent FSA's most important asset category and accounted for almost 95 percent of Total Assets. This balance includes $1,362.8 billion in principal, interest, and fees, less an allowance for subsidy cost of approximately $160.7 billion that adjusted the loan portfolio to its estimated present value. FSA reports the total amount under the three major program categories Direct Loan, FFEL, and Other, as illustrated in Figure 11 below and discussed more fully in the following sections.

Figure 11: Total Federal Student Aid Loan Portfolio*
Net of Allowance for Subsidy
Fiscal Years 2015–19
(Dollars in Billions)



	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Direct Loans	$880.6	$958.9	$1,041.6	$1,115.1	$1,123.7
FFEL	$134.7	$114.9	$102.4	$92.9	$76.8
Other Programs	$1.1	$1.4	$1.4	$1.5	$1.6
Total	$1,016.4	$1,075.2	$1,145.4	$1,209.5	$1,202.1

*Note: Line items may include rounding adjustments to reconcile to the total amount being reported.

Figure 11 also shows that over the four-year period FY 2015–18, FSA's portfolio of FSA net credit program receivables increased by $193.1 billion or 19.0 percent. The Direct Loan program accounted for most of this change, increasing by $234.5 billion (26.6 percent), offset by the $41.8 billion (31.0 percent) reduction of the FFEL Portfolio over the same period. However, the overall upward trend reversed slightly in FY 2019 when the $16.2 billion (17.4 percent) net reduction in FFEL net credit program receivables offset the $8.7 billion (0.8 percent) increase in Direct Loan credit program receivables. The overall reduction in FSA's net credit program receivables portfolio was $7.4 billion or 0.6 percent.

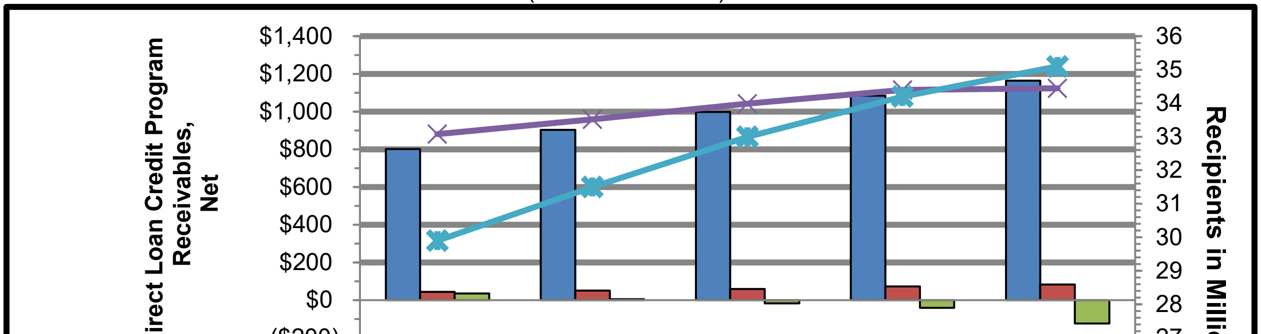
The directional changes observed in the Direct Loan and FFEL portfolios are principally related to the impact of the *SAFRA Act*, which as of June 30, 2010, eliminated all new loan disbursements under the FFEL Program in favor of direct lending. Loan consolidation has also played a role. Consolidation is the process of combining one or more federal student loans into one loan. For more information about which federal loans may be eligible for consolidation and other requirements please visit **StudentAid.gov/consolidation**. Another significant factor in FY 2019 was an adjustment to the allowance for subsidy cost that increased estimated costs by $96.2 billion (almost 150 percent). The reasons for the adjustment to the subsidy cost estimate are explained in **Note 5**.

Direct Loan Credit Program Receivables, Net. Direct Loan Credit Program receivables continue to be the major component of FSA's credit program receivable portfolio in FY 2019. As of September 30, the $1,123.7 billion Direct Loan portfolio ending balance comprises 93.5 percent of FSA's total credit program receivables net, compared to the prior year ending balance of $1,115.1 that represented 92.2 percent. The FY 2019 Direct Loan ending balance total includes $1,248.1 billion in principal, interest, and fees, with an allowance for subsidy cost to the government of $124.4 billion. This amount contrasts to the prior year where the subsidy costs were projected at $40.7 billion on Direct Loan principal, interest and fees of $1,155.7 billion. The factors that contributed to the variance in subsidy cost at a time when the underlying loan balances increased by 8.0 percent are addressed in **Note 5**.

The FY 2019 $92.4 billion increase in Direct Loan Receivables (before subsidy costs) was mainly driven by the growth in the outstanding amount owed by borrowers, principally resulting from new loan originations ($90.2 billion), consolidation disbursements ($39.8 billion), interest capitalization ($21.7 billion) and the net increase in accrued interest and fees ($11.3 billion). This was offset by reductions to principal due to loan payments by borrowers ($67.0 billion), loan discharges ($4.5 billion) and other adjustments.

The growth in principal outstanding has accounted for virtually all growth of the Direct Loan portfolio over the past five years in dollar terms, as seen in Figure 12. Over the same period, Table 18 shows that accrued interest increased at a higher average annual rate than did principal outstanding (17.1 percent versus 9.8 percent), although, as illustrated by Table 17, accrued interest only increased from 5.0 percent to 7.4 percent of the net receivable amount, while principal outstanding increased from 91.0 percent to 103.7 percent of the net amount. See **Note 5** for more details.

Figure 12: Components of Direct Loan Receivables, Net*
Fiscal Years 2015–19[10]
(Dollars in Billions)



	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Principal	$800.8	$902.8	$998.8	$1,083.7	$1,164.9
Accrued Interest*	$44.3	$50.8	$59.6	$72.0	$83.3
Allowance for Subsidy	$35.5	$5.3	$(16.8)	$(40.6)	$(124.5)
Net Receivable	$880.6	$958.9	$1,041.6	$1,115.1	$1,123.7
Total Recipients	29.9	31.5	33.0	34.2	35.1

Figure 12 also includes the number of recipients corresponding to the outstanding loan portfolio at each fiscal year end. Recipients are the students that benefit from the federal student loans. In most cases, the recipient is the borrower; but in Parent PLUS loans, the parent is the borrower and the student is the recipient. The chart shows that Direct Loan recipients grew

[10]Line items may include rounding adjustments to reconcile to the total amount being reported. Recipient numbers come from the Data Center or NSLDS. See Footnote 12.

from 29.9 million to 35.1 million over the five-year period, reflecting, as reported in Table 18, an average annual increase of 4.1 percent, well below the rate of increase of principal and interest described earlier. As a result, the average debt (principal and interest) balance outstanding per Direct Loan recipient increased by 25.8 percent during this time, from $28,263 to $35,560; the higher debt burden per student is likely an indication of increasing postsecondary education costs.

Table 17: Components of Direct Loan Credit Program Receivables, Net by Percentage* Fiscal Years 2015–19

Direct Loan Component	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Principal*	91.0%	94.1%	95.9%	97.2%	103.7%
Accrued Interest	5.0%	5.3%	5.7%	6.5%	7.4%
Allowance for Subsidy	4.0%	0.6%	(1.6%)	(3.7%)	(11.1%)
Net Receivable	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

*Note: Line items may include rounding adjustments to reconcile to the total amount being reported.

Table 18: Increase in Principal, Interest and Subsidy Components of Direct Loan Credit Program Receivables, Net and Recipient Counts*

Direct Loan Component	FY 2015–16	FY 2016–17	FY 2017–18	FY 2018–19	FY 2015–19 Average Year-to-Year change
Principal	12.7%	10.6%	8.5%	7.5%	9.8%
Accrued Interest	14.7%	17.7%	21.0%	15.7%	17.1%
Allowance for Subsidy	(85.1%)	(415.1%)	(143.1%)	(206.7%)	(37.6%)
Net Receivable	8.9%	8.6%	7.1%	0.8%	6.3%
Total Recipients	5.4%	4.8%	3.6%	2.6%	4.1%

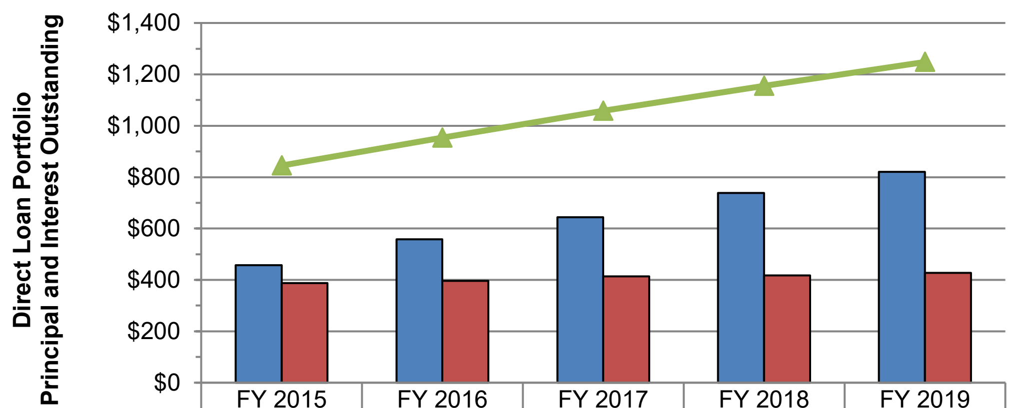
*Note: Line items may include rounding adjustments to reconcile to the total amount being reported.

While the Direct Loan portfolio has grown rapidly in recent years, it has also changed in character as an increasing proportion of students begin the repayment phase of their loans. Under Title IV, each loan may pass through several distinct statuses as the student progresses through the loan life cycle, from borrowing to repaying.

Repayment on most federal student loans is not required while the student recipient is "In School" unless they drop below half-time enrollment. However, PLUS loans enter repayment as soon as the loan is fully disbursed (paid out). Then, after the student graduates, leaves school, or drops below half-time enrollment, student borrowers are frequently entitled to a "Grace" period. During this period, repayment is not required to begin on the loan. Not all federal student loans have a grace period and for most loans, interest will accrue during the grace period. At the end of the grace period, the loan will enter "Repayment" status and regular monthly payments will be required according to an agreed upon payment schedule. If the borrower continues to make timely payments such that no more than 30 days elapse after the due date without payment, then the loan is classified as "Current." If more than 30 days elapse, then the loan will be reclassified as "Delinquent." Under Title IV, if more than 270 days pass without payment being received to satisfy the oldest payment due, Direct Student Loans are technically considered "In Default"[11]. The status continues to be tracked through the life of the loan until the loan is paid in full or otherwise closed out.

Figure 13[12] divides FSA's portfolio of direct loans into two main categories, based on repayment status. For the purpose of this discussion[13] loans are classified as "In Repayment" if, under the terms of the promissory note, the loan is current, delinquent, defaulted, in non-defaulted bankruptcy, or in a disability status. Alternatively, loans are classified as "Not in Repayment" if the borrower is "In School", "In Grace", or has been granted a deferment or a forbearance. The loan status "Deferment" includes loans for which payments have been postponed due to certain circumstances, such as returning to school, military service, or economic hardship. Similarly, "Forbearance" includes loans for which payments have been temporarily suspended or reduced because of certain types of financial hardships. Figure 13 reports the portfolio balance as the sum of principal and interest balances (i.e. the gross amount) owed by the borrower and excludes any subsidy cost or allowance that would adjust the outstanding balance to its net present value.

Figure 13: Direct Loan Portfolio by Repayment Status*
Principal and Interest Only
Fiscal Years 2015–19
(Dollars in Billions)



	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
In Repayment*	$457.8	$557.5	$644.2	$738.7	$820.1
Not in Repayment	$387.3	$396.1	$414.2	$417.0	$428.0
Total Direct Loan Portfolio*	$845.1	$953.6	$1,058.4	$1,155.7	$1,248.1

*Note: Line items may include rounding adjustments to reconcile to the total amount being reported. Also, prior data may be restated, as explained in Footnote 12.

As can be seen in Figure 13, although both segments grew during the past five years, the "In Repayment" segment has grown more rapidly and has become the larger portfolio segment. It now comprises 65.7 percent of the total principal and interest amount outstanding, increasing the need for FSA to facilitate the ability of Direct Loan borrowers to meet their repayment obligations timely.

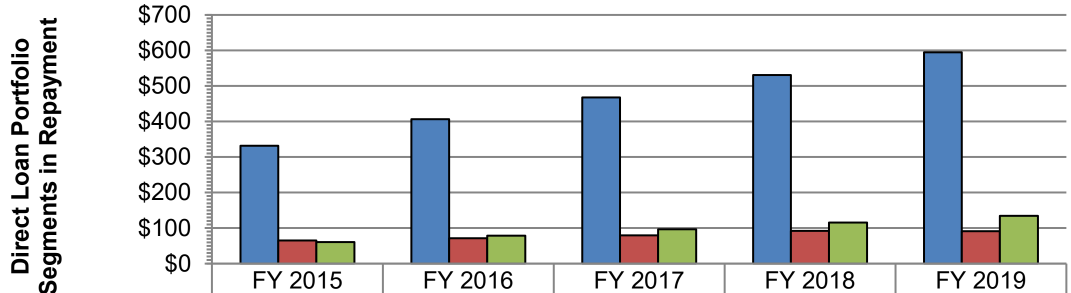
[11] FSA's policy is to not transfer such loans to the defaulted debt servicer until more than 360 days pass without payment being received, in order to ensure parity of Direct Loan borrower treatment with that of FFEL borrowers by lenders and guaranty agencies.

[12] FY 2015–18 data are based on data published by the FSA Data Center, **StudentAid.gov/portfolio**. FY 2019 data are taken directly from the NSLDS. Also, the FY 2018 data published in the FY 2018 Annual Report, taken directly from NSLDS, have been replaced with data subsequently published by the Data Center.

[13] The In Repayment/Not in Repayment classifications used for this discussion are slightly different from the definitions under eCFR 685.207, 685.204, and 685.205 which specify that a borrower first enters repayment before receiving a deferment or forbearance. Under 685.205(a), borrowers in forbearance may still make payments on their loans. In addition, under Cohort Default Regulations at 668 Subpart N, borrowers in a deferment or forbearance are considered to be in repayment for purposes of calculating the CDR.

In Figures 14A and 14B[14], the Direct Loan portfolio of "In Repayment" principal and interest has been subdivided into three categories, "Current", "Delinquent", and "Default/Bankruptcy/Other", as those terms are defined above. With a September 2019 balance of $594.7 billion, the current portion of the "In Repayment" segment is its largest component and has grown the fastest in dollar terms over the past five years, FY 2015–19, although in percentage terms it has remained around 72.5 percent of the portfolio. At the same time, while both the Delinquent and Default/Bankruptcy/Other segments also increased in dollar terms, there was a continuing trend of debt moving from the Delinquent to the Default/Bankruptcy/Other segment, with the latter increasing from 13.3 percent to 16.4 percent of the segment, a trend that FSA hopes to reverse with the customer-focused servicing innovations that will be introduced by the implementation of Next Gen FSA in the coming years.

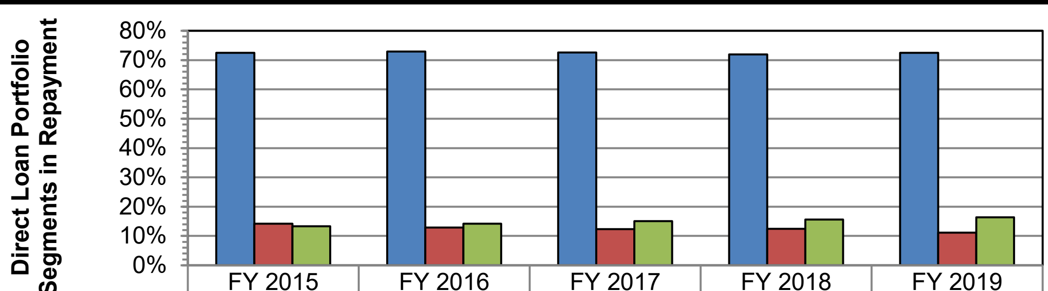
Figure 14A: Direct Loan Portfolio Segment in Repayment by Status*
Principal and Interest only
Fiscal Years 2015–19
(Dollars in Billions)



	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Current	$332.0	$406.8	$467.9	$531.2	$594.7
Delinquent	$65.1	$71.8	$79.5	$92.3	$90.9
Default/Bankruptcy/Other*	$60.7	$79.0	$96.8	$115.2	$134.5

*Note: Line items may include rounding adjustments to reconcile to the total amount being reported. Also, prior data may be restated, as explained in Footnote 12.

Figure 14B: Direct Loan Portfolio Segment in Repayment by Status*
Principal and Interest only
Fiscal Years 2015–19
(Percentage of Total)



	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Current	72.5%	72.9%	72.6%	71.9%	72.5%
Delinquent	14.2%	12.9%	12.3%	12.5%	11.1%
Default/Bankruptcy/Other*	13.3%	14.2%	15.1%	15.6%	16.4%

*Note: Line items may include rounding adjustments to reconcile to the total amount being reported. Also, prior data may be restated, as explained in Footnote 12.

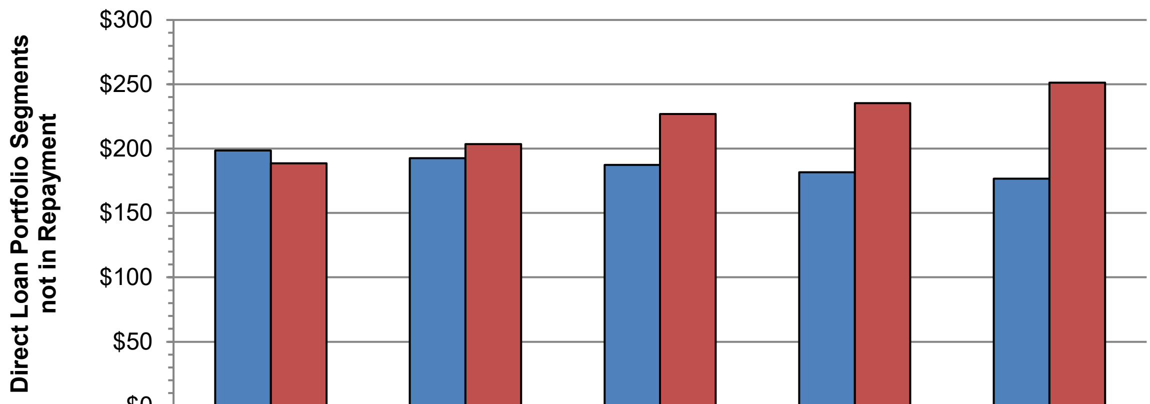
[14]Please refer to footnotes 12 and 13.

In addition, of the total $1,248.1 billion in Direct Loan principal and interest at the current fiscal year end, $99.7 billion (8.0 percent of total receivables) in loan principal was in default and had been transferred to the Department's defaulted loan servicer, compared to $84.9 billion (7.3 percent of total receivables) as of September 30, 2018. For related performance information about the percentage of borrowers more than 90 days delinquent, please see **Performance Metric B.2** located in the *Annual Performance Report* section of this *Annual Report*.

The portfolio of Direct Loan principal and interest receivables "Not in Repayment" can also be further subdivided based on the reason why the debt is not currently subject to repayment. Figures 15A and 15B[15] subdivide this segment into two such categories, "In School/Grace" and "In Deferment/Forbearance," as defined earlier.

Figure15A shows that the amount of Direct Loan principal and interest categorized as "In School/Grace" has declined steadily from $198.6 billion in FY 2015 to $176.7 billion at the end of the current year. This reflects both the decline in new Direct Loan disbursements over the period, and the aging of the Direct Loan portfolio of principal and interest receivable, as a greater proportion of debt moved from "In School/Grace" category to the "In Repayment" segment. Over the same five-year period, the "In Deferment/Forbearance" segment has grown from $188.7 billion to $251.3 billion, increasing from 48.7 percent to 58.7 percent of the Not in Repayment segment. However, as a percentage of the total portfolio of Direct Loan principal and interest receivable, the "In Deferment/Forbearance" portion has declined from 22.3 percent to 20.1 percent.

Figure 15A: Direct Loan Portfolio Segment not in Repayment by Status*
Principal and Interest only
Fiscal Years 2015–19
(Dollars in Billions)

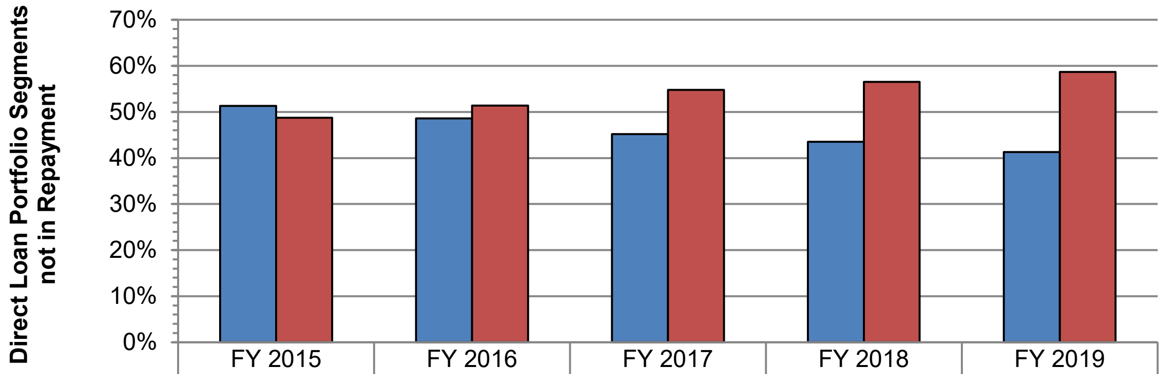


	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
In School/Grace	$198.6	$192.6	$187.3	$181.6	$176.7
In Deferment/ Forbearance	$188.7	$203.5	$226.9	$235.4	$251.3

*Note: Line items may include rounding adjustments to reconcile to the total amount being reported.

[15]Please refer to footnotes 12 and 13.

Figure 15B: Direct Loan Portfolio Segment not in Repayment by Status
Principal and Interest only
Fiscal Years 2015–19
(Percentage of Total)

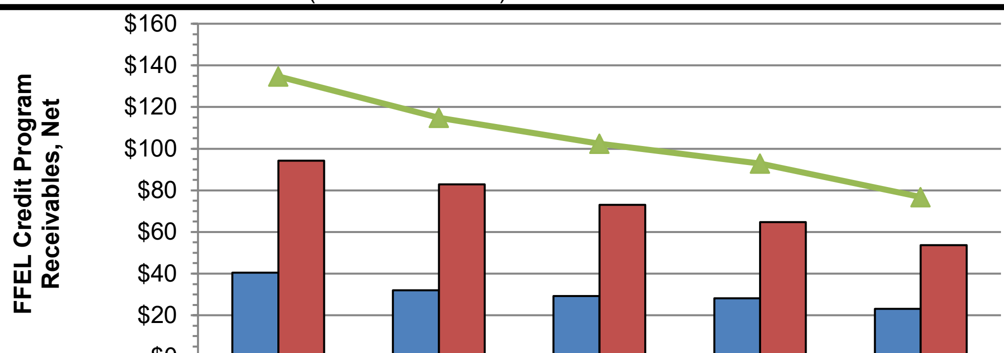


	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
In School/Grace	51.3%	48.6%	45.2%	43.5%	41.3%
In Deferment/ Forbearance	48.7%	51.4%	54.8%	56.5%	58.7%

*Note: Line items may include rounding adjustments to reconcile to the total amount being reported.

FSA FFEL Credit Program Receivables, Net. FSA's portfolio of FFEL loans includes debt acquired under the Conduit, Loan Participation Purchase, and Loan Purchase Commitment Programs established through the 2008 ECASLA authorization and referred to collectively as the FFEL ECASLA Loan Programs. It also includes debt acquired under "traditional" (Non-ECASLA) defaulted guaranteed loan programs, known collectively as the "FFEL Guaranteed" portfolio segment. Changes in these FFEL loan portfolio segments over the past five fiscal years are shown in Figure 16.

Figure 16: Total Federal Student Aid FFEL Loan Portfolio
Fiscal Years 2015–19
(Dollars in Billions)



	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
FFEL, Guaranteed*	$40.5	$32.0	$29.3	$28.1	$23.1
FFEL, ECASLA**	$94.2	$82.9	$73.1	$64.8	$53.7
Total FFEL	$134.7	$114.9	$102.4	$92.9	$76.8

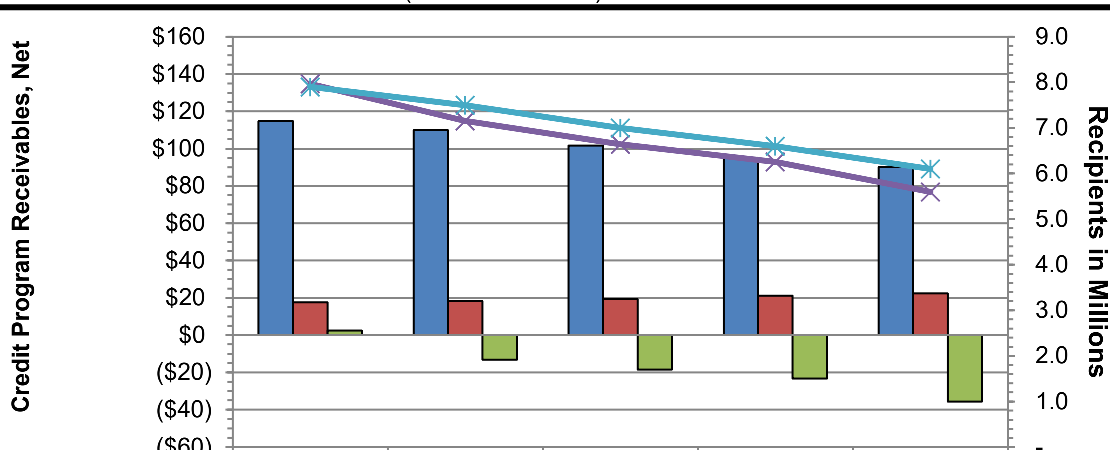
*FFEL, Guaranteed (Non-ECASLA) Program
**FFEL, ECASLA Acquired Loan Program
***Note: Line items may include rounding adjustments to reconcile to the total amount being reported.

Figure 16 illustrates that with $53.7 billion outstanding, the ECASLA FFEL portfolio segment remains the major component of the FFEL portfolio of net credit program receivables as of September 30, 2019 but declined by $40.4 billion (42.9 percent) during the five-year period shown. This decrease was mainly the result of collections of principal and interest (31.7 billion), including as the result of borrowers consolidating their loans under the Direct Loan Program, to take advantage of more favorable repayment options available. Further reductions were due to subsidy re-estimate transactions ($14.1 billion), amortization of subsidy ($7.0 billion) and collections on defaulted debt ($4.1 billion), offset by interest accruals ($15.8 billion). Despite this decrease, the proportion of ECASLA FFEL loans remained around 70.0 percent of the total $76.8 billion of FFEL loans outstanding as of the current year-end.

Over the same five-year period, the smaller FFEL Guaranteed portfolio also declined steadily, resulting in a $17.5 billion reduction over the five years to $23.0 billion as of September 30, 2019. The overall decrease was mainly due to the changes in subsidy cost estimates and to the elimination of the negative liability for Loan Guarantee that together reduced the net credit program receivable balance by $19.7 billion. This decrease was offset by a $2.2 billion increase in principal and interest outstanding.

The overall impact of changes in the principal, accrued interest and subsidy components of the FFEL portfolio are shown in Figure 17[16]. The reduction in FFEL recipients during the period FY 2015–19 also demonstrates the impact of debt consolidations and refinancing on the outstanding portfolio balance.

Figure 17: Components of Federal Student Aid FFEL Receivables, Net
Fiscal Years 2015–19
(Dollars in Billions)



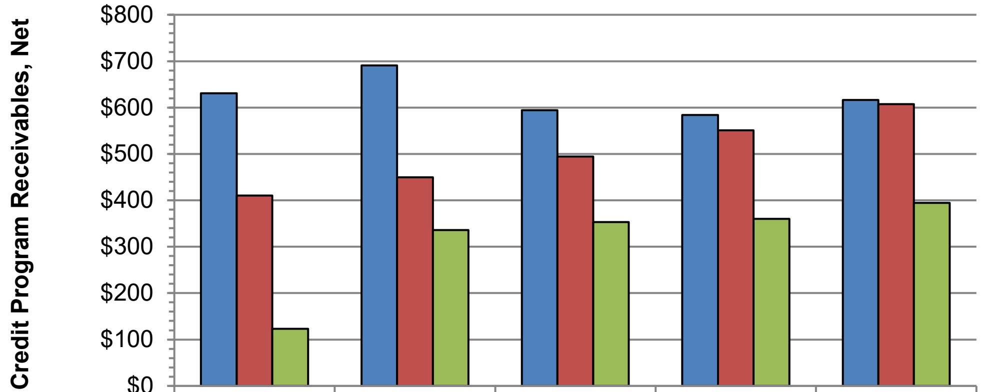
	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Principal	$114.7	$109.8	$101.6	$95.1	$90.2
Accrued Interest	$17.5	$18.2	$19.3	$21.1	$22.3
Allowance for Subsidy	$2.5	$(13.1)	$(18.5)	$(23.3)	$(35.7)
Total Receivable	$134.7	$114.9	$102.4	$92.9	$76.8
Total Recipients	7.9	7.5	7.0	6.6	6.1

*Note: Line items may include rounding adjustments to reconcile to the total amount being reported.

[16]Recipients in Millions for FY 2015–18 are based on data published by the FSA Data Center, at: **StudentAid.gov/portfolio**. FY 2019 data are taken directly from NSLDS. Also, the FY 2018 data published in the *FY 2018 Annual Report*, taken directly from NSLDS, have been replaced with data subsequently published by the Data Center.

Other Credit Program Receivables, Net. As shown in Figure 18 below, TEACH Grants, Perkins Loans, and HEAL Loans make up the third segment of Credit Programs Receivable, net that FSA reports on its balance sheet.

Figure 18: Federal Student Aid Other Loan Portfolio
Fiscal Years 2015–19
(Dollars in Millions)



	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
TEACH Grant Program	$630.9	$690.6	$594.3	$584.1	$616.0
Perkins Loan Program	$410.3	$449.3	$494.7	$551.0	$607.1
HEAL	$123.1	$335.8	$353.1	$359.9	$394.6

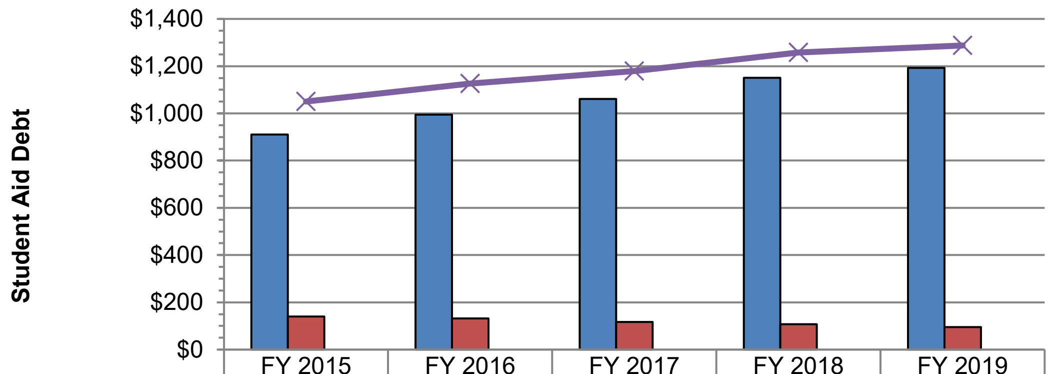
*Note: Line items may include rounding adjustments to reconcile to the total amount being reported.

This segment, known as Other Credit Program Receivables, Net, increased by 39.0 percent during the past five years, but still accounted for only 0.1 percent of FSA's total loan portfolio throughout that period. Other Credit Program Receivables, net ended FY 2019 with a balance of $1.6 billion, a $122.8 million increase compared to the prior year-end.

Composition of FSA Liabilities. FSA's liabilities represent probable and measurable future outflows of resources arising from past transactions or events. As of September 30, 2019, FSA had total liabilities of $1.3 trillion, an increase of $35.6 billion or 2.8 percent over the September 30, 2018 total, in contrast to the 1.4 percent reduction in FSA's total assets.

Debt. FSA's debt is the primary component of its liabilities, accounting for 98.1 percent of the total. FSA's $1.3 trillion debt balance as of September 30, 2019 is 2.3 percent above the prior-year amount, continuing the trend of increasing debt levels seen over the past five years. As shown in Figure 19, the Direct Loan Program was the principal debt component throughout the FY 2015–19 period, and ended FY 2019 with a $1,192.1 billion balance, 3.6 percent above the prior-year amount, representing 92.6 percent of total debt.

Figure 19: Comparison of Federal Student Aid Debt
Fiscal Years 2015–19
(Dollars in Billions)

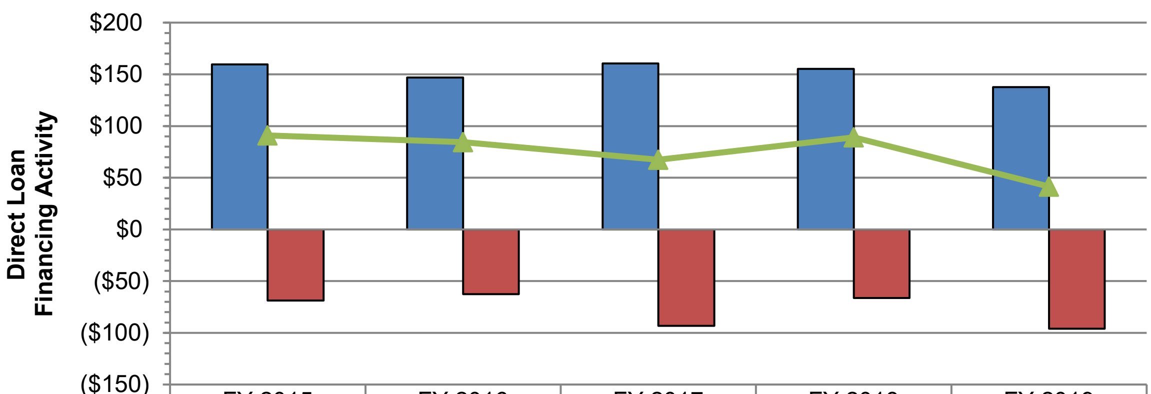


	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Direct Loan Program	$909.9	$994.3	$1,061.6	$1,150.6	$1,192.1
FFEL Program	$139.8	$131.3	$116.3	$107.3	$94.7
Other Programs (TEACH)	$0.6	$0.7	$0.6	$0.6	$0.7
Total Debt	$1,050.3	$1,126.3	$1,178.5	$1,258.5	$1,287.5

*Note: Line items may include rounding adjustments to reconcile to the total amount being reported.

FSA borrows funds from Treasury to support the disbursement of new loans, and for the payment of credit program outlays and related costs. FSA then makes repayments after considering its cash position and liability for future cash outflows, as mandated by the Federal Credit Reform Act of 1990. The net impact of these activities on the outstanding debt portfolio are illustrated for the Direct Loan and FFEL Programs in Figures 20 and 21 respectively.

Figure 20: Direct Loan Program Net Financing Activity
Fiscal Years 2015–19
(Dollars in Billions)

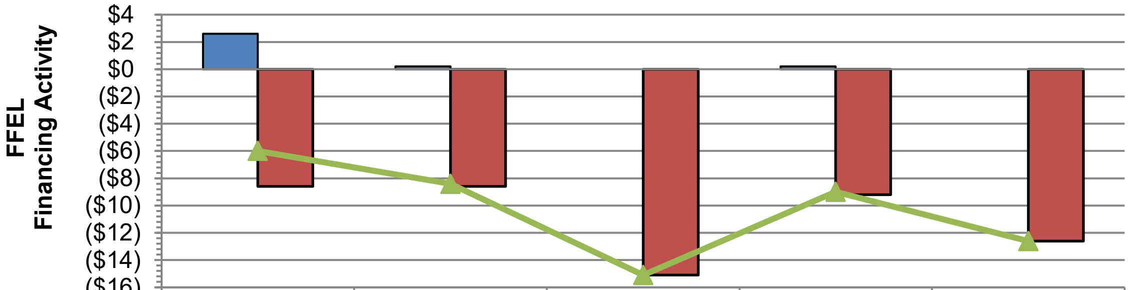


	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Borrowing	$159.7	$147.0	$160.5	$155.3	$137.6
Repayments	$(68.7)	$(62.6)	$(93.2)	$(66.2)	$(96.1)
Net Change	$90.9	$84.4	$67.3	$89.1	$41.5

*Note: Line items may include rounding adjustments to reconcile to the total amount being reported.

Direct Loan net financing activity (Figure 20) also accounted for most of the overall increase in FSA's outstanding debt level during the same five years. By comparison, in the absence of any borrowing for new loan disbursements (Figure 21), FFEL-related debt decreased consistently from FY 2015–19. These changes in net financing activity for Direct Loan and FFEL Programs reflect the impact of the SAFRA Act on disbursements, interest rate driven loan consolidations, and related changes in estimated subsidy costs.

Figure 21: Federal Student Aid FFEL Loan Program Net Financing Activity
Fiscal Years 2015–19
(Dollars in Billions)



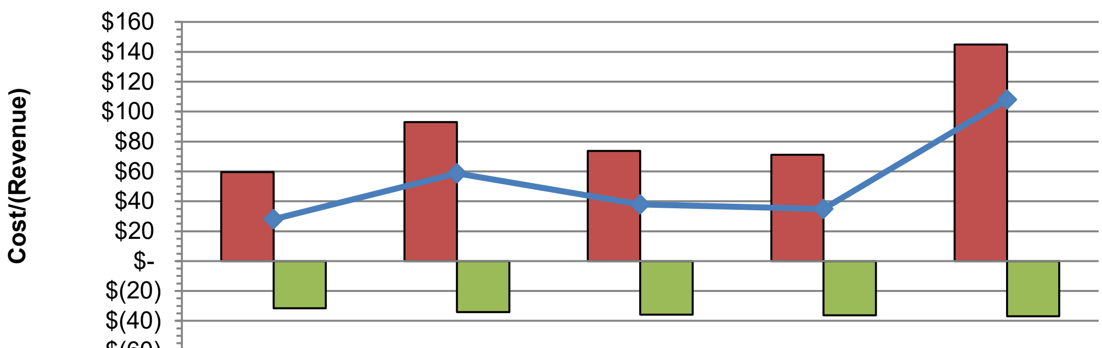
	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Borrowing	$2.6	$0.2	$-	$0.2	$-
Repayments	$(8.6)	$(8.6)	$(15.1)	$(9.2)	$(12.6)
Net Change	$(6.0)	$(8.4)	$(15.1)	$(9.0)	$(12.6)

*Note: Line items may include rounding adjustments to reconcile to the total amount being reported.

Statement of Net Cost

The Statement of Net Cost is the federal financial statement that presents the net cost of operations for FSA programs. FSA net cost is the gross cost incurred during its operations less any exchange (i.e., earned) revenues earned from its activities. Gross cost is composed of the cost of credit programs, grant programs, and operating costs. Exchange revenues are primarily interest earned on credit program loans.

Figure 22: Composition of Federal Student Aid Net Cost
Fiscal Years 2015–19
(Dollars in Billions)



	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Gross Costs	$59.5	$93.0	$73.7	$71.2	$144.9
Earned Revenue	$(31.5)	$(34.2)	$(35.8)	$(36.2)	$(36.8)
Net Costs	$28.0	$58.8	$37.9	$35.0	$108.0

*Note: Line items may include rounding adjustments to reconcile to the total amount being reported.

As shown in Figure 22, FSA's earned revenues (mainly interest and fee accruals net of subsidy amortization) increased from $31.5 billion in FY 2015 to $36.8 billion in FY 2019, an overall increase of 16.7 percent or about 3.8 percent annually on average. By comparison, FSA's gross costs fluctuated much more widely over the same period, from $59.5 billion in FY 2015 to $144.9 billion in FY 2019, mainly the result of subsidy-related transactions. As a result, net costs fluctuated also, most notably increasing 208.6 percent from $35.0 billion reported in FY 2018 to $108.0 billion in FY 2019. FSA's total costs exceeded its earned revenues in both years, but the margin was greater in FY 2019 by $73.0 billion, of which $55.9 billion was attributable to the Direct Loan Program, and a further $11.6 billion represented an increase in FFEL net costs.

For the Direct Loan Program, the $55.9 billion increase in net costs was the result of subsidy transfer re-estimates ($46.6 billion), subsidy collection re-estimates ($10.5 billion), subsidy amortization ($4.4 billion) and other subsidy cost-related transactions, net of accrued interest and fees from borrowers ($5.7 billion). Similarly, the $11.6 billion increase in FFEL Program net costs was mostly the result of a $14.4 billion increase in current fiscal year upward financial statement re-estimates, $11.6 billion of which was attributable to FSA's portfolio of traditional FFEL Guaranteed credit program receivables. This was offset by a $3.3 billion increase in current fiscal year downward financial statement re-estimates, of which $3.1 billion also related to FSA's FFEL Guaranteed loan portfolio.

Both the FFEL and Direct Loans Programs are mandatory programs whose costs are largely driven by Federal borrowing costs, prevailing interest rates, in-school interest benefits for borrowers, the costs related to borrower defaults, and loan volume demand. The programs are funded by mandatory and indefinite budget authority and therefore do not receive annual appropriations. For more details regarding the inherent difficulty of estimating the impact of these complex factors, please refer to **Note 5**.

Statement of Changes in Net Position

The Statement of Changes in Net Position presents those amounts that caused the net position section of the Balance Sheet to change from the beginning to the end of the reporting period and is affected by changes in its two components, cumulative results of operations and unexpended appropriations.

FSA's net position as of September 30, 2019, was negative $44.9 billion, a decrease of $53.9 billion compared to the previous September 30 net position. The difference reflects a decrease in the cumulative results of operations by the amount of $52.9 billion, from $(23.4) billion, to $(76.3) billion, of which $(38.4) billion of the reduction related to the Direct Loan Program and $(14.6) billion was attributable to the FFEL Program. In addition, unexpended appropriations decreased by $1.1 billion, of which $1.6 billion were attributable to the combined Perkins Loan and Grants Programs, with an offsetting $0.6 billion increase in Direct Loan Program unexpended appropriations accounting for most of the remaining difference.

Statement of Budgetary Resources

The Statement of Budgetary Resources compares the budgetary resources provided with the status or execution of those resources. It also details the composition of the resources and shows the amount of net outlays. Appropriations are available to cover the subsidy cost of each loan program and administrative expenses. Subsidy expense represents the difference between the net present value of expected future cash flows and the face value of each loan portfolio. Appropriation authority is available as needed on a permanent basis to finance costs resulting from loans guaranteed in the years before FY 1992. The Pell Grant Program receives appropriations to cover actual grant disbursements.

This statement shows that as of September 30, 2019, FSA had $306.1 billion in combined budgetary resources, of which $20.1 billion remained unobligated and not apportioned. This compared to $305.9 billion in budgetary resources twelve months earlier of which $25.6 billion were unobligated and not apportioned. Overall budgetary resources increased by only $0.3 billion or 0.1 percent, as the net result of increases in budgetary resources for the combined Perkins Loan and Grants Programs ($2.0 billion) and the Direct Loan Program ($1.4 billion) offset by a $3.1 billion decrease attributable to the FFEL Program. The latter was mainly due to a decrease in spending authority from offsetting collections ($3.1 billion), a decrease in net unobligated balance from the prior year budget authority ($0.9 billion), together with a decrease in borrowing authority ($0.2 billion) offset by an increase in current year appropriations ($1.1 billion).

FSA’s Net Outlays after Distributed Offsetting Receipts as of September 30, 2019, were $97.3 billion, a decrease of $4.3 billion or 4.2 percent compared to the prior September 30 amount of $101.7 billion. The Direct Loan Program accounted for an $8.1 billion reduction, with offsetting increases of $2.2 billion and $1.4 billion attributable to the FFEL Program and to the combined Perkins Loan and Grants Programs respectively. FFEL Program activity was mainly due to an increase in gross outlays ($2.8 billion), together with a decrease in offsetting collections ($1.3 billion), net of an increase in distributed offsetting receipts ($1.9 billion). Additional information is provided in **Note 11**.

Financial Management Highlights

During FY 2019, FSA engaged in the following activities to maximize the protection of borrower and taxpayer interests in the face of identified challenges.

Next Generation Financial Services Environment. When fully implemented, Next Gen FSA offers key financial benefits on several levels. Providing customers with intuitive, personalized information in real-time through digital and mobile technology designed to facilitate self-service should drive improved outcomes for student loan borrowers; even small reductions in loan delinquency and default would have significant implications on a loan portfolio exceeding $1.5 trillion. At the same time, the adoption of digitally driven technology focused on increasing customer self-service also offers the possibility of significantly reduced administrative costs for FSA, as relatively expensive phone and paper transactions are replaced by less costly digital services. Next Gen FSA contracts are being designed both to encourage vendors to drive automation and efficiency—while not sacrificing quality customer service—and to ensure that resulting savings are passed onto FSA through reduced contract costs. Lastly, the adoption of modern, modular, and web-based technology should further reduce costs while also making it easier and less expensive to incorporate new legislative or policy initiatives or stay abreast of the latest data security standards.

Next Gen FSA is the largest, most complex implementation effort in FSA's history. Projects of this scale, scope, and cost inevitably involve significant risks; accordingly, FSA has devoted significant resources to documenting, managing, and mitigating these risks. In addition to enterprise risk tracking and mitigation efforts, the Next Gen FSA Program Office has a dedicated risk manager and maintains a detailed risk log at the project and program level, with a particular focus on project cost and schedules. Key risks that have been identified and are being tracked include:

- Contract awards that could be delayed by protests;
- Appropriations could be insufficient to support planned implementation activities;
- The need for complex technical and process integration across multiple elements of Next Gen FSA; and
- FSA could be unable to attract sufficient staff with the technical skills and experience needed under the new environment.

Improper Payment Estimation. The Direct Loan Program and the Pell Grant Program are susceptible to significant improper payments and were designated as "high-priority" programs by OMB. FY 2019 outlays for these programs were:

- Direct Loan Program: $92.9 billion
- Pell Grant Program: $29.0 billion

FSA is required to annually estimate improper payments for the Direct Loan and Pell Grant Programs. In FY 2019, FSA implemented a new methodology for estimating these improper payments.

In FY 2018, FSA developed a statistically valid estimation methodology that addressed the acknowledged limitations of the prior non-statistically valid estimation methodology. The new methodology implemented in FY 2019 is based on a larger, random sample of the complete population of over 5,700 schools and uses data from the compliance audits performed by external auditors for those schools, as opposed to the prior non-statistical methodology that used a smaller, non-random sample of a subset of schools selected for program reviews. A small number of schools may apply for and receive a waiver or exemption from the compliance audit requirements. FSA includes a sample of these schools in the improper payment estimation calculation.

To execute this new methodology, a sample of schools was selected by dividing the population of Pell Grant and Direct Loan disbursing schools into mutually exclusive groups or "strata" based on school disbursement amounts. FSA randomly selected schools into the sample from each stratum so that schools in the same stratum had equal probabilities of selection. All schools in the two strata containing the schools disbursing the largest amounts (i.e., schools with Direct Loan disbursements over $150 million and schools with Pell disbursements over $50 million) were included in the sample. The Pell Grant and Direct Loan improper payment estimates are based in part on all improper payments identified by the auditors for each of the 395 sampled schools.

This new methodology improves the accuracy of the improper payment estimates allowing for more precise root cause analyses to improve corrective actions and improve the effectiveness of correction action plans to mitigate identified root causes. As shown in the following table, sampling from the total school population, rather than the limited number of schools subject to program reviews, reduced the improper payment estimate for both programs.

Table 19: Improper Payment Estimates for Risk-Susceptible Programs
(Dollars in Millions)

Program Name	FY 2018		FY 2019		Improper Payment Rate Variance	Improper Payment Amount Variance
	Improper Payment Rate	Improper Payment Amount	Improper Payment Rate	Improper Payment Amount		
Direct Loan Program	3.99 %	$3,752.9	0.52 %	$483.1	(3.47 %)	($3,269.8)
Pell Grant Program	8.15 %	$2,302.4	2.23 %	$646.1	(5.92 %)	($1,656.2)
Aggregate/Blended	4.95 %	$6,055.3	0.93 %	$1,129.3	(4.02 %)	($4,926.0)

*Note: Line items may include rounding adjustments to that do not reconcile to the total amount being reported.

The primary causes of the FY 2019 estimated improper payments were misreported income by applicants and incorrect amounts of Federal funds disbursed by schools to students because of administrative or other process errors. Improper payments attributed to FSA include, for the Pell Grant Program, estimates of misreported income for students not selected for verification and who did not use the Internal Revenue Service (IRS) Data Retrieval Tool (DRT) and, for the Direct Loan Program, consolidation and refund improper payments related to the Department’s loan servicing operations.

When control deficiencies are detected, either within FSA or at external entities, FSA seeks to identify the root causes, develop corrective action plans, and track corrective actions through to completion. In FY 2019, the most significant root cause, misreported income, is associated with the FAFSA/IRS Data Statistical Study (Study) performed for the Pell Grant Program that compares information reported by applicants on the FAFSA and income details reported to the IRS. The Department is coordinating with Treasury and OMB to pursue legislation that would provide an exemption to the IRS Tax Code Section 6103 to further streamline FSA’s ability to receive and verify applicants’ and borrowers’ income data.

FSA will continue to refine its execution of this new methodology, including evaluation of data collection. For example, if information needed to calculate improper payments for the school was not provided in the audit report this year, FSA obtained this information directly from the school or auditor. To facilitate data collection for this purpose going forward, FSA coordinated with OMB to clarify these data and reporting requirements in the FY 2019 OMB Compliance Supplement.

For more information regarding FSA's assessment of improper payment risk and planned strategies to mitigate this risk, please refer to the Payment Integrity narrative in the **Other Information** section located in this FY 2019 FSA Annual Report and in the Department's ***AFR***.

Debt Collection. As of September 30, 2019, the Department managed a Net Credit Program Receivable portfolio of approximately $1.2 trillion, a decrease of 0.6 percent from FY 2018. This portfolio includes the Direct Loan Program, FFEL Program (guaranteed loans held by guaranty agencies or FSA), FFEL loans acquired via authorization of the ECASLA, Federal Perkins Loans Program receivables, HEAL Program loans, and TEACH Program receivables. FSA realizes that as the size of the loan portfolio grows, so does the level of financial risk associated with the collections on these loans.

FSA manages maximizing collections, while minimizing negative borrower impacts. During FY 2019, FSA saw a slight decrease in the portfolio's three-year default rate, from 11.5 percent reported in FY 2017 and 10.8 percent reported in FY 2018, for the FY 2014 and FY 2015 three-year cohorts, respectively, to 10.1 percent reported in FY 2019 for the FY 2016 three-year cohort default rate. FSA reported a collection rate of $58.56, which represents the total dollars collected per dollar spent on collection activities. This demonstrates the continued maintenance of a relatively low default rate, while ensuring the efficiency of funds spent on collections and maintaining customer satisfaction along the entire aid lifecycle. More information on FSA's performance, as it relates to debt collection and the collection rate, is provided in the ***Annual Performance Report*** section, in **Performance Metric D.3**, of this *Annual Report*.

Analysis of Systems, Controls, and Legal Compliance

FSA adheres to the Government Accountability Office (GAO) published guidance on internal control and recognizes that internal control is an integral part of managing an organization. Internal control includes the plans, methods, and procedures used to meet the organization's missions, goals, and objectives. In carrying out these components of internal control, FSA supports an environment for performance-based management. Internal control also serves as the first line of defense in safeguarding assets and preventing and detecting errors and fraud. Internal control helps government program managers achieve desired results through effective stewardship of public resources.

Internal controls should provide reasonable assurance that the objectives of the agency are being achieved in the following categories:

- Effective and efficient operations;
- Reliability of reporting for internal and external use; and
- Compliance with applicable laws and regulations.[17]

FSA is responsible for establishing and maintaining effective internal control over reporting and financial management systems that meet the objectives of the *Federal Managers' Financial Integrity Act of 1982* and annually assessing the effectiveness and efficiency of its internal controls over operations and compliance with applicable laws and regulations in accordance with OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control* (OMB Circular A-123). On June 6, 2018, OMB updated OMB Circular A-123, Appendix A, *Management of Reporting and Data Integrity Risk* (Appendix A) to further align to the revised OMB Circular A-123, updated in 2016. FSA continues to coordinate with the Department and internally to execute these requirements.

Based on the results of this year's assessment, FSA reported to the Department's management that its internal control over operations, including internal controls intended to prevent, detect and recover improper payments, and compliance with applicable laws and regulations, as of September 30, 2019, was operating effectively, with one exception noted in the Legal Compliance section of the Department's ***AFR***: *Debt Collection Improvement Act of 1996*. More details about this issue and the efforts being taken to remediate the non-compliance can be found in the Department's ***AFR***.

In addition, FSA, working with the Department, conducted its current year assessment of the effectiveness of internal control in accordance with the requirements of Appendix A of OMB Circular A-123, updated on June 6, 2018. OMB Circular A-123, Appendix A provides requirements to agencies for conducting management's assessment of internal control over reporting. The Department's evaluation for FY 2019 did not identify any material weaknesses in controls as of September 30, 2019. The scope of FSA's assessment focuses on new processes and processes with high-risk profiles reviewed and tested every year. Processes with lower-risk profiles are reviewed and tested on a 3-year cycle. In FY 2019, FSA continued to rely on audits of loan servicers conducted by independent public accountants in accordance with Statement on Standards for Attestation Engagements Number 18, Reporting on Controls at a Service Organization.

[17] Government Accountability Office Standards for Internal Control in the Federal Government, GAO-14-704G, September 10, 2014, p.5.

FSA's participation in the Department's implementation of the requirements of OMB Circular A-123, including Appendix A, enables it to continue to build upon its internal control framework. This framework will be used in continuing efforts to monitor and improve internal control. Please refer to the *Analysis of Systems, Controls and Legal Compliance* section of the Department's ***AFR*** for additional information related to management's assurances and disclosures.

Please also refer to the *Analysis of Systems, Controls and Legal Compliance* section of the Department's ***AFR*** for information related to the Department's compliance with the *Federal Financial Management Improvement Act of 1996*.

FSA's financial management systems strategy is formulated and managed as part of the Department's strategy. For details on FSA's financial management systems strategy, please refer to the Financial Management Systems Strategy narrative found in the *Management's Discussion and Analysis* section of the Department's ***AFR*****.**

Limitations of Financial Statements

Management has prepared the accompanying financial statements to report the financial position and operational results for FSA, for FY 2019 and FY 2018 pursuant to the requirements of Title 31 of the United States Code, Section 3515(b).

While these statements have been prepared from the books and records of FSA in accordance with generally accepted accounting principles for federal entities and the formats prescribed by OMB, these statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records.

The statements should be read with the realization that they are for FSA, a component of the U.S. Government, a sovereign entity. One implication of this is that the liabilities presented herein cannot be liquidated without the enactment of appropriations, and ongoing operations are subject to the enactment of future appropriations.

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Annual Performance Report (Unaudited)

Overview of the Annual Performance Report

The *Annual Performance Report* section of the *FSA Annual Report* provides detailed performance information on FSA's progress in achieving the goals and objectives described in the *FSA FY 2015–19 Strategic Plan*. This section also includes reports on other areas of performance that are required by the Higher Education Amendments of 1998. The subsections of the *Annual Performance Report* are listed and briefly discussed below.

Fiscal Year 2019 Organizational Performance

Fiscal Year 2019 Organizational Performance presents the performance metrics, the targets, and the actual performance results for FY 2019. It also includes an overview of FSA's performance in meeting its established targets over the past five years and an overview of the FSA strategic plan, linking its objectives to each strategic goal.

Introduction to the Annual Performance Report

The Introduction to the Annual Performance Report provides an overview of the Annual Performance Report and includes a high-level summary of the FSA Strategic Plan.

Performance Results by Strategic Goal

This subsection details the results of each overall strategic goal by performance metric. Each performance metric includes a table that presents five years of data results, where available, its current target and results. The performance metric section also includes a discussion of the metric's target context, analysis of progress, and data quality limitations.

Fiscal Year 2019 Accomplishments of Federal Student Aid

This subsection describes additional accomplishments that were not measured by the performance metrics included in the strategic plan but were the result of initiatives that FSA undertook to support the implementation of the strategic plan or legislative changes.

Legislative and Regulatory Recommendations

This subsection details legislative and regulatory recommendations that FSA provided to the Department in support of the Department's regulatory activities.

Annual Bonus Awards

This subsection discusses executive compensation at FSA in compliance with the legislative requirements under the PBO legislation that created FSA.

Report of the Federal Student Aid Ombudsman

The report discusses the FSA Ombudsman's activities in accomplishing its statutory mission of addressing complaints about Title IV financial aid programs.

Fiscal Year 2019 Organizational Performance

Federal Student Aid Strategic Goals and Strategic Objectives

Table 20: Strategic Goals and Strategic Objectives for Fiscal Years 2015-19

FSA FY 2015–19 Strategic Plan	
Mission ***Funding America's Future, One Student at a Time***[18] **Vision** **To be the most trusted and reliable source of student financial aid, information, and services in the nation**	
Strategic Goal A	**Objectives**
Improve quality of service for customers across the entire student aid life cycle.	**A.1**: Improve outreach and awareness efforts to support aid recipients and their families in making sound financial decisions.
	A.2: Optimize the borrower service model to improve the customer experience.
	A.3: Predict, identify, and understand existing and emerging customer trends and patterns.
	A.4: Enhance outreach, training and tools to improve institutional performance and help postsecondary institutions understand responsibilities and requirements under the Higher Education Act.
Strategic Goal B	**Objectives**
Proactively manage the student aid portfolio to mitigate risk.	**B.1:** Enhance analytical and research capabilities to proactively identify operational and reputational risk.
	B.2: Develop robust, data-driven processes to manage identified risks.
	B.3: Provide access to resources to protect students and families from unfair, deceptive or fraudulent practices in the student aid marketplace.
Strategic Goal C	**Objectives**
Improve operational efficiency and flexibility.	**C.1:** Link disparate data sources to improve cross-organizational information exchange.
	C.2: Refine acquisition management to ensure that services and products are consistent with business objectives.
	C.3: Enhance governance processes to support enterprise decision-making.
	C.4: Strengthen FSA's information technology (IT) systems' security.
Strategic Goal D	**Objectives**
Foster trust and collaboration among stakeholders.	**D.1:** Engage with stakeholders to be the most trusted and reliable source of information on federal student aid.
	D.2: Provide timely and proactive communication to promote accurate, consistent messaging on federal funding of postsecondary education.
	D.3: Promote transparency and accountability within FSA and across the higher education environment.
Strategic Goal E	**Objectives**
Invest in expanded workforce capability	**E.1:** Create an enterprise-wide workforce plan to attract, develop, and retain employees with the skills required to meet evolving business needs.
	E.2: Develop a succession planning strategy to identify and create opportunities for future leadership talent.

[18]The mission stated above represents the Federal Student Aid's mission statement as published in the FY 2015–19 FSA Strategic Plan. A new mission statement, *Keeping the Promise: Funding America's Future, One Student at a Time*, has been developed and will be published in the new FSA Strategic Plan.

Federal Student Aid Strategic Goals, Performance Metrics, and Results

Table 21: Fiscal Year 2019 Strategic Goals, Performance Metrics and Results

Performance Metrics	FY 2019 Target	FY 2019 Actual	Result	Reference Page
Strategic Goal A: ***Improve quality of service for customers across the entire student aid life cycle.***				
A.1 Percent of First-Time FAFSA Filers Among High School Seniors	67.0%–69.0%	65.9%	✗	64
A.2 Persistence Among First-Time Filing Aid Recipients	82.0%–84.0%	82.8%	✓	66
A.3 Customer Visits to StudentAid.gov	>=150 million	183.7 million	✓	67
A.4 Social Media Channel Subscribership	>=615,000	634,556	✓	68
A.5 ACSI Aid Life Cycle Surveys	70.0–72.0	70.0	✓	69
Strategic Goal B: ***Proactively manage the student aid portfolio to mitigate risk.***				
B.1 Improper Payment Rate	4.95%	0.93%	✓	70
B.2 Percent of Borrowers > 90 Days Delinquent	10.1%	9.8%	✓	72
Strategic Goal C: ***Improve operational efficiency and flexibility.***				
C.1 Aid Delivery Costs Per Application	$11.99	$9.55	✓	74
C.2 Outstanding Direct Loan Portfolio in Current Repayment Status	85.5%–86.6%	86.7%	✓	75
Strategic Goal D: ***Foster trust and collaboration among stakeholders.***				
D.1 Ease of Doing Business with FSA	73.4–75.4	74.0	✓	76
D.2 Percentage of Contract Dollars Competed by FSA	95.8%–97.8%	97.6%	✓	77
D.3 Collection Rate	$53.30	$58.56	✓	78
Strategic Goal E: ***Invest in expanded workforce capability.***				
E.1 Employee Engagement Index	61.0%–63.0%	61.0%	✓	79

Federal Student Aid Performance Results by Strategic Goal

The following table provides an overview of the performance metrics results by strategic goal over the past five years.

Table 22: Performance Results by Strategic Goal for Fiscal Years 2015-19

Strategic Goals	Target	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Goal A: *Improve quality of service for customers across the entire student aid life cycle.*	Met/Exceeded	3	3	4	5	4
	Not Met	-	-	-	-	1
	Data Not Available	2*	2*	1*	-	-
Goal B: *Proactively manage the student aid portfolio to mitigate risk.*	Met/Exceeded	1	1	-	2	2
	Not Met	1	-	2	-	-
	Data Not Available	-	1*	-	-	-
Goal C: *Improve operational efficiency and flexibility.*	Met/Exceeded	1	2	2	2	2
	Not Met	-	-	-	-	-
	Data Not Available	1*	-	-	-	-
Goal D: *Foster trust and collaboration among stakeholders.*	Met/Exceeded	2	2	3	3	3
	Not Met	1	1	-	-	-
	Data Not Available	-	-	-	-	-
Goal E: *Invest in expanded workforce capability*	Met/Exceeded	1	1	1	-	1
	Not Met	-	-	-	1	-
	Data Not Available	-	-	-	-	-
Total	Met/Exceeded	8	9	10	12	12
	Not Met	2	1	2	1	1
	Data Not Available	3*	3*	1*	-	-
	Total Measures	13	13	13	13	13

*These metrics were revised, and the prior-year results were not restated under the revised method.

Introduction to the Annual Performance Report

The FSA Strategic Plan guides FSA towards achieving its vision “To be the most trusted and reliable source of student financial aid, information, and services in the nation.” Through the strategic plan, FSA documents the strategic goals, objectives, and performance metrics of the organization. FSA is required, by the PBO-enabling legislation, to report annually its level of performance. This section, the Annual Performance Report, satisfies this annual reporting requirement.

For additional performance-related information—including a more complete discussion of FSA’s mission, organization, and performance management—refer to the Management’s Discussion and Analysis section of this document.

The *FSA FY 2019 Annual Report* provides a detailed view of the past year’s goals, challenges, and accomplishments in the context of FSA’s *FY 2015–19 Strategic Plan*.

The strategic goals are:

- **Strategic Goal A:** Improve quality of service for customers across the entire student aid life cycle.
- **Strategic Goal B:** Proactively manage the student aid portfolio to mitigate risk.
- **Strategic Goal C:** Improve operational efficiency and flexibility.
- **Strategic Goal D:** Foster trust and collaboration among stakeholders.
- **Strategic Goal E:** Invest in expanded workforce capability.

The table on the following page presents the strategic plan and the objectives linked to each strategic goal. To gauge its success in meeting these strategic goals, FSA identified 13 performance metrics. For more information about FSA’s strategic goals and performance metrics, visit the FSA Data Center.

StudentAid.gov/strategic-planning-and-reporting

Performance Results by Strategic Goal

This section presents detailed performance results including a discussion of progress made to date in achieving the strategic goal and the data used to assess performance.

How this Section is Organized. This section is organized by the five strategic goals and the associated performance metric(s). The section contains the following information for each performance metric:

- **Table:** Identifies the performance metric associated with the strategic goal and provides the historical actual results for the four previous fiscal years (if available); the target and actual result for the current fiscal year; and an indicator as to whether FSA met the performance metric for each fiscal year reported. The following is the legend for the performance result indicator included in the table.

Performance Result Indicator Legend

Performance Result	Indicator
Performance result met or exceeded the target.	Met ✓
Performance result did not meet the target.	Not met ✗
Performance result is not applicable because the performance metric was not developed, the performance metric was not implemented, or the required data were not available in time for inclusion.	N/A —

The performance metric results reported are as of fiscal year-end, September 30, 2019, unless otherwise noted. If the required data are not available as of fiscal year-end in time for inclusion in this report, data as of the most recent period available are used. Data as of fiscal year-end may not be available in some instances, where the required data are obtained from external sources including state and private nonprofit guaranty agencies, lenders and loan servicers, and grant and loan recipients.

- **Target Context:** Explains the parameters or rationale for targets, especially where anomalies exist.
- **Analysis of Progress:** Provides a discussion of FSA's progress in meeting its targets and includes explanations for unmet targets and actions being taken or planned.
- **Data Quality and Limitations:** Describes the source of data required to calculate the actual result for the performance metric, any calculation required to determine the actual result, and any known data quality issues or limitations. For an overview of FSA's business process to confirm the quality of performance data, please see **Quality of Performance Data** in the Management's Discussion and Analysis section of this *Annual Report*.

Strategic Goal A: *Improve quality of service for customers across the entire student aid life cycle.*

Table 23
Performance Metric A.1
Percent of First-Time FAFSA Filers Among High School Seniors

Fiscal Year	Target	Actual	Target Achieved	Performance Result
FY 2019	67.0%–69.0%	65.9%	x	Not met
FY 2018	66.4%–68.4%	67.4%	✓	Met
FY 2017*	–	–	—	N/A
FY 2016*	–	–	—	N/A
FY 2015*	–	–	—	N/A

*Performance metric revised in FY 2018; prior-year data not available under revised method.

Target Context:
A major component of FSA's mission is to ensure that all eligible individuals have access to federal student aid. In order to achieve this goal, FSA works diligently to increase awareness about the availability of student financial assistance. This performance indicator measures the largest and most visible outcome of FSA's customer engagement efforts, the percent of graduating high school seniors who successfully file a FAFSA as a first step in furthering their education beyond the secondary level.

FSA would have met this goal if the estimate of the number of high school seniors had remained the same as it was when the goal was set, but the number of seniors continually increased, which then decreased the percentage of seniors filing a FAFSA. Per FSA policy, the current projection is based on the most recently released data from National Center for Education Statistics (NCES). The FY 2018 performance metric that was used to set the target for FY 2019 was calculated using the 2016 Digest of Education Statistics, which estimated the number of graduating high school seniors in 2017–18 as 3,612,500 and in 2018–19 as 3,606,230. Both years have been reestimated by NCES and are now estimated to have been 3,672,200 in 2017–18 and 3,683,540 in 2018–19. Using estimates of graduating seniors from the 2016 Education Digest would produce an FY 2018 metric of 67.4 percent (as actually reported) and an FY 2019 metric of 67.3 percent (counterfactual). Using estimates of graduating seniors from the 2018 Education Digest would produce an FY 2018 metric of 66.3 percent (counterfactual) and an FY 2019 metric of 65.9 percent.

Analysis of Progress:
FSA did not meet its target for this metric with a result of 65.9 percent.

In a fiscal year when unemployment hit a 50-year low, the percentage of high school seniors filing the FAFSA decreased only slightly more than 1 percent, and it only decreased because estimates of the number of seniors nationwide continually increased. FSA has successful awareness and outreach campaigns and a consistent social media presence to reach high school seniors. In addition, FAFSA filing for the start of the FY 2020 year increased, and two large states (Illinois and Texas) have passed laws requiring FAFSA filing as a requirement to graduate from high school, so FSA anticipates that the percentage of high school seniors filing a FAFSA will increase in FY 2020.

Data Quality and Limitations:
The denominator is the number of graduating high school seniors according to the most recent projection by NCES. The numerator is based on the number of applications for first-time filers during the first nine months of the application cycle that are, as of September 30 of the first year of the application cycle, complete (not rejected). First-time filers are defined as incoming freshmen, with or without previous college attendance; age 19 or less as of June 30 of the first year of the application cycle; reporting high school diploma attainment; and attended a high school in the 50 states or Washington, DC. Applicants are identified using several criteria to reflect likely high school seniors (first-time filing, entering college freshmen with high school diploma, who are no older than 19 years of age). Completed applications are a subset of submitted applications and represent all submitted applications that were not rejected. Data are based on last transaction on file as of September 30, 2018. Data include all applications submitted listing high schools in the 50 states and Washington, DC. Applications from seniors at Department of Defense Education Activity schools in other geographic areas are excluded.

Table 24
Performance Metric A.2
Persistence Among First-Time Filing Aid Recipients

Fiscal Year	Target	Actual	Target Achieved	Performance Result
FY 2019	82.0%–84.0%	82.8%	✓	**Met**
FY 2018	81.6%–83.6%	82.5%	✓	**Met**
FY 2017	78.7%–80.7%	82.6%	✓	**Met**
FY 2016	78.5%–80.5%	79.7%	✓	**Met**
FY 2015	78.6%–80.6%	79.5%	✓	**Met**

Target Context:
This metric helps track performance across one of the desired outcomes of federal student aid and its impact on program completion. By following first-time filing aid recipients—such as college freshmen or non-traditional students, into their second year—it is possible to see whether FSA is making improvements in how applicants are translating the aid that they receive into educational persistence.

Analysis of Progress:
FSA met its target for this metric with a result of 82.8 percent.

Continuing FAFSA outreach campaigns, the premiere of a mobile FAFSA, and a strong social media presence all allowed FSA to meet its goal for persistence among first-time FAFSA filers.

FSA plans to increase its outreach efforts to students while in school in FY 2020. This should help to increase the number of first-time filers who return to file a second FAFSA.

Data Quality and Limitations:
The denominator is the number of first-time FAFSA filers in the previous cycle with a program or degree length greater than one year that received aid for that award year (grants and/or loans). The numerator is the number of 2017–18 return applicants (by September 30 of the first year of the application cycle) that were identified in the denominator.

Table 25
Performance Metric A.3
Customer Visits to StudentAid.gov

Fiscal Year	Target	Actual	Target Achieved	Performance Result
FY 2019	>=150.0 million	183.7 million	✓	Met
FY 2018	>=43.3 million	44.5 million	✓	Met
FY 2017	>=43.3 million	44.3 million	✓	Met
FY 2016	>=43.4 million	47.2 million	✓	Met
FY 2015	>=32.7 million	43.3 million	✓	Met

Target Context:
By focusing on overall customer visits to FSA's primary online portal for customers, this performance metric helps gauge the success of FSA's efforts to become the most trusted source for accurate and accessible student aid information for Americans nationwide.

Analysis of Progress:
FSA met its target for this metric with a result of 183.7 million visits.

The October 2018 migration of the FAFSA home page to **StudentAid.gov** continued to drive a large number of customers to the website, resulting in an increase in the number of sessions on the site.

FSA's performance on this metric is a testament to the success of its effort on promoting the site as a trusted source and driving improvements to the student experience. Since its launch in 2012, **StudentAid.gov** has evolved into FSA's primary information interface for federal student aid tools, resources, and services.

Data Quality and Limitations:
The metric value is based on the number of visits (as opposed to unique visitors and page views).

Table 26
Performance Metric A.4
Social Media Channel Subscribership

Fiscal Year	Target	Actual	Target Achieved	Performance Result
FY 2019	>=615,000	634,556	✓	Met
FY 2018	>=590,000	607,241	✓	Met
FY 2017	>=500,000	584,241	✓	Met
FY 2016	>=454,000	528,251	✓	Met
FY 2015	>=368,000	454,066	✓	Met

Target Context:
By focusing on engaging content to increase subscribership across FSA's most prolific social media channels, this metric helps FSA measure the success of enterprise efforts to increasingly become the trusted source for accurate and accessible federal student aid information across the organization's digitally engaged customer base.

Analysis of Progress:
FSA met its target for this metric with a result of 634,556 subscribers.

FSA exceeded its target for this metric for the sixth year in a row, with subscribers to FSA's Facebook, Twitter, and YouTube social media channels. In today's information age, digital media techniques are becoming increasingly critical for effective customer engagement. Within the past several years, FSA has aggressively leveraged social media tools to drive awareness, uncover insights, engage and interact with students and borrowers, and drive traffic to FSA's websites and blogs. This metric helps track FSA's progress in this domain.

Data Quality and Limitations:
The metric is calculated as the aggregate sum of subscribers across Facebook, Twitter, and YouTube. The tool that tracks Social Media Channel Subscribership for YouTube, Facebook, and Twitter is dynamic. Depending on the moment in time that the subscribership result is captured, the total could be different.

Table 27
Performance Metric A.5
ACSI Aid Life Cycle Surveys

Fiscal Year	Target	Actual	Target Achieved	Performance Result
FY 2019	70.0–72.0	70.0	✓	Met
FY 2018	68.9–70.9	70.6	✓	Met
FY 2017*	69.4–71.4	69.9	✓	Met
FY 2016*	–	–	—	N/A
FY 2015*	–	–	—	N/A

*Performance metric revised in FY 2017. Prior-year data not available under revised method.

Target Context:
This metric measures how FSA is improving in terms of streamlined processes for interactions with customers applying for, receiving, and repaying federal student aid. The metric measures the accessibility of information FSA provides to customers. Historically, to measure the overall customer satisfaction level throughout the student aid life cycle, FSA has calculated a weighted score for the American Customer Satisfaction Index (ACSI) surveys for applicants, students in school, and borrowers in repayment.

Analysis of Progress:
FSA met its target for this metric with a result of 70.0.

The most heavily weighted of these measures is borrowers who are currently having their loans serviced—this is the largest segment of the population served by FSA (FSA has over 43 million borrowers in the entire portfolio it oversees) and therefore accounts for 70 percent of the measure. Nearly 25 percent of this metric is made up of scores collected by FAFSA applicants (approximately 18 million FAFSAs are filed each year) and the smallest component of the metric is the 5 percent of the measure that accounts for students still in school who are receiving Title IV funds. Together, the three measures span the three major parts of the student aid lifecycle. As Next Gen FSA efforts improve the customer experience of borrowers repaying their loans, FSA expects to see this score increase.

Data Quality and Limitations:
Traditionally, the ACSI survey has been conducted annually for FSA's major programs. The index provides a national, cross-industry, cross-sector economic indicator, using widely accepted methodologies to obtain standardized customer satisfaction information. Survey scores are indexed on a 100-point scale. The ACSI scores for application, in-school experience, and servicing are weighted by the utilization of each process/service and the intensity of the service provided.

Strategic Goal B: *Proactively manage the student aid portfolio to mitigate risk.*

Table 28
Performance Metric B.1*
Improper Payment Rate

Fiscal Year	Target	Actual	Target Achieved	Performance Result
FY 2019*	4.95%	0.93%	✓	Met
FY 2018	4.97%	4.95%	✓	Met
FY 2017	4.85%	4.97%	X	Not met
FY 2016	N/A[19]	4.85%	N/A	N/A
FY 2015	1.65%[20]	2.38%	X	Not met

*This performance metric methodology was revised in FY 2019.

Target Context:
FSA develops and reports in the Department's AFR, improper payment estimates for programs determined to be susceptible to significant improper payments. For FY 2015–2019, FSA's risk-susceptible programs are the Pell Grant and Direct Loan Programs. The Improper Payment Rate metric presented here is a single 'blended' rate for these two programs that divides aggregated estimated improper payments for both programs by aggregated estimated program outlays.

Analysis of Progress:
FSA achieved its target for this metric with a blended rate of 0.93 percent.

In FY 2019, FSA implemented a statistically valid estimation methodology to replace the non-statistically valid estimation methodology used in prior years. As a result, the FY 2019 estimate more accurately identifies the improper payment amounts in these programs and allows for more precise root cause analyses to improve corrective actions.

FSA continues to enhance its internal control framework to prevent, detect, and recover improper payments. For more information on FSA's improper payment program, including improper payment related internal controls for the Pell Grant and Direct Loan Programs, please see the **Payment Integrity** section of this report and of the Department's ***AFR***.

[19]At the time FY 2016 targets were set, it was known that the estimation methodology would change to address improper payment risks not previously incorporated, but the impact was not known. Accordingly, no target was set for this measure for FY 2016.

[20]The FY 2015 improper payment Target and Actual rates reported in the table above reflect the corrected improper payment rates for FY 2015 as determined by the FY 2015 IPERA Compliance Audit Report published by OIG on May 10, 2016. The corrected improper payment rates are prepared in accordance with the alternative sampling and estimation methodology approved by OMB as of October 20, 2015. The rate reported in FSA's *FY 2015 Annual Report* was 1.44 percent.

Data Quality and Limitations:
The FY 2019 result for Performance Metric B.1 was prepared using a statistically valid and rigorous estimation methodology, as defined by OMB. Therefore, the unaggregated Pell Grant and Direct Loan improper payments, used to calculate the blended rate, have a +/-3 percent or better margin of error at the 95 percent confidence level for the improper payment percentage estimate. The estimates are based on an analysis of data primarily obtained from a random sample of schools receiving Title IV aid.

To calculate Performance Metric B.1 in prior years, FSA used an OMB-approved non-statistical estimation methodology. Accordingly, the estimates lack the precision of other estimates developed, using random, statistical methodologies. The non-statistical methodology was based on an analysis of data primarily obtained from program reviews conducted at schools identified through a risk-based (i.e., non-random) selection process.

Table 29
Performance Metric B.2*
Percent of Borrowers >90 Days Delinquent

Fiscal Year	Target	Actual	Target Achieved	Performance Result
FY 2019*	10.1%	9.8%	✓	Met
FY 2018	8.2%	7.4%	✓	Met
FY 2017	7.4%	8.3%	✗	Not met
FY 2016	9.9%	8.8%	✓	Met
FY 2015	10.4%	9.8%	✓	Met

*This performance metric methodology was revised in FY 2019.

Target Context:
A focus on reducing the number of borrowers more than 90 days delinquent provides FSA with insight on how to communicate information about repayment options in a targeted and timely manner.

Analysis of Progress:
FSA met its target for this metric with a result of 9.8 percent.

FSA continues to reap benefits from the migration of borrowers from traditional repayment plans to Income Driven Repayment (IDR) plans. The movement to IDR plans has been facilitated by extensive outreach conducted by both FSA and its partners. Borrowers in Current Repayment are also less costly to service than borrowers in more-adverse repayment categories like delinquency.

Data Quality and Limitations:
The data source is NSLDS. The calculation uses the rounded results appearing in the FSA Data Center's Direct Loan Delinquency report. The fiscal year metric is a moving average of the four quarters.

The rate of recipients with loans greater than 90 days delinquent represents the number of nationwide Direct Loan recipients who have loans in a repayment status[21] that are more than 90 days overdue on their student loan debt. FSA continues to monitor overall performance of all the federal loan servicers to identify any areas where errors have occurred and notifies servicers of results and corrective actions as needed. While no specific efforts are underway to directly improve this performance metric with the current federal loan servicers, resources are concentrating on the overall Next Gen FSA effort as it continues to move forward with goals to improve the customer experience and decrease the number of borrowers in delinquency and default. Once fully implemented FSA expects to see increased borrower repayment rates, reductions in deferment and forbearance usage in addition to a decreased percentage of delinquent borrowers within the Department's student loan portfolio.

[21]Borrowers with loans in a repayment status are no longer in school/grace period and are not currently in a deferred or forbearance status.

This calculation was adjusted in FY 2019 to better measure all pre-default accounts more than 90 days delinquent relative to all accounts where payments are expected. The FY 2019 target was 10.1 percent rather than the previous baseline of 8.2 percent because the new calculation includes more categories of loans in the numerator than the previous calculation and fewer categories of loans in the denominator than the previous calculation. This results in a higher baseline. In other words, the new calculation is a higher, less-favorable one, but it more-precisely focuses on active repayment delinquency. Active repayment includes all current and delinquent loans serviced by federal loan servicers. Delinquencies beyond 270 days are included, so long as the loan is still with the federal loan servicer. Borrowers with loans in school, in grace period, in deferment, in forbearance, or in bankruptcy or disability status are not expected to make payments and are not included in the denominator.

The previous methodology calculated borrower accounts 91-270 delinquent divided by accounts in grace, current repayment, and delinquencies through 270 days. The new methodology calculates Direct Loan recipients who have loans more than 90 days delinquent divided by Direct Loan recipients with loans in current repayment or delinquency. Both the numerator and the denominator now include delinquencies of 271-360 days and greater than 360 days if the loan is still at a federal loan servicer.

Strategic Goal C: *Improve operational efficiency and flexibility.*

Table 30
Performance Metric C.1
Aid Delivery Costs Per Application

Fiscal Year	Target	Actual	Target Achieved	Performance Result
FY 2019	$11.99	$9.55	✓	**Met**
FY 2018	$12.16	$8.83	✓	**Met**
FY 2017	$11.46	$10.68	✓	**Met**
FY 2016	$13.11	$11.53	✓	**Met**
FY 2015	$12.28	$10.73	✓	**Met**

Target Context:
The aid delivery cost per application monitors the direct costs to process FAFSAs and originate aid in a 12-month period relative to the average number of original FAFSAs processed during that period. The fiscal time period measured is July through June.

Analysis of Progress:
FSA met the target for this metric with a result of $9.55.

FSA continues to focus on reducing costs and increasing efficiencies within the federal student aid process. During FY 2019, the aid delivery cost per application was approximately 26 percent lower than the FY 2019 target, but 8 percent above the FY 2018 result. Significant savings are expected to be realized after the implementation of the Next Generation Data Center to host application processing systems.

Data Quality and Limitations:
The cost data for this metric are derived from general ledger data uploaded to FSA's Activity-Based Costing model, which is updated on a quarterly basis and reconciled to FSA's Statement of Net Cost, ensuring all costs assigned to FSA are included in the cost model. The FAFSA volumes are derived from the Central Processing System, FSA's system for processing student aid applications.

Table 31
Performance Metric C.2
Outstanding Direct Loan Portfolio in Current Repayment Status

Fiscal Year	Target	Actual	Target Achieved	Performance Result
FY 2019	85.5%–86.6%	86.7%	✓	Met
FY 2018	85.0%–86.0%	86.5%	✓	Met
FY 2017	84.9%–85.9%	85.7%	✓	Met
FY 2016	85.3%	85.4%	✓	Met
FY 2015*	–	–	—	N/A

*Performance metric revised in FY 2016. Prior-year data not available under revised method.

Target Context:
This metric demonstrates an increase or decrease in the percentage of FSA loan portfolio dollars in a current repayment status. "Current" is defined as the percentage of Direct Loan principal and interest identified as being in an "active repayment" status. For this metric, loans are defined as being in "active repayment status" if they are being serviced by a non-default servicer, payments have not been temporarily suspended (in school/grace or deferment/forbearance), and if they have not been identified as being in non-defaulted bankruptcy, at the default servicer or otherwise excluded (e.g., due to a total and permanent disability determination). Direct Loans are further categorized as being "current" if no more than 30 days have passed since the next payment date.

Analysis of Progress:
FSA met its target for this metric with a result of 86.7 percent.

FSA continues to reap benefits from the migration of borrowers from traditional repayment plans to IDR plans. The movement to IDR plans has been facilitated by extensive outreach conducted by both FSA and its partners. Borrowers in Current Repayment are also less costly to service than borrowers in more-adverse repayment categories like delinquency.

Data Quality and Limitations:
The metric is calculated using the Direct Loan Portfolio by Delinquency Status Report published by the FSA Data Center using data provided by NSLDS. It is the outstanding principal and interest balance of "current" Direct Loans in the active repayment status divided by the total principal and interest balance of Direct Loans in an active repayment status at the non-default servicers. The metric result is calculated as a four-quarter moving average as of September 30 of the current fiscal year. This allows FSA to account for changes relating to seasonality and indirect factors that could be false indicators of change.

Strategic Goal D: *Foster trust and collaboration among stakeholders.*

Table 32
Performance Metric D.1
Ease of Doing Business with FSA

Fiscal Year	Target	Actual	Target Achieved	Performance Result
FY 2019	73.4–75.4	74.0	✓	Met
FY 2018	71.9–74.9	74.5	✓	Met
FY 2017	71.3–73.3	73.4	✓	Met
FY 2016	74.3–77.3	72.3	x	Not met
FY 2015	75.9–77.9	75.8	x	Not met

Target Context:
FSA works closely with postsecondary institutions to provide students with federal student aid. Successfully delivering aid through a complex system depends on FSA's ability to work well with its institutional, financial, and state partners by supporting them with technical assistance that will help them improve their performance and by providing adequate oversight to ensure that participants are complying with program requirements. To ensure that all participants in the postsecondary education funding system can easily access the information they need to perform their important functions and serve the interests of students, FSA conducts a survey with postsecondary institutions to gauge the "ease of doing business with FSA."

Analysis of Progress:
FSA met its target for this metric with a result of 74.0.

The FY 2019 score for the "Ease of Doing Business" question item on the Schools Partners survey was 74.0. The School Partners Survey reaches out to Financial Aid Administrators across the nation who work and interact with FSA. This score comes from the May 2019 survey of Financial Aid Administrators and was the sole measurement for FY 2019. FSA feels that the score reflects the value and strong reputation for FSA's training.

Data Quality and Limitations:
A survey of 15-20 questions, regarding the ease of doing business with FSA, is sent to financial aid administrators annually. The questions focus on the ease of use of FSA's major delivery and information systems. The ease of doing business score question is based on 1,201 responses (with a 20.6 item response rate). There were 5,819 survey invitations sent with 1,226 surveys completed (a 21.1 percent overall survey response rate), a high response rate for a customer satisfaction on-line survey.

Table 33
Performance Metric D.2
Percentage of Contract Dollars Competed by FSA

Fiscal Year	Target	Actual	Target Achieved	Performance Result
FY 2019	95.8%–97.8%	97.6%	✓	**Met**
FY 2018	89.3%–91.3%	96.8%	✓	**Met**
FY 2017	89.3%–91.3%	95.2%	✓	**Met**
FY 2016	89.3%–91.3%	92.9%	✓	**Met**
FY 2015	87.7%–89.7%	90.3%	✓	**Met**

Target Context:
Federal Acquisition Regulations require agencies to compete contracts, unless otherwise justified and approved in accordance with regulation. Competition increases transparency; drives savings and quality; and helps maintain a supplier base for future acquisition needs. This metric tracks the percentage of contract dollars competed by FSA.

Analysis of Progress:
FSA met its target for this metric with a result of 97.6 percent.

FSA met the target for this performance metric in FY 2019 as the result of FSA's commitment to competitively award a high percentage of contract dollars each year, driving value for taxpayers through a competitive acquisition process.

Data Quality and Limitations:
The metric is a five-year rolling average. The numerator is the total amount of dollars competed over a five-year period ending in the most recently completed fiscal year; the denominator is the total amount of dollars expended on contracts over the same period. The data are extracted from the Federal Procurement Data System-Next Generation using the standard "Competition Report" for contracting office "Federal Student Aid Procurement Activity."

Table 34
Performance Metric D.3
Collection Rate

Fiscal Year	Target	Actual	Target Achieved	Performance Result
FY 2019	$53.30	$58.56	✓	**Met**
FY 2018	$59.24	$62.15	✓	**Met**
FY 2017	$51.68	$59.69	✓	**Met**
FY 2016	$51.79	$53.07	✓	**Met**
FY 2015	$36.56	$51.58	✓	**Met**

Target Context:
FSA's collection rate measures the amount of dollars collected from borrowers in the fiscal year per dollar spent to collect. Measuring this rate helps FSA gauge the efficiency of its back-end systems and processes.

Analysis of Progress:
FSA met its target for this metric with a result of $58.56.

Four main components led to the FY 2019 Collection Rate Metric being met. Actual Loan Servicing costs are lower than projected in part because the anticipated servicer recompete has not yet occurred. The PCA costs are lower than projected as the 'flat rate' pricing paid to the PCAs is fully implemented. Actual collections increased 2.1 percent over the projected rate which led to an increase in actual vs. forecasted Default collection costs.

Data Quality and Limitations:
Collections are defined as the total amount of principal collected on both current and defaulted debt during the 12-month period ending June 30 of each year. Costs include the total direct costs calculated for loan servicing plus debt collections for the same period using FSA's Activity-Based Costing process. The cost data are derived from FSA's Activity-Based Costing model (Default Collections and Loan Servicing) and PCA spending. A program from the general ledger captured the amount of collections and repayment.

Strategic Goal E: *Invest in expanded workforce capability.*

Table 35
Performance Metric E.1
Employee Engagement Index

Fiscal Year	Target	Actual	Target Achieved	Performance Result
FY 2019	61.0%–63.0%	61.0%	✓	Met
FY 2018	68.7%–70.7%	62.0%	X	Not Met
FY 2017	65.4%–69.4%	69.7%	✓	Met
FY 2016	66.9%–68.9%	67.4%	✓	Met
FY 2015	66.7%–68.7%	67.9%	✓	Met

Target Context:
Beginning in FY 2014, FSA has measured its progress on Strategic Goal E via the Federal Employee Viewpoint Survey (FEVS) and most specifically the Employee Engagement Index (EEI) within the FEVS. The EEI is based on a subset of 15 questions within the FEVS. The questions that formulate the EEI are a government-wide standard developed by the U.S. Office of Personnel Management and the Partnership for Public Service, which jointly administer and analyze the FEVS. Doing so aligns FSA with the Federal standard for FEVS analysis.

Analysis of Progress:
FSA met its target for this metric with a result of 61.0 percent.

FSA experienced significant shifts in management; restructuring of its workflow and business units; along with significant policy changes to employee' work/life balance in FY 2019. FSA believes that these changes caused a decrease to its scores. The Leaders Lead and the Supervisors subsection of the EEI both decreased by one percentage point. The focus of these questions reflects the employees' perceptions of the integrity of leadership; leadership behaviors such as communication; and the internal relationship between worker and supervisor, including trust, respect, and support. The Intrinsic Work Experience subsection increased by one percentage point. These questions reflect the employees' feelings of motivation and competency relating to their role in the organization.

Despite the significant changes in leadership, FSA's Employee Engagement team delivered meaningful programs (under the FSA First Class initiative). These programs were designed to (a) increase employees' awareness of FSA's mission and priorities; (b) help employees map their own work to the organization's mission; and (c) increase employees' knowledge about other areas within FSA outside of their own business unit. Implementing strategic initiatives was instrumental in sustaining the scores within the 60th percentile in positive responses associated with the EEI questions.

Data Quality and Limitations:
The EEI is calculated as the average of positive response percentages to a predetermined set of questions in the annual FEVS. These questions can be found as part of the FY 2019 FEVS results located at **fedview.opm.gov**.

Fiscal Year 2019 Accomplishments of Federal Student Aid

During FY 2019, FSA realized additional accomplishments that were not measured specifically by the performance metrics implemented to measure performance against the *FSA FY 2015–19 Strategic Plan*. Although not measured by FSA performance metrics, these accomplishments were the result of initiatives FSA undertook to support the implementation of the strategic plan or legislative changes. This section describes its additional accomplishments.

FSA realized the following additional accomplishments in support of Strategic Goal A: *Improve quality of service for customers across the entire student aid life cycle.*

Over the past year, Federal Student Aid has taken several key steps toward realizing the Next Gen FSA vision.

- On February 20, 2019, FSA awarded a contract for services collectively known as Digital and Customer Care (DCC). This contract will create FSA's "digital front door" for all customer interactions, consolidating multiple customer-facing websites and expanding the functionality available in the myStudentAid mobile app. More broadly, DCC will implement the Next Gen FSA engagement layer, transforming FSA into a trusted source of information and greatly simplifying the process of assisting customers in applying for and receiving postsecondary financial assistance and choosing the best options for managing their student debt. Key DCC functionality will begin to be deployed in early FY 2020.
- Work began on building the FSA Enterprise-wide Data Management and Analytics Platform (EDMAPS), which will provide a single solution for all of FSA's data, including operational data stores and other data repositories necessary to support all student aid processing and analytic needs. EDMAPS will allow FSA to implement data standards, increase data quality, enhance its data security posture, and minimize costs and risks; it will also provide key infrastructure for modernizing and reducing the cost of the National Student Loan Data System.
- Procurements moved forward to provide processing system, call center, and business operation centers that will form the technical backbone of Next Gen FSA. Over the course of FY 2019 the Department worked with the Department of Justice to successfully resolve a series of procurement protests and move all these acquisitions forward to the point where awards are anticipated for early FY 2020. Once all awards are in place, FSA will finalize plans to transition all student borrower accounts from existing systems and contracts on a prudent schedule that minimizes disruption for its customers.
- A Next Gen FSA Program Office was established in late FY 2019 to centralize management of this enterprise-level project. This office brings together existing staff and new hires with specific technical and management expertise to coordinate the disparate Next Gen activities; integrate plans, resources, and technology to drive success; and engage outside experts who have successfully led commercial and government transformation efforts to inform our implementation efforts.
- On October 1, 2018, FSA launched its inaugural full version of the myStudentAid mobile app. The app, downloaded more than 1.2 million times in FY 2019, allows students and parents to easily and securely complete and submit a FAFSA form through myFAFSA, one of the app's components. myFAFSA includes useful and time-saving features, including the IRS DRT, which allows eligible students and parents to securely transfer

their federal income tax information directly into the FAFSA form. Additionally, the app allows students and parents the ability to manage their username and password (FSA ID); view federal student aid history; get in touch with Federal Student Aid contact centers; and access **Studentaid.gov.,** FSA's key source of information about the federal student aid programs. Throughout FY 2019, FSA made improvements to the app, including making the signature process simpler; providing a checklist feature that allows students to track where they are in the financial aid process; enabling push notifications that let FSA communicate directly with its users; and creating role-based messaging, allowing users to receive helpful information targeted specifically to their role.

- In August 2018–March 2019, FSA conducted the "But first, FAFSA®!" campaign to inform students and their parents about the availability of the FAFSA on a mobile device, especially highlighting the myStudentAid mobile app. The "But first, FAFSA®!" campaign featured a disruption theme encouraging students to complete and submit their FAFSA before doing anything else. The scope of this campaign was the first-ever of its kind for FSA using these various channels:
    - Online audio such as SoundCloud, Spotify, iHeart Radio, and Pandora;
    - Digital display banners and ads, paid search, and retargeting;
    - Paid and organic social media posts on Facebook, Instagram, Reddit, and Twitter; and
    - Videos featuring various social media influencers.

  FSA also coordinated with college access organizations by providing resources on the Financial Aid Toolkit to help promote the "But first, FAFSA®!" message among their constituencies. Some of the resources include a mobile app video, email templates for students and parents reminding them of state deadlines, sample social media posts, screen wallpaper for computer labs in school, printable posters to place in school, public announcement system scripts, and printable "how to" sheets.

FSA realized the following additional accomplishments in support of Strategic Goal B: *Proactively manage the student aid portfolio to mitigate risk.*

- In FY 2019, FSA implemented a new methodology to estimate improper payments. The new statistically valid sampling and estimation methodology was used to estimate the improper payment rates for the Pell Grant and Direct Loan Programs. This new methodology, which is based on a larger, random sample of schools and used data obtained from compliance audits performed by external auditors at the over 5,700 schools, improves the accuracy of the improper payment estimates allowing for more precise root cause analyses to improve corrective actions. The new methodology reduced the overall improper payment rate to 0.93 percent from 4.95 percent in FY 2019.
- FSA continues to expand its Enterprise Risk Management (ERM) capabilities across all aspects of the ERM system including governance and culture; strategy and objective setting; performance; and communication and reporting. In FY 2019, FSA continued to build upon its portfolio view of risk, analyzing and incorporating changes in the business and operating environments. Cyber and Fraud risk areas of focus have continued to develop with the creation of formalized frameworks that integrate with the overall ERM system. FSA also developed its first formal risk appetite statement to assist the organization in determining appropriate risk responses and increasing consistency and transparency in decision making throughout the organization. FSA continues to identify,

assess and monitor its risks and corresponding mitigation strategies to support meeting its strategic goals and objectives.

FSA realized the following additional accomplishments in support of Strategic Goal C: *Improve operational efficiency and flexibility.*

- In October 2018, the U.S. District Court for the District of Columbia made the 2016 Borrower Defense to Repayment (BDR) regulation at 81 FR 75926 effective, retroactive to July 1, 2017. FSA developed a solution to implement the Automatic Closed School Discharge (ACSD) provision in December 2018, identifying nearly 15,000 borrowers eligible for a discharge of their federal student loans. As of September 2019, there are more than 28,000 borrowers with approximately $320 million in loans which have been determined eligible for ACSD and over 20,000 borrowers with nearly $220 million in eligible loans discharged to date via ACSD.
- In FY 2019, FSA conducted oversight for over 5,700 institutions participating in Title IV programs. Throughout FY 2019, the staff resolved over 2,400 deficient audits and flagged financial statements; issued more than 385 Program Review Reports, Expedited Determination Letters, and Final Program Review Determinations (FPRDs) to institutions and third party servicers subjected to a Program Review; and processed more than 6,400 eligibility-related actions, including recertification applications.". Focused oversight resulted in more than $227 million in assessed liabilities against institutions and third party servicers via the 188 FPRDs issued to those entities throughout FY 2019. FSA accomplished this work while also successfully managing the precipitous closure of 3 large school chains which collectively impacted over 30,000 students enrolled at over 100 campuses across dozens of states and generated over $125 million in closed school discharges to borrowers to date.
- FSA implemented a series of process improvements and enhancements to improve performance through modernized and automated processes, as well as newly formed oversight structures. The newly developed Heightened Cash Monitoring 2 method of payment process incorporated the workflow into the Common Origination and Disbursement system and automates student file sample selection, error rate calculations, allows institutions to securely upload student documents, allows payment analysts to input student file evaluation results online, and improves overall performance management. To provide further oversight, a new Virtual Change in Ownership Workgroup of national experts provided guidance on complex changes in ownership applications and nonprofit conversions. FSA also initiated a new Concurrence Advisory Board consisting of managers and senior experts across the Department to expedite approvals for final audit determinations and final program review determinations on approximately 60 cases with liabilities exceeding $57.4 million.
- FSA managed the Experimental Sites Initiatives in accordance with the requirements of the HEA and policy guidance provided by senior Department officials. There are currently 9 active experiments, ranging from Loan Counseling to Second Chance Pell, that include more than 180 institutions from all sectors of postsecondary education.

FSA realized the following additional accomplishments in support of Strategic Goal D: *Foster trust and collaboration among stakeholders.*

- FSA published a series of updated data sets, reports, and other information regarding institutional outcomes and financial oversight including quarterly **Heightened Cash Monitoring reports**, the **Financial Responsibility Standards Requiring a Letter of Credit Report**, **Proprietary 90/10 Revenue Percentages Report**, **Financial Responsibility Composite Scores**, the **Foreign Schools Gifts and Contracts Report**, the **School Fines Report**, and the **Top 10 Program Review and Audit Findings Report**.
- In September 2019, after an intensive 20-month investigation, the Department fined Michigan State University a record $4.5 million following its systemic failure to properly report instances of sexual violence and non-compliance with the *Jeanne Clery Disclosure of Campus Security Policy and Campus Crime Statistics Act*. In addition to the $4.5 million dollar fine, the institution is required to take major corrective actions. FSA imposed a total of approximately $8.5 million in fines against 14 institutions in FY 2019.

FSA realized the following additional accomplishments in support of Strategic Goal E: *Invest in expanded workforce capability.*

- FSA utilized its Administratively Determined hiring authority to successfully execute the hiring of over 100 employees, known as Next Gen 100. These new employees were identified as strategic hires needed to support FSA's newly formed Next Gen FSA operational and administrative structures. FSA's streamlined hiring process has ensured that FSA is able to compete for top talent with the private sector and comparable Federal government entities in the areas of pay, strategic selection, and placement of employees.
- FSA conducted performance management training for both bargaining unit and non-bargaining employees in October 2018 and August-September 2019. The October 2018 training placed special emphasis on aligning performance plans with FSA's Five-Year Strategic Plan, and the September 2019 training focused on writing effective accomplishments.

Legislative and Regulatory Recommendations

One of FSA's mission responsibilities under the law is to provide input on legislative proposals from Congress and from the administration and to support the Department's regulatory activity. FSA also may suggest legislative or regulatory changes for consideration by the Department's senior policy officials. These recommendations customarily center on improving and simplifying the Title IV federal student assistance programs, minimizing administrative costs, and improving program integrity. FSA's recommendations inform the Department's policymaking process, including its activities and decisions related to each year's budget process. FSA provides this input and recommendations by direct contact with colleagues in the various policy offices within the Department, including the Office of the Under Secretary, the Office of Postsecondary Education, and the Office of Planning, Evaluation and Policy Development at both the senior policy level and at the staff level. During the past year, FSA provided specific recommendations to policy officials on several issues including:

- Developing proposals for alternatives to the IRS eliminated 1040A/1040EZ tax forms as qualifying criteria for Auto Zero and Simplified Needs tests as specified in the HEA;
- Ending the prohibition on Pell Grants for students incarcerated in Federal and State penal institutions;
- Recommending improvements to regulatory and statutory provisions of Public Service Loan Forgiveness (PSLF);
- Developing guidance and providing regulatory flexibility and relief, and statutory proposals, for the purpose of assisting students, borrowers, institutions of higher education and others affected by natural disasters; and
- Requesting an amendment to Section 6103 of the tax code to allow data sharing for more accurate and timely filing of the FAFSA.

Annual Bonus Awards

As required by the 1998 amendments to the HEA, the Annual Report includes performance ratings and related awards for FSA senior managers and Senior Executive Service staff. Included in this section are the number of senior managers and Senior Executive Staff on board as of the end of FY 2019. However, because FY 2019 performance results were not finalized at the time this report was prepared, the section discusses FY 2018 performance results.

At the end of FY 2019, there were 77 FSA senior managers and 6 Senior Executive Service members. The number of senior managers and Senior Executive Service members in FY 2019 differed from FY 2018 due to the hiring of backfilled and newly created positions. The FSA Executive Committee contained 17 of the 77 senior managers and 1 of the 6 Senior Executive Service members. As members of the FSA Executive Committee, these senior managers and Senior Executive Service staff reported directly to the COO or executives in the COO office. The remaining 60 senior managers and 5 Senior Executive Service staff served in a variety of senior positions and capacities within FSA.

The following section discusses FY 2018 performance results.

For performance year 2018, the composition of ratings for the 26 senior managers who did not serve on the FSA Executive Committee last year were as follows: 13 senior managers achieved a performance rating of Exceptional Results; 9 achieved a performance rating of High Results; and 4 achieved a performance rating of Results Achieved.

Award amounts for those senior managers achieving an Exceptional Results rating ranged from \$5,107 to \$9,950 with a median award of \$9,500. Award amounts for those achieving a High Results rating ranged from \$2,000 to \$7,555 with a median award of \$6,305.

There were also 2018 performance ratings and awards for 18 senior manager members of the FSA Executive Committee. The composition of those rated included: 16 senior managers achieved a performance rating of Exceptional Results; 1 achieved a performance rating of High Results; and 1 achieved a performance rating of Results Achieved. Two of the eight Senior Executive Service members were on the FSA Executive Committee of which one was not eligible for a rating and one achieved a performance rating of Exceptional. The composition of ratings for the remaining 6 Senior Executive Service members not on the FSA Executive Committee were as follows: 4 Senior Executive Service members achieved a performance rating of Exceptional and 2 achieved a performance rating of High Results.

Award amounts for the FSA Executive Committee ranged from approximately \$12,500 to \$35,000, depending on the performance rating of each individual. Only individuals with performance ratings of High Results Achieved or Exceptional Results achieved were eligible for performance-based awards.

For additional information, please refer to: **Higher Education Amendments 1998/sec101D**

Report of the Federal Student Aid Ombudsman

The FSA Ombudsman Group entered its twentieth year of service to federal student aid recipients in FY 2019. Established by the 1998 amendments to the HEA, the Ombudsman began operations on September 30, 1999.

The Ombudsman Group addresses disputes regarding Title IV Financial Aid programs through informal dispute resolution processes. The Ombudsman Group uses a collaborative approach in working with institutions of higher education, lenders, guaranty agencies, loan servicers, and other participants in student loan programs. This approach allows them to conduct fact-finding, review student loan data and records, and facilitate contacts between borrowers and their loan servicers in an effort to promote mutually agreeable resolution of issues brought by individual student loan customers.

Since July 2016, the Ombudsman Group also has the responsibility of administering and managing FSA's comprehensive informal complaint resolution process through the Feedback system. This process engages FSA business units and contracted vendors to receive, review, respond, and report on individual direct customer feedback about the programs FSA administers and the participants it oversees. The Feedback system was designed to augment established operational resources such as FSA websites, resources, contact centers, and loan servicers to give students and borrowers another way to clarify programmatic questions, file complaints, and provide feedback about federal student loan lenders, servicers, collection agencies, institutions of higher education, and the Department.

The Feedback and Dispute Management System (FDMS) is the single point of entry for all FSA financial aid recipients to provide feedback, complaints, and disputes regarding the programs FSA administers. The FDMS simplified the feedback submission process for federal student aid recipients. It also imposed a more formal structure around FSA's complaint management and resolution process. Customers providing their feedback to FSA have access to a robust, multi-level approach to resolution that includes the primary service/program delivery partner (e.g., the loan servicer, PCA, school, or others), the FSA business unit responsible for oversight of those entities (e.g., FSA Program Compliance and Business Operations), and as an avenue of last resort, the Ombudsman Group. All feedback is documented within one system, unifying the record of the efforts of multiple parties to resolve a matter.

This report provides information about the volume and nature of all feedback FSA received, reviewed, and resolved during FY 2019.

Summary of All Feedback Received During Fiscal Year 2019

Demographic Profile of All Feedback Customers

FSA leverages the Enterprise Data Warehouse and Analytics (EDWA) System to better understand the characteristics of customers submitting complaints. Through better understanding of customer characteristics, FSA can improve processes and communication to more effectively meet customer's needs. EDWA is an analytical platform that combines federal student aid lifecycle data from application through repayment into a centralized repository.

Some of the most common attributes of a customer submitting feedback to FSA through FDMS:

- Is between 25 and 34 years of age (33.0 percent);
- Owes student loans greater than $40,000 (34.5 percent);
- Does not have an IDR plan (57.3 percent); and
- Never defaulted on their federal student loans (70.0 percent).

All Feedback Classification and Categorization

Customers may submit feedback (cases) about any type of federal student aid. All cases are assigned among two lines of business: Feedback and Dispute. Cases pertaining to federally held loans are researched and resolved through the Feedback line of business. Federally owned loans include all Direct, FFEL, and Perkins Program loans owned by the Department. Cases pertaining to federally insured loans owned by commercial lenders or guaranty agencies— commonly referred to as commercially-held loans—are classified as Research cases and researched by the Ombudsman Group.

This section of the report summarizes all cases received through both lines of business.

All incoming feedback is classified into a case type based on the customer's perceptions and makes no judgement as to the validity of the feedback. Feedback is classified into one of five case types:

- **General Inquiry:** Cases involving general federal student aid questions;
- **Complaint:** A customer's dissatisfaction with the federal financial aid experience;
- **Suspicious Activity:** A report or allegation of suspected fraud during the student aid process;
- **Positive Feedback:** Compliment about programs, FSA staff or contractors, and other Title IV program participants; or
- **Research:** Disputes assigned to the Ombudsman Group.

Activity in the system during FY 2019 equated to 50,083 feedback (cases) received. Those cases were comprised of:

- **General Inquiry:** 3,048 cases,
- **Complaints:** 44,155 cases,
- **(Allegations of) Suspicious Activity:** 2,283 cases,
- **Positive Feedback:** 192 cases, and
- **Research:** 405 cases.

Table 36: All Feedback Received by Category and Case Type in Fiscal Year 2019

	Subcategory	Volume
Feedback	**General Inquiry**	**3,048**
	Applying for Aid (FAFSA) form or My FSA ID	1
	Applying for Student Aid (FAFSA)	1,188
	Credit Reporting	18
	Disbursing Student Financial Aid	200
	Loan Discharge, Cancellation, or Forgiveness	1
	Public Service Loan Forgiveness (PSLF) Program	37
	Repaying Student Financial Aid	977
	Repaying Student Financial Aid – In Default	142
	School	208
	Student Eligibility	132
	Department Customer Support	144
	Complaint	**44,155**
	Allegation of Identity Theft	3
	Allegation of Misuse of Departmental Resources	4
	Allegation of Misuse of FSA ID	8
	Allegation of Misuse of FSA Intellectual Property or Claim of a Department Affiliate	48
	Allegation of a Whistleblower	12
	Applying for Aid (FAFSA) form or My FSA ID	623
	Applying for Student Aid (FAFSA)	6,336
	Credit Reporting	1,251
	Disbursing Student Financial Aid	1,112
	My Customer Service Experience	5
	My School	1
	Public Service Loan Forgiveness (PSLF) Program	1,452
	Receiving My Aid	81
	Repaying My Aid	177
	Repaying Student Financial Aid	14,364
	Repaying Student Financial Aid – In Default	4,174
	School	9,385
	Student Eligibility	1,894
	Department Customer Support	3,224
	Department Website, Application, or Service	1
	(Allegations of) Suspicious Activity	**2,283**
	Allegation of Identity Theft	154
	Allegation of Misuse of Departmental Resources	172
	Allegation of Misuse of FSA ID	266
	Allegation of Misuse of FSA Intellectual Property or Claim of a Department Affiliate	1,286
	Allegation of a Whistleblower	405
	Positive Feedback	**192**
	My Collection Agency	1
	My Customer Service Experience	104
	My School	22
	My Servicer	15
	Department Website, Application, or Service	50

	Subcategory	Volume
Dispute		
	Applying for Student Aid (FAFSA)	2
	Credit Reporting	14
	Disbursing Student Financial Aid	1
	Public Service Loan Forgiveness (PSLF) Program	11
	Repaying Student Financial Aid	297
	Repaying Student Financial Aid – In Default	53
	School	8
	Student Eligibility	10
	Department Customer Support	9
Grand Total		**50,083**

In addition to categorizing by case type, all feedback submitted is further categorized into subcategories based on the customer's description. Subcategories further refine the feedback submitted. Using this taxonomy assists FSA in identifying the areas that need attention as it relates to identifying program and operational changes and improvements. The following chart (Figure 23) shows the Top Five category/subcategory combination of all cases received in FY 2019.

Figure 23: All Cases Received by Top Five Category/Subcategory in Fiscal Year 2019

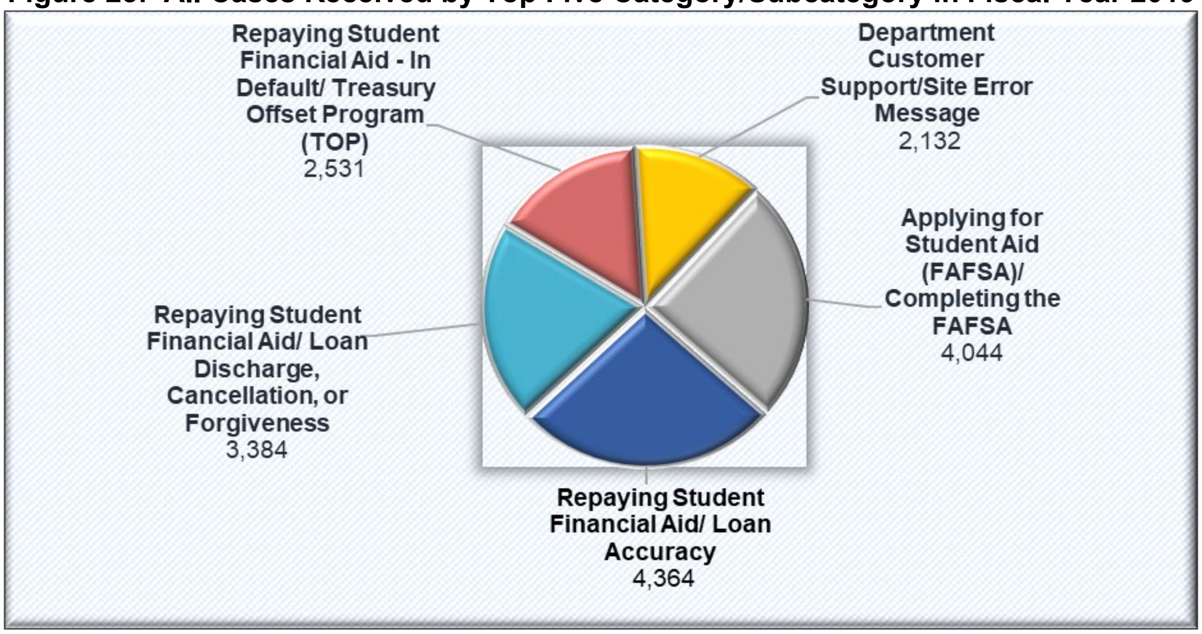


Figure 23 shows the Top Five Categories/Subcategories of feedback customers submit. While the Ombudsman Group pays attention to all feedback received, the Top Five represent 32.9 percent of all feedback received, which shows a consistent pattern of concerns customers raise most frequently and require heightened attention. A focus on the Top Five issues helps FSA develop strategies and processes for improving the customer's experience with the federal financial aid programs.

Loan Accuracy, under the category Repaying Student Financial Aid was the most common type of feedback received in FY 2019 and includes all feedback in which the customer asserts the current balance of their loan, the interest rate, loan amount disbursed, or loan status is incorrect or misstated.

The application process—specifically completing the FAFSA—generated the second-most common type of feedback received in the fiscal year. Feedback concerning completing the FAFSA pertains to any issue a customer may encounter when completing this application.

Customers who are seeking loan discharge, cancellation, or forgiveness under the various programs offered by the Department submit feedback that is categorized under Loan Discharge, Cancellation, or Forgiveness. Individual subcategories for PSLF, BDR, and TPD, are used to track more specific feedback about those programs.

Title IV Debt owned by the government may be referred to the Treasury Offset Program (TOP) after it both (a) reaches a delinquency of more than 120 days, and (b) is in default. The Department can refer the account to Treasury for collection by an offset of the Borrower's federal (and in some cases, state) tax returns. The only option to remove loans from TOP would be to enter into a repayment arrangement that removes the loans from default and make regular payments.

Department Customer Support/Website Error refers to issues customers experience when either trying to access, or while accessing the FAFSA website. These issues can include things such as, being kicked out of the system; receiving the same error message repeatedly; or even having the site freeze while a customer is working in it.

How FSA Resolves Feedback

Feedback resolution must be executed within the boundaries established by law and regulation. These cases are grouped under three common Resolution Types. The Resolution Type “Resolved” designates feedback on which FSA has concluded all review and research activity. “Referred” is most commonly used with the case type of General Inquiry, but also may be used to designate situations on other case types when FSA determines another resource external to FSA should assist the customer because the nature of the feedback does not pertain to the Title IV federal student aid programs or must be reported to another agency or entity. “Submission Logged” relates to feedback on which no assistance is provided. The most common use for this Resolution Type is for feedback submitted anonymously or containing specific direction to change Title IV law or regulation.

Resolution Actions indicate the specific way in which the feedback was resolved. Resolution Actions achieved on cases in FY 2019, by a vast margin, consisted of providing to the customer additional explanation or information about the action or circumstance that prompted the customer to submit feedback to FSA. These are identified with a Resolution Action of “Communication/Process Clarified for Customer.”

Table 37: Resolution Type and Resolution Action for All Cases Closed Fiscal Year 2019

Resolution Type	Resolution Action	Volume	Percentage
Resolved	Action Taken	4,720	9.9%
	Communication/Process Clarified for Customer	14,498	30.3%
Referred	Referred to Accrediting Agency	589	1.2%
	Referred to FSA Contact Center	8,221	17.2%
	Referred to FSA Website	1,064	2.2%
	Referred to Other Government Entity	2,185	4.6%
	Referred to Outside Third-Party	3,299	6.9%
	Referred to School	3,956	8.3%
	Referred within the Department of Education	4,573	9.6%
Submission Logged	Feedback Logged	2,937	6.1%
	No Response from Customer	1,643	3.4%
	Policy Suggestion Logged	126	0.3%
Total		**47,811**	**100%**

Table 37 highlights that 30.3 percent of all cases are resolved with another explanation and/or more information about the circumstances that prompted the customer to submit feedback to FSA. As noted above, FSA must resolve complaints within the framework of existing law and regulation, which means that FSA often is constrained from offering a solution to the customer that directly and precisely resolves the matter in a way the customer most desires. For example, a customer may not like the interest rate on their loans. While this is certainly valid feedback, legislation mandates the interest rate on federal student loans.

There are key factors explaining why so many cases are resolved with FSA providing additional or clarifying information:

- Customer understanding and awareness of how loan balances are affected by interest accrual and/or capitalization, and are reduced by monthly payments;
- Customers' difficulty understanding requirements and proving eligibility for loan program benefits such as IDR plans or loan discharge, cancellation, or forgiveness;
- Customers having difficulty with requirements associated with completing and submitting the FAFSA such as electronic signatures, completing the FAFSA, and required income information;
- Unclear, hard-to-understand, or inconsistent information from FSA and its service providers about repayment plan eligibility requirements; and
- Customers may not access their online accounts to review servicer notifications or provide updated contact information, leaving them unaware of the loan status.

This method of recording the way individual cases are resolved helps highlight areas of customer confusion versus problems with program implementation that may require legislative, regulatory or operational changes. It also enables FSA to show how specific categories and subcategories of cases are resolved and provides a more refined picture of the relative flexibility of FSA to meet and satisfy customer expectations as expressed within individual feedback submissions. Table 38 presents the Resolution Type and Actions achieved for each of the Top Five Categories/Subcategories shown in Figure 23.

Table 38: Top Three Resolution Type/Resolution Actions for Top Five Categories/Subcategories Cases Closed[22] Fiscal Year 2019

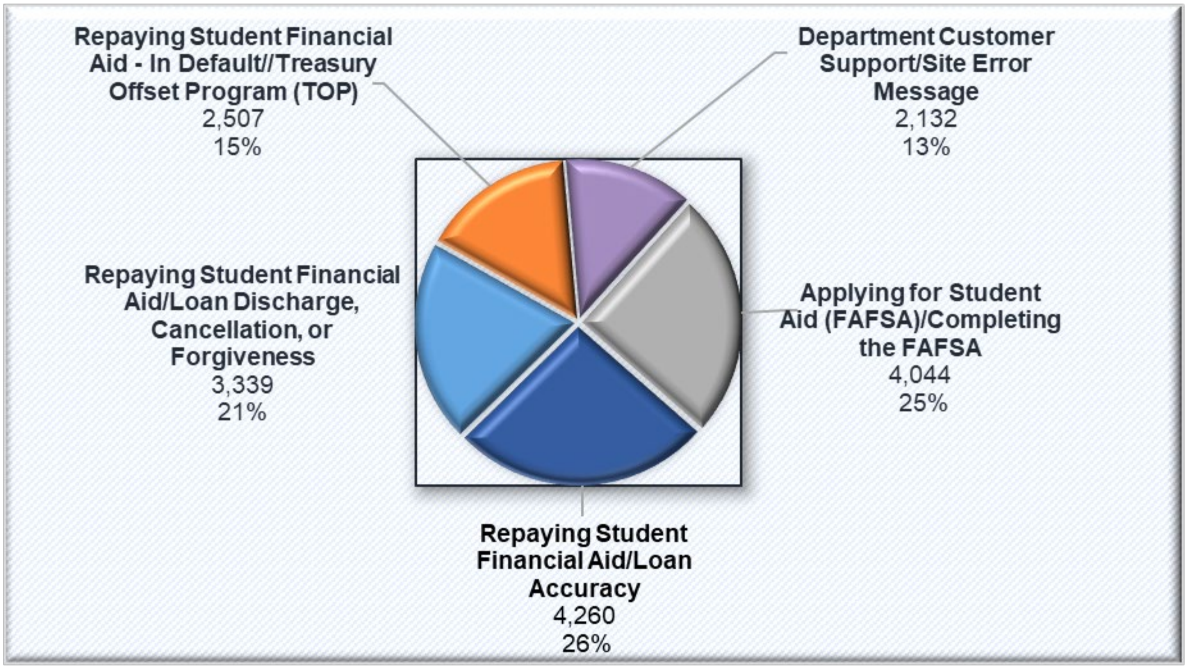
<table>
<tr><th>Category</th><th>Sub-Category</th><th>Resolution Type</th><th>Resolution Action</th><th>Volume</th></tr>
<tr><td rowspan="4">Repaying Student Financial Aid</td><td rowspan="4">Loan Accuracy</td><td rowspan="2">Resolved</td><td>Action Taken</td><td>435</td></tr>
<tr><td>Communication/Process Clarified for Customer</td><td>1,730</td></tr>
<tr><td>Referred</td><td>Referred within the Department</td><td>728</td></tr>
<tr><td>Submission Logged</td><td>Feedback Logged</td><td>303</td></tr>
<tr><td rowspan="4">Applying for Student Aid (FAFSA)</td><td rowspan="4">Completing the FAFSA</td><td rowspan="2">Resolved</td><td>Action Taken</td><td>186</td></tr>
<tr><td>Communication/Process Clarified for Customer</td><td>461</td></tr>
<tr><td>Referred</td><td>Referred to FSA Contact Center</td><td>2,714</td></tr>
<tr><td>Submission Logged</td><td>Feedback Logged</td><td>227</td></tr>
<tr><td rowspan="4">Repaying Student Financial Aid</td><td rowspan="4">Loan Discharge, Cancellation, or Forgiveness</td><td rowspan="2">Resolved</td><td>Action Taken</td><td>242</td></tr>
<tr><td>Communication Process Clarified</td><td>1,108</td></tr>
<tr><td>Referred</td><td>Referred to Outside Third Party</td><td>325</td></tr>
<tr><td>Submission Logged</td><td>No Response from Customer</td><td>134</td></tr>
<tr><td rowspan="4">Repaying Student Financial Aid - in Default</td><td rowspan="4">Treasury Offset Program</td><td rowspan="2">Resolved</td><td>Action Taken</td><td>204</td></tr>
<tr><td>Communication Process Clarified</td><td>1,312</td></tr>
<tr><td>Referred</td><td>Referred to Outside Third Party</td><td>372</td></tr>
<tr><td>Submission Logged</td><td>Feedback Logged</td><td>90</td></tr>
<tr><td rowspan="4">Department Customer Support</td><td rowspan="4">Site Error Message</td><td rowspan="2">Resolved</td><td>Action Taken</td><td>15</td></tr>
<tr><td>Communication Process Clarified</td><td>257</td></tr>
<tr><td>Referred</td><td>Referred within the Department</td><td>11</td></tr>
<tr><td>Submission Logged</td><td>Feedback Logged</td><td>87</td></tr>
<tr><td colspan="4">Total</td><td>10,941</td></tr>
</table>

[22]Subset of Resolution Type and Action for all cases closed in FY 2019 as detailed in the table above.

Feedback Cases Assigned to FSA Business Units

The top five categories of feedback cases received in this line of business are reflected in the Figure 24.

Figure 24: Top Five Feedback Cases Received by Category/Subcategory Fiscal Year 2019



Repaying Student Financial Aid/Loan Accuracy pertains to customer's concerns about the accuracy of one or more of their loans. Examples of this subcategory include interest rate; loan disbursement amount; current loan balance; loan payment amount; and current loan status.

> **Case Example 1:** Customer says after having taxes taken and wages garnished, she fully paid off her son's debt. Six months later he received a letter saying he was in default for the student loans that she paid off. She would like this situation corrected asap as it is a blemish on her son's credit that can keep him from purchasing a car or home.

Applying for Student Aid (FAFSA)/Completing the FAFSA pertains to any issue the customer experiences when applying for or receiving federal financial aid. Examples include unable to electronically sign the FAFSA; completing the FAFSA takes too long; requirement of two years of tax returns; timing when the FAFSA needs to be filled out; and other challenges related to completion of the FAFSA.

> **Case Example 2:** Every time the customer has attempted to utilize the online FAFSA, he's always had a problem. He says either the website is down, or accounts cannot be accessed. The customer says that he strongly recommends that FAFSA return to having representatives in the communities to assist with issues and registration.

Repaying Student Financial Aid/Loan Discharge, Cancellation, or Forgiveness pertains to any such issue except for TPD, BDR, and PSLF, as those are separate categories or subcategories. Examples include Teacher Loan Forgiveness, Ability to Benefit discharge, False Signature, and Identity Theft.

> **Case Example 3:** Customer filed for loan forgiveness when his school was closed. After filing he was told to refile and add more details. It's been in review for eight months. After being garnished several years ago, he paid the loan in full. Every time he calls no one can give him an update, other than telling him it's in review.

Repaying Student Financial Aid – In Default/TOP refers to student loans that have been in delinquency long enough to default. TOP is a centralized offset program which collects delinquent debts owed to federal agencies and states. It matches borrowers who owe delinquent debts with money that federal agencies owe to the borrowers (i.e., tax refunds)

> **Case Example 4:** Customer has been trying to get a hold of her servicer, but no one is answering when she calls. Despite being on a rehabilitation, she had her tax return offset. Customer is confused and this is causing a major hardship for her.

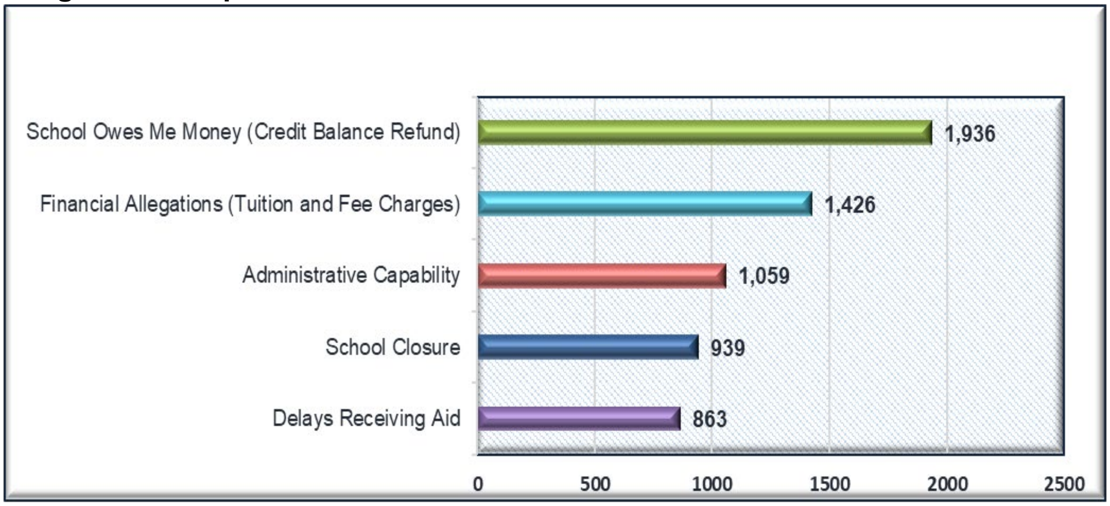
Department Customer Support/Site Error Message refers to issues that customers encounter while trying to access or navigate the FAFSA website. This feedback refers to borrowers encountering an error message when trying to access the site itself.

> **Case Example 5:** Customer says the site repeatedly asks him to create a password, then gives him an error message when he gets back to the form. He says he keeps getting, "FAFSA on the web has encountered an error. We apologize for any inconvenience." This situation is keeping him from completing his FAFSA.

School-Related Feedback

The majority of feedback about schools is assigned to FSA's Program Compliance business unit for research and resolution. Customers submitted a total of 9,601 school-related feedback.

Figure 25: Top Five School-Related Feedback Received in Fiscal Year 2019



The school-related feedback identified in Figure 25 is defined as:

- School Owes Me Money (Credit Balance Refund) is feedback about situations that occur whenever the amount of federal student aid funds credited to a student's account for a payment period exceeds the amount assessed the student for allowable charges associated with that payment period.
- Financial Allegations (Tuition and Fee Charges) is customer feedback concerning school tuition, fee charges, or a customer has a balance owed to the school. These cases are typically non-Title IV issues the customer describes in the feedback.
- Administrative Capability relates to a school's ability to administer the federal financial aid programs in accordance with law and regulation. Types of feedback would include insufficient number of financial aid staff, lack of financial aid related policies and procedures, or failure to follow school policies regarding financial aid awards.
- School Closure refers to feedback regarding difficulties students encounter with regards to federal student aid when an institution closes.
- Delays Receiving Aid relates to feedback when a customer expresses that a school is unnecessarily or improperly delaying federal aid disbursement.

Program Compliance staff review the feedback and, as needed, contact the school and the customer for additional information. Program Compliance uses data from the school-related feedback received to inform its program review and school performance monitoring responsibilities. For optimal application of feedback data to these activities, it is necessary to examine also how most feedback gets resolved. Table 39 examines the most common Resolution Type and Resolution Action for the Top Five School-Related Feedback.

Table 39: Top Five School-Related Feedback by Top Three Resolution Type/Resolution Action Fiscal Year 2019

Category	Subcategory	Resolution Type	Resolution Action	Volume
School	Schools Owes Me Money (Credit Balance Refund)	Resolved	Action Taken	1,293
			Communication/Process Clarified for Customer	239
		Referred	Referred to School	141
		Submission Logged	Feedback Logged	41
	Financial Allegations (Tuition and Fee Charges)	Resolved	Action Taken	28
			Communication/Process Clarified for Customer	399
		Referred	Referred to School	627
		Submission Logged	No Response from Customer	103
	Administrative Capability	Resolved	Action Taken	31
			Communication Process Clarified	136
		Referred	Referred to School	209
		Submission Logged	Feedback Logged	106
	School Closure	Resolved	Action Taken	135
			Communication Process Clarified	255
		Referred	Referred to FSA website	134
		Submission Logged	Feedback Logged	12
	Delays Receiving Aid	Resolved	Action Taken	60
			Communication Process Clarified	385
		Referred	Referred to School	167
		Submission Logged	Feedback Logged	80
Total				**4,581**

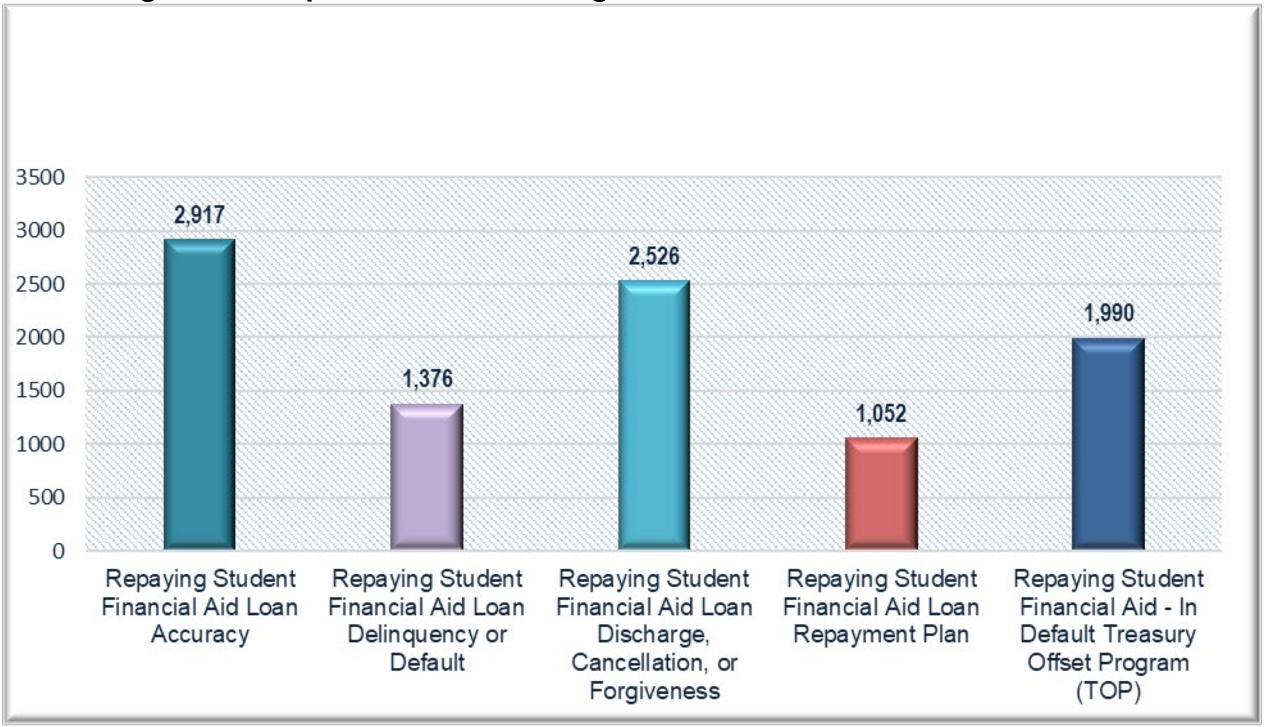
Effects of Argosy University & Art Institutes Closures

FSA publicized the Feedback System to students and former students adversely affected when it terminated the eligibility of Dream Center Education Holdings schools' (Argosy University and select Art Institutes) participation in the Title IV programs. This termination and the subsequent closure of many campuses drove up the volume of cases classified as **School/School Owes Me Money (Credit Balance Refund)** so that it appears in the Top Five. Most students who contacted FSA through the Feedback System reported that credit balance refunds were still owed to students. FSA was unable to issue those refunds to the students. However, FSA canceled all disbursements and loan repayment obligations for the affected students.

Loan Servicing-Related Feedback

FSA contracts with ten[23] entities to manage the servicing of non-defaulted federal student loans. These entities are responsible for advising borrowers about resources and benefits to better manage their federal student loan obligations; respond to customer service inquiries; address billing and collecting payments[24] on a loan; and perform other administrative tasks associated with maintaining a loan on behalf of the Department. The Debt Management and Collection System (DMCS) is a system used by FSA that manages the collection activities on the defaulted loan portfolio.

Figure 26: Top Five Loan Servicing-Related Feedback in Fiscal Year 2019



[23]One of these servicers, ECSI services Perkins loans; it does not service loans made under the Direct Loan or FFEL Programs.

[24]All payments on non-defaulted federal student loans that the Department owns are remitted to Treasury. That agency then reports payment information to the various servicers, which are then credited to the borrower's account.

Table 40 shows the manner in which these most common cases were closed.

Table 40: Top Five Loan Servicing-Related Feedback by Resolution Type/Resolution Action Fiscal Year 2019

Category	Sub-Category	Resolution Type	Resolution Action	Volume
Repaying Student Financial Aid	Loan Accuracy	Resolved	Action Taken	354
			Communication/Process Clarified for Customer	1,447
		Referred	Referred within the Department	714
		Submission Logged	Feedback Logged	286
Repaying Student Financial Aid	Loan Delinquency or Default	Resolved	Action Taken	80
			Communication/Process Clarified for Customer	465
		Referred	Referred within the Department	457
		Submission Logged	Feedback Logged	54
Repaying Student Financial Aid	Loan Discharge, Cancellation, or Forgiveness	Resolved	Action Taken	215
			Communication/Process Clarified for Customer	937
		Referred	Referred to FSA Contact Center	602
		Submission Logged	No Response from Customer	124
Repaying Student Financial Aid	Loan Repayment Plan	Resolved	Action Taken	147
			Communication/Process Clarified for Customer	466
		Referred	Referred within the Department	382
		Submission Logged	Feedback Logged	56
Repaying Student Financial Aid - in Default	Treasury Offset Program	Resolved	Action Taken	188
			Communication/Process Clarified for Customer	1,250
		Referred	Referred to Outside Third Party	359
		Submission Logged	Feedback Logged	87
Total				**8,670**

Table 41 shows the volume of Feedback cases categorized as servicing-related, broken down for each servicer contracted to perform servicing activities on behalf of the Department. It should be noted that the volume of cases assigned to a specific servicer is often affected by the nature of the accounts assigned to the servicer. For example, DMCS services only defaulted loans; FedLoan Servicing is the designated servicer for all PSLF and TEACH grants. FSA personnel resolves the cases in which the feedback received may be related to former servicers.

Table 41: Feedback by Department Servicer by Case Type in Fiscal Year 2019

Servicer	Complaint	General Inquiry	Positive Feedback	Suspicious Activity	Volume
Debt Management and Collection System/DRG	6,851	279	1	121	7,252
ED-ACS	18	1	-	1	20
ED-Cornerstone	237	30	-	14	281
ED-ECSI Perkins Loan Servicer	71	5	-	-	76
ED-FedLoan Servicing (PHEAA)	4024	165	9	237	4,435
ED-Granite State (GSMR)	275	18	-	16	309
ED-Great Lakes	1801	109	1	152	2,063
ED-HESC/EdFinancial	442	55	-	18	515
ED-MOHELA	557	38	-	29	624
ED-Navient	2,456	103	-	164	2,723
ED-Nelnet	1,982	78	6	135	2,201
ED-OSLA	239	17	-	11	267
TPD-NelNet	93	2	-	3	98
Total Volume	**19,046**	**900**	**17**	**901**	**20,864**

Feedback Submitted by Members of the Military, Veterans, or Their Dependents

FSA asks all customers to indicate if they are a member of the military, a veteran, or a dependent of a military member or veteran. FSA collects this information to ensure continued support of Executive Order 13607, signed in April 2012, which established the Principles of Excellence (POE) for Educational Institutions Servicing Service Members, Veterans, Spouses, and Other Family Members.

For all feedback received in FY 2019, POE-identified customers submitted 1,482 feedback cases specifically related to their military status and/or educational benefits.

Table 42: Top Five Principles of Excellence-Identified Case Category Feedback Submissions Fiscal Year 2019

POE-Identified Top 5 Case Category Feedback Received	Volume
School	458
Repaying Student Financial Aid	427
Repaying Student Financial Aid – In Default	118
Applying for Student Aid (FAFSA)	105
Department Customer Support	82
Total	**1,190**

Dispute Cases Assigned to the Ombudsman Group

The Ombudsman Group researches and resolves all cases within the Dispute line of business. Customers who dispute the outcome of a case previously responded to by an FSA business unit or one of FSA's contracted servicers or private collection agencies may elect to have their issue reviewed by the Ombudsman Group. Cases pertaining to federal loans owned by commercial lenders or guaranty agencies—commonly referred to as commercially-held loans—are also classified as Research cases. Review by the Ombudsman Group is a customer's last opportunity for informal resolution of an issue within the Department.

During FY 2019, the Ombudsman Group received 405 new dispute cases for review and resolution, and closed 647 dispute cases overall.

Figure 27: All Dispute Cases Received by Category in Fiscal Year 2019

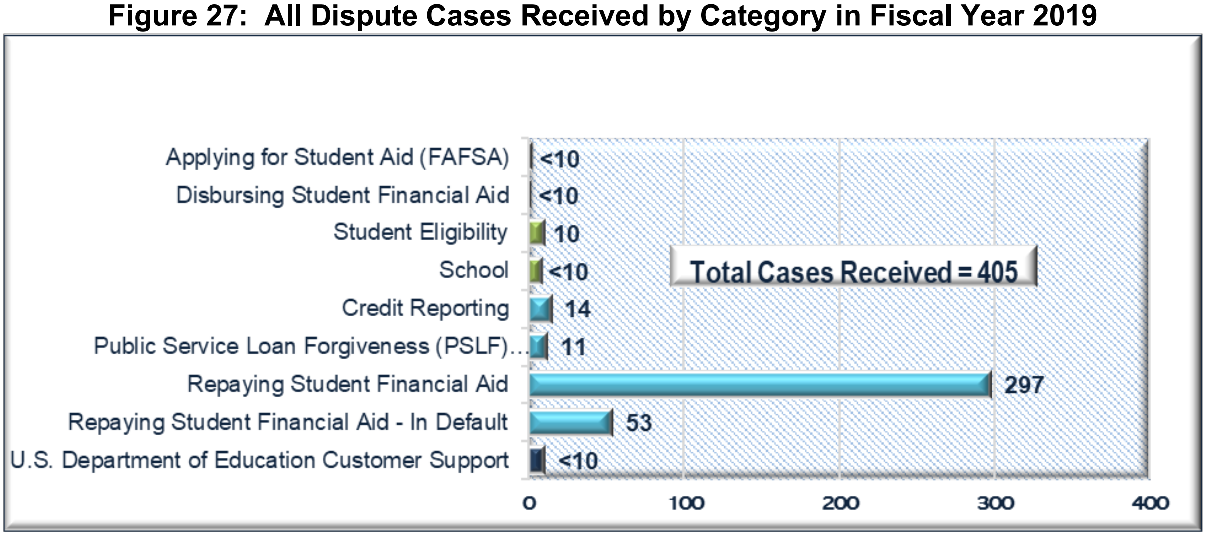


Table 43: Top Five Dispute Cases by Category/Subcategory Assigned to the Ombudsman Group Fiscal Year 2019

Repaying Student Financial Aid	Volume
Loan Accuracy	104
Loan Discharge, Cancellation, or Forgiveness	59
Loan Delinquency or Default	45
Loan Repayment Plan	16
Repaying Student Loans in Default	**Volume**
Treasury Offset Program (TOP)	24
Total	**248**

As a neutral, independent third-party separate from FSA operations, the Ombudsman Group fulfills a role as the third tier in FSA's feedback resolution process. The Ombudsman Group can reach across technical and responsibility boundaries within the federal financial student aid ecosystem to collect facts, review circumstances, and facilitate collaboration among differing parties associated with a dispute to reach a resolution that may not have otherwise been considered. Example cases described below illustrate this activity.

Case Example 6: Loan Accuracy. Customer called and stated that he was not aware that his payments were not going through to the servicer until nine months or so had passed. He immediately got on the phone and setup recurring payments. Shortly after, they cancelled his recurring payment and locked his account for delinquency, despite confirmed payments. They added over a thousand dollars in fees as well.

Outcome: After speaking with the servicer, we were able to assist in having the customers' collection costs removed from the loans. The borrower is now eligible for a rehabilitation or to pay the loans in full.

Case Example 7: Loan Delinquency or Default. Customer stated he owed $81,606 in student loans. He sent in a payment for that amount, but then was told he still owes $12,000. The customer doesn't understand why a balance remains unpaid.

Outcome: After researching the case, the Ombudsman Group determined that the payment of $81,606 satisfied the debt in full. No further balances or payments are due. The account has been closed and reported to the credit bureaus as 'paid in full.'

Case Example 8: Loan Discharge, Cancellation, or Forgiveness. The customer had FFEL Program loans in default and wages were being garnished. Customer was approved for BDR discharge. FFEL Program loans are not eligible for BDR, so the customer had to consolidate with the Direct Loan Program to complete the BDR discharge. Subsequent to consolidation, the customer asked to have wage garnishment payments refunded. FSA correctly advised the customer that no payments were made on the Direct Loan, so no refund was due.

Outcome: When the BDR application was submitted, FFEL holders could, but were not required to stop collection efforts. The Ombudsman worked with the guaranty agency and the customer to retroactively implement voluntary cessation of collection efforts and refunded some of the garnishment payments to the customer.

Case Example 9: TOP. Customer thought she consolidated all of her loans, but one was left out by the servicer. She never received any notification regarding a defaulted loan, even though she was still receiving federal student loans. She's now scheduled to receive an offset. Customer says prior to submitting her taxes, she never received any notification that she owed a debt.

Outcome: After confirming that the remaining loan was consolidated, FSA returned the offset payment to the customer.

Case Example 10: Wage Garnishment. Customer has a wage garnishment that is causing difficulty and stress because payments are not credited timely to her account. Customer says currently there are over $2,000 in payments that have not been applied to her account.

Outcome: The loan holder advised that the garnishment payments have been properly applied to the account, and the account is considered satisfied. Wage garnishment has been cancelled and a letter was mailed to her employer.

Table 44: All Dispute Cases Closed by Resolution Type in Fiscal Year 2019

Category	Volume
Resolved	590
Referred	21
Submission Logged	36
Total	**647**

Other Case Types

Suspicious Activity

FSA carefully reviews each customer submission to determine if there is a credible allegation of fraud or illegal activity associated with the federal financial student aid programs. Table 45 identifies all Suspicious Activity cases received by category.

Table 45: All Suspicious Activity Cases Received by Category in Fiscal Year 2019

Category	Volume
Allegation of Misuse of FSA Intellectual Property or Claim of a Departmental Affiliation	1,286
Allegation of Whistleblower	405
Allegation of Misuse of FSA ID	266
Allegation of Misuse of Departmental Resources	172
Allegation of Identity Theft	154
Total	**2,283**

As with all other feedback, the way Suspicious Activity cases are resolved is tracked on cases closed by Resolution Type and Resolution Action.

Table 46: All Suspicious Activity Cases by Resolution Type/Resolution Action Fiscal Year 2019

Category	Resolution Type	Resolution Action	Volume
Allegation of Misuse of FSA Intellectual Property or Claim of a Departmental Affiliation	Resolved	Action Taken	4
		Communication/Process Clarified for Customer	32
	Referred	Referred to Other Government Entity	1,275
	Submission Logged	Feedback Logged	8
Allegation of Whistleblower	Resolved	Action Taken	25
		Communication/Process Clarified for Customer	76
	Referred	Referred to Other Government Entity	9
	Submission Logged	Feedback Logged	300
Allegation of Misuse of FSA ID	Resolved	Action Taken	2
		Communication/Process Clarified for Customer	146
	Referred	Referred to Other Government Entity	90
	Submission Logged	No Response from Customer	4
Allegation of Misuse of Department Resources	Resolved	Action Taken	3
		Communication/Process Clarified for Customer	31
	Referred	Referred to Other Government Entity	25
	Submission Logged	Feedback Logged	64
Allegation of Identity Theft	Resolved	Action Taken	18
		Communication/Process Clarified for Customer	107
	Referred	Referred to Outside Third Party	12
	Submission Logged	Feedback Logged	13
Total			**2,244**

Allegation of Misuse of FSA Intellectual Property or Claim of a Departmental Affiliation. This is a broad category that that many resolution types fall under. This can refer to any individual who falsely claims he or she is employed by or affiliated with the Department.

Allegation of a Whistleblower. This is a claim or assertion by a person who exposes any kind of information or activity that is deemed illegal, unethical, or not correct with regards to practices involving obtaining student aid, and/or any of the processes of student loan borrowing.

Allegation of Misuse of FSA ID. This is the claim or assertion that someone has fraudulently obtained a borrowers FSA ID in order to illegally gain access to private information and/or FSA funds.

Allegation of Misuse of Department Resources. This is a claim or assertion that an individual or individuals are not using student aid funds for tuition or other school-based items.

Allegation of Identity Theft. This is a claim or assertion that an individual has wrongfully obtained and used another persons' personal data, in some way that involves fraud or deception, in order to gain access to FSA funds.

FSA shares enforcement authority over schools, loan servicers, and other participants in the federal student aid programs with the Department's Office of Inspector General (OIG) and other agencies at the federal and state level. All allegations of Suspicious Activity are shared with OIG and the Federal Trade Commission Consumer Sentinel database. Sharing the information with the Consumer Sentinel database renders individual, case-level information available to a broader network of federal and state law enforcement entities.

Positive Feedback
Customers can provide positive feedback regarding their experience with FSA, schools, servicers, and other entities involved with the application, receipt, or repayment of federal student aid, including PCAs.

> **Case Example 11:** "Our customer service representative was extremely helpful to my mom when she needed to make corrections to my FAFSA after thinking she ruined it. Our rep's ability to calmly and professionally walk her through the corrections and support her, transformed a stressful situation into a positive experience."

Table 47: All Positive Feedback by Category in Fiscal Year 2019

Category	Volume
My Customer Service Experience	104
U.S. Department of Education Web Site, Application or Service	50
My School	22
My Servicer	15
My Collection Agency	1
Total	**192**

Using Feedback to Improve the Federal Student Aid Programs

As noted at the beginning of this report, Feedback system data is shared in EDWA. Data concerning the Suspicious Activity case type is shared with the OIG, and information about the Complaint and Suspicious Activity case types is shared with the Federal Trade Commission's Consumer Sentinel database. The Ombudsman Group facilitates the sharing of information from feedback that customers submit by responding to ad hoc requests for data about feedback received. Further, the Ombudsman Group shares feedback data that is, in turn, compiled with other sources of feedback (e.g., received through social media or at community outreach events) on a monthly basis and shared with representatives across FSA.

Most significantly, data from the Feedback system was examined and is being used to inform the requirements for the Next Gen FSA project—a project that will transform FSA's technology and operations infrastructure used to administer the federal student aid programs. The Ombudsman Group is hopeful the improvements brought about by this transformation will reduce the volume of feedback received as a result of confusing or conflicting information customers receive from FSA and its service providers.

Another example of how FSA is using feedback data is connected to the PSLF Program. The PSLF Program allows government and nonprofit entity employees to have their loans forgiven after 120 qualifying payments, which is generally ten years.

During FY 2019, FSA received 1,500 cases related to PSLF. The primary reason for feedback about PSLF related to qualifying for the program was from customers who have no loans from the Direct Loan Program or were not on the correct repayment plan.

The statute does not allow for consideration of loans other than those issued under the Direct Loan Program. However, in recent years, as borrowers approached qualifying for PSLF, they often learned that their loans were not on a qualifying repayment plan. In many of those instances, borrowers asserted that their loan servicers frequently confirmed that the borrower was making progress toward forgiveness. The statute does not give the Secretary authorization to waive qualifying criteria for the PSLF Program.

In response, legislation referred to as Temporary Expanded Public Service Loan Forgiveness (TEPSLF) gives assistance to individuals who thought they were on the correct plan. TEPSLF is only for those customers who have made 120 payments since 2007 and have been denied PSLF on that basis.

Table 48: Public Service Loan Forgiveness Cases by Resolution Type/Resolution Action Fiscal Year 2019

Category	Sub-Category	Resolution Type	Resolution Action	Volume
Public Service Loan Forgiveness (PSLF)	Direct Loan Eligibility	Resolved	Action Taken	18
			Communication/Process Clarified for Customer	80
		Referred	Referred to Outside Third Party	44
		Submission Logged	Feedback Logged	6
			No Response from Customer	6
	Employee Certification Form	Resolved	Action Taken	15
			Communication/Process Clarified for Customer	13
		Referred	Referred within the Department	3
		Submission Logged	Feedback Logged	1
			No Response from Customer	1
	PSLF Applications	Resolved	Action Taken	27
			Communication/Process Clarified for Customer	214
		Referred	Referred within the Department	13
		Submission Logged	Policy Suggestion Logged	14
	Qualifying Employment or Employer	Resolved	Action Taken	13
			Communication/Process Clarified for Customer	23
		Referred	Referred within the Department	16
		Submission Logged	Feedback Logged	1
			No Response from Customer	1
	Qualifying Monthly Payments	Resolved	Action Taken	453
			Communication/Process Clarified for Customer	334
		Referred	Referred within the Department	104
		Submission Logged	Feedback Logged	8
	Qualifying Repayment Plan	Resolved	Action Taken	41
			Communication/Process Clarified for Customer	51
		Referred	Referred within the Department	17
		Submission Logged	No Response from Customer	3
Total				**1,520**

Anonymous Cases

There are many instances where customers prefer to give feedback anonymously, without providing any name, contact, or personal information. From the beginning days of the Ombudsman Group through to the present time, FSA customers had, and continue to have, the option to submit feedback anonymously.

While the Ombudsman Group welcomes feedback from any and all customers, it should be noted that when a customer files anonymously, the Ombudsman Group is unable to further review and resolve their situation because it does not have the personally identifying information. Anonymous cases can range from something as minor as a comment regarding the Ombudsman website to something as major as a whistleblower case involving someone reporting suspicious activity. In FY 2019, 2,219 cases were submitted anonymously.

Table 49: Top Five Anonymous Case Submissions by Category in Fiscal Year 2019

Category	Volume
Applying for Student Aid (FAFSA)	718
Repaying Student Financial Aid	359
School	327
Departmental Customer Support	236
Allegation of a Whistleblower	210
Total	**1,850**

The Ombudsman Group received comments received this year that asked if the process could be improved for submission of anonymous feedback. Based on those comments, the Ombudsman Group will be modifying the Feedback submission portal in FY 2020 to enable customers to easily and more efficiently submit anonymous feedback. Although anonymous customers cannot be responded to directly, their submissions can be tracked and have action taken on similar issues raised.

Policy Suggestion Logged

Policy Suggestion Logged refers to cases where the customer provides feedback regarding their opinion on improvement of specific rules and regulations. Specifically, they offer a particular suggestion regarding a current policy that they feel needs to be improved upon.

The Top Three Policy Suggestion Categories/Subcategories are:

Applying for Student Aid (FAFSA)/Completing the FAFSA pertains to any issue the customer experiences when applying for or receiving federal financial aid. Examples include unable to electronically sign FAFSA; completing the FAFSA takes too long; requirement of two years of tax returns; timing when the FAFSA needs to be filled out; and other challenges related to completion of the FAFSA.

Repaying Student Financial Aid/Loan Discharge, Cancellation, or Forgiveness pertains to any such issue except for TPD, BDR, and PSLF, as those are separate categories or subcategories. Examples include Teacher Loan Forgiveness, Ability to Benefit discharge, False Signature, and Identity Theft.

Applying for Student Aid/Dependency Status pertains to the issue of determining whose information you must report on your FAFSA form. A dependent student is assumed to have the support of his parents, so the parents' information must be assessed along with the student's, in order to get a full picture of the family's financial strength. An independent student will only report their own information (and if they're married, their spouse's information).

Three Categories/Subcategories all received the same number of submissions:

- Department Customer Support/Unclear or Insufficient Directions;
- Repaying Student Financial Aid/Loan Accuracy; and,
- Repaying Student Financial Aid/Loan Interest Rates.

Other Ombudsman Group Activity

Customer Satisfaction Survey Results

The Ombudsman Group contracts with a third-party vendor to conduct the customer satisfaction survey using ACSI methodology. Approximately two weeks after a case is closed, the vendor sends a survey to all Feedback system customers who provided an email address. The vendor then compiles those results on a quarterly basis, which are then shared with the Ombudsman Group. No information about survey respondents is provided to FSA.

For all surveys completed in FY 2019, the ACSI score for the Ombudsman Group was 48. Analysis of the numbers continues to show the Ombudsman Group's ACSI scores are distributed in an inverted Bell curve, with the lowest and highest scores at the upper ends and lowest in the middle.

The Ombudsman Group functions as a neutral third-party in attempting to resolve disputes. Customers sometimes express dissatisfaction because they expect the Ombudsman to act as their advocate and provide an outcome that falls outside the law and regulations. Conversely, customers attaining a favorable outcome tend to provide higher ratings. This suggests customers base their satisfaction on the outcome achieved rather than the service Ombudsman Group staff provided.

Beginning in the third quarter of FY 2019, the survey was expanded to include all case types closed within the Feedback system. Results from the full year of survey data will be published in next year's report.

Student Loan Ombudsman Caucus

The Ombudsman Group hosted the annual meeting of the Student Loan Ombudsman Caucus (Caucus) in September 2019. The Caucus, chartered by the National Council of Higher Education Resources, is an informal group of individuals who serve as ombudsmen, or in an informal dispute resolution capacity at lenders, loan servicers, and guaranty agencies. The Caucus meets on a bi-monthly basis via conference call, and annually in a face-to-face session.

During this year's annual meeting, attendees reviewed case studies for handling situations related to joint consolidation loans and credit reporting. Presentations include information about identity theft application review, and FSA's activities in support of Minority Serving and Under-Resourced Schools.

Recommendations

The statute provides that the Ombudsman, as part of this *Annual Report*, make recommendations for policy changes based on feedback received from federal financial student aid recipients. Although the majority of feedback received is resolved with additional information offered or clarified for the customer, the root circumstances driving customers to provide feedback lie in the complexity of the requirements to qualify for aid and to secure benefits during loan repayment, such as IDR and loan discharge. This complexity not only frustrates customers, but it challenges FSA service providers to provide high-quality service.

Recommendation: The Ombudsman recommends reducing the number of repayment plans offered.

Federal loans, depending on program, loan type, and disbursement date are eligible for as many as eight different repayment plans. Each of these repayment plans has different eligibility criteria, calculations that result in different payment amounts, and different repayment terms. It is difficult for borrowers to understand the differences between plans and impacts of the various plans. Many select the lowest possible payment amount that can be offered, but do not understand the long-term implications of interest accrual, leaving many to express their frustration that monthly payments are having lower-than-expected impact on their total amount owed.

Recommendation: IDR renewal should be “opt-out” through use of data retrieval from the IRS.

Entering repayment, all borrowers are offered the opportunity to select (or, “opt-in”) the preferred repayment plan. If the borrower makes no selection, the monthly payment amount is calculated based on the standard repayment plan. A borrower approved for an IDR plan must submit a renewal request annually. Borrowers frequently do not receive or understand notices to submit renewal information; or they do not timely submit the renewal application. By considering IDR plans as “opt-in,” borrowers frequently find themselves in a situation where the IDR plan expired and the new payment amount due is a standard payment amount based on a 10-year repayment term. Expiration or a change in repayment plan also causes interest to capitalize.

Expanding use of the DRT through the IRS, a borrower’s IDR can automatically renew unless the borrower makes a specific request to change their repayment plan. Doing so reduces the administrative burden on borrowers and provides continuity in repayment.

Recommendation: Interest capitalization should occur only when a federal student loan borrower consolidates outstanding federal student loans.

The law and regulations mandate or permit interest capitalization in multiple circumstances. The result is an increased principal balance, increased future accrued interest, and increased payment amounts. Interest capitalization serves no purpose, other than to generate additional interest income.

Capitalizing interest cannot be avoided when consolidating because the borrower is taking a new loan for the purpose of paying in full existing federal student loans.

Recommendation: Use of data match capabilities with the IRS for borrowers approved for TPD discharge will ease the administrative burden for a vulnerable population.

Feedback about TPD discharge of federal student loans has declined in recent years. This is due, in large part, to the data sharing agreements between the Social Security Administration, the Department of Veterans Affairs, and the Department.

Most borrowers awarded TPD discharges are subject to a 3-year monitoring period upon approval of that discharge. During this monitoring period, the borrower must provide proof of earned income.

Borrowers routinely have loans reinstated because they do not provide proof of income. The reasons range from neglect on their part up through an inability to understand what is required. Once the loans are reinstated, regardless of the circumstances, borrowers must reapply (often incurring costs to have a physician complete the discharge request) and enter a new three-year monitoring period.

Recommendation: Statutory changes are needed, either through amendment or reauthorization of the HEA regarding PSLF and TEPSLF.

Existing statutory prohibitions for federal agencies to share data was a recent discussion during a hearing of the U.S. House of Representatives' Education and Labor subcommittee conducted September 19, 2019. This discussion focused on the impacts on FSA's ability to provide effective service to Title IV financial aid recipients.

For example, matching student loan borrower information with data other agencies hold regarding employment can help the Department identify individuals who may hold employment eligible for PSLF. The Department can then reach out to those customers and facilitate the necessary steps toward loan forgiveness.

Borrowers determined ineligible for PSLF only because they were not in the correct payment plan are also found ineligible for TEPSLF because the eligibility requirements mandate that the customer's twelve most recent payments had to be made under a qualifying repayment plan or a payment plan that is at least equal to a payment made under a qualifying repayment plan.

Based on feedback received, as well as reports from the OIG and the GAO, borrowers are frequently found ineligible due to the complexity of the cancellation qualifying requirements such as maintaining the appropriate payment plan and/or not having Direct Loans. Making IDR plans "opt-out" and automatic data sharing with the IRS are likely to have significant impact on eligibility for PSLF.

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Financial Section

Overview of the Financial Section

This section provides a financial presentation of FSA's stewardship and accountability for its resources. The audited financial statements are followed by the accompanying notes to the financial statements, required supplementary information, and the Independent Auditors' Report.

Financial Statements

The Financial Statements consist of the following comparative statements: the Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position and Statement of Budgetary Resources.

Notes to the Financial Statements

The Notes to the Financial Statements provide a description of significant accounting policies and detailed information on select statement line items.

Required Supplementary Stewardship Information (Unaudited)

The unaudited Required Supplementary Stewardship Information provides information on the stewardship of the resources entrusted to FSA (human capital) and the subsequent responsibilities that cannot be measured in traditional financial reports.

Required Supplementary Information (Unaudited)

The unaudited Required Supplementary Information presents the Combining Statements of Budgetary Resources by Program.

Independent Auditors' Report

The Independent Auditors' Report presents the combined audit report issued by the Independent Auditors. Included in the combined audit report are the Report on the Financial Statements, the Report on Internal Control, and the Report on Compliance and Other Matters. The subsection also includes the Office of Inspector General Audit Transmittal Letter and Management's Response to the Audit.

Financial Statements

FSA prepares the following statements: the Consolidated Balance Sheets, the Consolidated Statements of Net Cost, the Consolidated Statements of Changes in Net Position, and the Combining Statements of Budgetary Resources. These statements are prepared pursuant to the requirements of the Chief Financial Officers Act of 1990, the Government Management Reform Act, and OMB Circular A-136, *Financial Reporting Requirements*; and demonstrate FSA's accountability and stewardship of the resources entrusted to it.

Below is a brief description of the principal financial statements and the accompanying notes presented in this report:

Consolidated Balance Sheets:

- The Consolidated Balance Sheets present, as of a specific time, the amount of resources FSA has to use or distribute (assets), the amounts owed by FSA (liabilities) and the difference between the two (net position).

Consolidated Statements of Net Cost:

- The Consolidated Statements of Net Cost present the annual cost of agency operations. The gross cost less any offsetting revenue is used to determine the net cost.

Consolidated Statements of Changes in Net Position:

- The Consolidated Statements of Changes in Net Position report the accounting activities, including changes to Cumulative Results of Operations and Unexpended Appropriations that caused the change in net position during the reporting period.

Combining Statements of Budgetary Resources:

- The Combining Statements of Budgetary Resources report the budgetary resources that were made available to FSA, the status of those resources at fiscal year-end, along with the outlays of budgetary resources.

Notes to the Financial Statements:

- The accompanying Notes to the Financial Statements provide a description of significant accounting policies and detailed information on select financial statement line items. The Notes also include information that supports the computation of the various financial statement activities.

United States Department of Education
Federal Student Aid
Consolidated Balance Sheets
As of September 30, 2019 and 2018
(Dollars in Millions)

	FY 2019	FY 2018
Assets:		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$ 62,567	$ 73,405
Other Intragovernmental Assets (Note 4)	7	19
Total Intragovernmental	62,574	73,424
Public:		
Credit Program Receivables, Net (Note 5)		
Direct Loan Program	1,123,707	1,115,053
FFEL Program	76,767	92,947
Other Credit Programs for Higher Education	1,618	1,495
Other Assets (Note 4)	2,210	2,346
Total Public	1,204,302	1,211,841
Total Assets (Note 2)	**$1,266,876**	**$1,285,265**
Liabilities:		
Intragovernmental:		
Debt (Note 7)		
Direct Loan Program	$1,192,138	$1,150,610
FFEL Program	94,671	107,261
Other Credit Programs for Higher Education	685	610
Subsidy Due to Treasury General Fund (Note 8)	10,302	7,528
Other Intragovernmental Liabilities (Note 9)	2,606	2,769
Total Intragovernmental	1,300,402	1,268,778
Other Liabilities (Note 9)	11,365	7,428
Total Liabilities (Note 6)	**$1,311,767**	**$1,276,206**
Commitments and Contingencies (Note 13)		
Net Position:		
Unexpended Appropriations	$ 31,400	$ 32,487
Cumulative Results of Operations	(76,291)	(23,428)
Total Net Position	**$ (44,891)**	**$ 9,059**
Total Liabilities and Net Position	**$1,266,876**	**$1,285,265**

The accompanying notes are an integral part of these statements.

United States Department of Education
Federal Student Aid
Consolidated Statements of Net Cost
For the Years Ended September 30, 2019 and 2018
(Dollars in Millions)

	FY 2019	FY 2018
Program Costs		
EXPAND POSTSECONDARY OPPORTUNITIES, IMPROVE OUTCOMES TO FOSTER ECONOMIC OPPORTUNITY, AND PROMOTE PRODUCTIVE CITIZENRY		
Direct Loan Program		
Gross Costs	$ 96,696	$ 37,965
Earned Revenue	(33,817)	(32,329)
Net Cost of Direct Loan Program	**$ 62,879**	**$ 5,636**
FFEL Program		
Gross Costs	$ 15,759	$ 4,599
Earned Revenue	(2,870)	(3,336)
Net Cost of FFEL Program	**$ 12,889**	**$ 1,263**
Other Credit Programs for Higher Education		
Gross Costs	$ 20	$ 76
Earned Revenue	(133)	(559)
Net Cost of Other Credit Programs for Higher Education	**$ (113)**	**$ (483)**
Non-Credit Programs		
Gross Costs	$ 32,390	$ 28,592
Earned Revenue	-	-
Net Cost of Non-Credit Programs	**$ 32,390**	**$ 28,592**
Net Program Costs	**$ 108,045**	**$ 35,008**
Total Program Gross Costs	**$ 144,865**	**$ 71,232**
Total Program Earned Revenue	**(36,820)**	**(36,224)**
Net Cost of Operations (Notes 10 & 12)	**$ 108,045**	**$ 35,008**

The accompanying notes are an integral part of these statements.

United States Department of Education
Federal Student Aid
Consolidated Statements of Changes in Net Position
For the Years Ended September 30, 2019 and 2018
(Dollars in Millions)

	FY 2019 Cumulative Results of Operations	FY 2019 Unexpended Appropriations	FY 2018 Cumulative Results of Operations	FY 2018 Unexpended Appropriations
Beginning Balances:				
Beginning Balances	**$ (23,428)**	**$ 32,487**	**$ (5,316)**	**$ 28,524**
Budgetary Financing Sources:				
Appropriations Received	$ -	$ 73,109	$ -	$ 49,784
Other Adjustments (Rescissions, etc.)	-	(3,393)	-	(1,224)
Appropriations Used	70,803	(70,803)	44,597	(44,597)
Nonexchange Revenue	-	-	(1)	-
Other Financing Sources:				
Imputed Financing from Costs Absorbed by Others	14	-	14	-
Negative Subsidy Transfers, Downward Subsidy Re-Estimates, and Other	(15,635)	-	(27,714)	-
Total Financing Sources	**$ 55,182**	**$ (1,087)**	**$ 16,896**	**$ 3,963**
Net Cost of Operations:	**$ (108,045)**	**$ -**	**$ (35,008)**	**$ -**
Net Change:	**$ (52,863)**	**$ (1,087)**	**$ (18,112)**	**$ 3,963**
Net Position	**$ (76,291)**	**$ 31,400**	**$ (23,428)**	**$ 32,487**

The accompanying notes are an integral part of these statements.

United States Department of Education
Federal Student Aid
Combined Statements of Budgetary Resources
For the Years Ended September 30, 2019 and 2018
(Dollars in Millions

	FY 2019		FY 2018	
	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Non-Budgetary Credit Reform Financing Accounts
Budgetary Resources				
Unobligated Balance from Prior Year Budget Authority, Net (Note 11)	$ 15,378	$ 14,858	$ 12,015	$ 15,859
Appropriations (Discretionary and Mandatory)	69,804	-	48,627	-
Borrowing Authority (Discretionary and Mandatory) (Note 11)	-	148,272	-	167,543
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	409	57,418	393	61,439
Total Budgetary Resources	**$ 85,591**	**$ 220,548**	**$ 61,035**	**$ 244,841**
Status of Budgetary Resources				
New Obligations and Upward Adjustments (Total)	$ 71,433	$ 202,405	$ 46,002	$ 221,384
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	11,361	-	12,290	-
Unapportioned, Unexpired Accounts	1,935	18,143	2,168	23,457
Unexpired Unobligated Balance, End of year	**$ 13,296**	**$ 18,143**	**$ 14,458**	**$ 23,457**
Expired Unobligated Balance, End of Year	862	-	575	-
Unobligated Balance, End of Year (Total)	**$ 14,158**	**$ 18,143**	**$ 15,033**	**$ 23,457**
Total Status of Budgetary Resources	**$ 85,591**	**$ 220,548**	**$ 61,035**	**$ 244,841**
Outlays, Net (Discretionary and Mandatory)	$ 69,396	$ 40,085	$ 45,918	$ 83,059
Distributed Offsetting Receipts (-) (Note 11)	(12,145)	-	(27,321)	-
Agency Outlays, Net (Discretionary and Mandatory) (Note 11)	**$ 57,251**	**$ 40,085**	**$ 18,597**	**$ 83,059**

The accompanying notes are an integral part of these statements.

Notes to the Financial Statements

Notes to the Financial Statements for the Years Ended, September 30, 2019 and 2018

Note 1. Summary of Significant Accounting Policies

Reporting Entity and Programs

Federal Student Aid (FSA) was created as a Performance Based Organization (PBO) within the U.S. Department of Education (the Department) in 1998, as a result of amendments to the *Higher Education Act of 1965* (HEA), from previously existing Department student financial assistance program offices. FSA operates under the PBO mandate to develop a management structure driven by strong incentives to manage for results. FSA's primary goal is to assist lower-income and middle-income students in overcoming the financial barriers that make it difficult to attend and complete postsecondary education.

Federal Student Loan Programs. FSA and the Department administer the William D. Ford Federal Direct Loan (Direct Loan) program, the Federal Family Education Loan (FFEL) program, the Health Education Assistance Loan program (HEAL), and the Federal Perkins Loan program to help students and their families finance the costs of postsecondary education. A direct loan is any debt instrument issued to the public by the federal government. A FFEL loan guarantee is a guarantee, insurance, or other pledge with respect to the payment of all or part of the principal or interest on any debt obligation of a non-federal borrower to a non-federal lender.

The Direct Loan program, added to the HEA in 1993 by the *Student Loan Reform Act of 1993*, authorizes the Department to make loans through participating schools to eligible undergraduate and graduate students and their parents. The Direct Loan program offers four types of loans: Stafford, Unsubsidized Stafford, Parent Loan for Undergraduate Students (PLUS), and Consolidation. Evidence of financial need is required for an undergraduate student to receive a subsidized Stafford loan. The other three loan programs are available to borrowers at all income levels. Loans can be used only to meet qualified educational expenses.

The FFEL program, authorized by the HEA, operates through state and private nonprofit guaranty agencies that provide loan guarantees on loans made by private lenders to eligible students. The *Student Aid and Fiscal Responsibility Act* (SAFRA), which was included in the *Health Care and Education Reconciliation Act of 2010* (HCERA), stated that no new FFEL loans would be made effective July 1, 2010. FFEL program receivables include defaulted FFEL loans and acquired FFEL loans. Acquired FFEL loans include student loan assets acquired using temporary authority provided in the *Ensuring Continued Access to Student Loans Act of 2008* (ECASLA). ECASLA gave FSA temporary authority to purchase FFEL loans and participation interests in those loans. FSA implemented three activities under this authority: loan purchase commitments; purchases of loan participation interests; and a put, or forward purchase commitment, with an Asset-Backed Commercial Paper (ABCP) Conduit. This authority expired after September 30, 2010; as a result, loan purchase commitments and purchases of loan participation interests concluded. However, under the terms of the Put Agreement with the conduit, ABCP Conduit activity ceased operations in January 2014. (See Notes 5 and 10)

Grant Programs. FSA and the Department manage numerous grant programs, which provide financial aid, that in most cases does not need to be repaid, to students with financial need. The largest of these programs is the Federal Pell Grant (Pell Grant) program, which provides need-based grants to low-income undergraduate and certain post baccalaureate students that promotes access to postsecondary education. Other grant programs include Federal Work-

Study Program, Federal Supplemental Educational Opportunity Grants (FSEOG), Teacher Education Assistance for College and Higher Education (TEACH) Grants, and Iraq and Afghanistan Service Grants. (See Note 10)

Basis of Accounting and Presentation

These financial statements were prepared to report the financial position, net cost of operations, changes in net position, and budgetary resources of FSA as required by the *Chief Financial Officers Act of 1990* and the *Government Management Reform Act of 1994*. The financial statements were prepared from the books and records of the Department and FSA, in accordance with Generally Accepted Accounting Principles (GAAP) accepted in the U.S. for federal entities, issued by the Federal Accounting Standards Advisory Board (FASAB), and the Office of Management and Budget (OMB) Circular No. A-136, *Financial Reporting Requirements*, as revised. These financial statements are different from the financial reports prepared by the Department pursuant to OMB directives that are used to monitor and control FSA's use of budgetary resources.

FSA's financial statements should be read with the realization that they are for the reporting organization FSA, within the Department of Education, which is itself a component of the U.S. Government, a sovereign entity. One implication of this is that the liabilities cannot be liquidated without legislation providing resources and legal authority to do so.

The accounting structure of federal agencies is designed to reflect both accrual and budgetary accounting transactions. Under the accrual method of accounting, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over the use of federal funds.

Transactions and balances among FSA funds have been eliminated from the consolidated financial statements.

Accounting standards require all reporting entities to disclose that accounting standard practices allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information.

Accounting for Federal Credit Programs

FSA's accounting for its loan and loan guarantees is based on the requirements of the *Federal Credit Reform Act of 1990* (FCRA). The purpose of the FCRA is to record the lifetime subsidy cost of direct loans and loan guarantees, in present value terms, at the time the loan is disbursed (subsidy). Components of subsidy costs for loans and guarantees include defaults (net of recoveries); contractual payments to third-party private loan collectors who receive a set percentage of amounts collected; and, as an offset, origination and other fees collected. For direct loans, the difference between interest rates incurred by FSA on its borrowings from the Department of Treasury (Treasury) and interest rates charged to particular borrowers is also subsidized (or may provide an offset to subsidy if FSA's rate is less).

Under the FCRA, subsidy cost is estimated using the net present value of future cash flows to and from FSA. In accordance with the FCRA, credit programs either estimate a subsidy cost to the government (a "positive" subsidy), breakeven (zero subsidy cost), or estimate a negative subsidy cost. Negative subsidy occurs when the estimated cost of providing loans to borrowers from Treasury borrowing, collection costs and loan forgiveness is less than the value of collections from borrowers for interest and fees, in present value terms.

The subsidy cost of direct loan and loan guarantee programs are budgeted and tracked by the fiscal year in which the loan award is made or the funds committed. Such a grouping of loans or guarantees is referred to as a “cohort.” A cohort is a grouping of direct loans obligated or loan guarantees committed by a program in the same year even if disbursements occur in subsequent years.

In order to account for the change in the net present value of the loan portfolio over time, the subsidy cost is “amortized” each year. Amortization accounts for the differences in interest rates, accruals, and cash flows over the life of a cohort, ensuring that cost is reflected in subsidy estimates and re-estimates. Amortization of subsidy is calculated as the difference between interest received from borrowers and Treasury (on uninvested funds) and interest paid to Treasury on borrowings.

The FCRA establishes the use of financing, program, and Treasury General Fund receipt accounts for loan guarantees committed and direct loans obligated after September 30, 1991.

- Financing accounts borrow funds from Treasury, make direct loan disbursements, collect fees from lenders and borrowers, pay claims on guaranteed loans, collect principal and interest from borrowers, earn interest from Treasury on any uninvested funds, and transfer excess subsidy to Treasury General Fund receipt accounts. Financing accounts are presented separately in the combined statements of budgetary resources (SBR) as non-budgetary credit reform accounts to allow for a clear distinction from all other budgetary accounts. This facilitates reconciliation of the SBR to the Budget of the United States Government.
- Program accounts receive and obligate appropriations to cover the positive subsidy cost of a direct loan or loan guarantee when the loan is approved and disburses the subsidy cost to the financing account when the loan is issued. Program accounts also receive appropriations for administrative expenses.
- Treasury General Fund receipt accounts receive amounts paid from financing accounts when there are negative subsidies for new loan disbursements or downward re-estimates of the subsidy cost of existing loans. (See Notes 11 and 12)

FSA records an obligation each year for direct loan awards to be made in a fiscal year based on estimates of schools’ receipt of aid applications. FSA advances funds to schools based on these estimates. Promissory notes are signed when schools reach individual agreements with borrowers and the schools subsequently report each disbursement of advanced funds to FSA. A new promissory note is usually not required for students in the second or later year of study. Half of all loan awards are issued in the fourth quarter of the fiscal year. Loans awarded are typically disbursed in multiple installments over an academic period. As a result, loans may be disbursed over multiple fiscal years. Loan awards may not be fully disbursed due to students leaving or transferring to other schools. FSA’s obligation estimate may also not reflect the actual amount of awards made. Based on historical averages, FSA expects approximately 7.8 percent of the amount obligated for new loan awards will not be disbursed.

When a loan is placed in deferment or forbearance, loan repayment is temporarily suspended with the length of postponement different for each borrower. Interest accrues while a loan is in deferment or forbearance. Loans are cancelled if a person dies, meets disability requirements, or occasionally through the bankruptcy courts. Loans are also cancelled through the Public Service Loan Forgiveness (PSLF) Program, which forgives the remaining balance on a Direct Loan after 120 qualifying monthly payments are made. These payments must be made under a qualifying repayment plan while working full-time for a qualifying employer. In addition, FSA offers the Pay As You Earn (PAYE) program. This student loan repayment program is designed to help borrowers who struggle to make their normal student loan payments. The plan allows payments to be limited to 10 percent of discretionary income if qualifications are met. Under the PAYE program, if all requirements are met, forgiveness of the remaining balance of a student loan is possible after 20 years of consistent payments.

Budgetary Resources

Budgetary resources are amounts available to enter into new obligations and to liquidate them. FSA's budgetary resources include unobligated balances of resources from prior years and new resources, which include appropriations, authority to borrow from Treasury, and spending authority from collections.

Borrowing authority is an indefinite budgetary resource authorized under the FCRA. This resource, when realized, finances the unsubsidized portion of the Direct Loan, FFEL, and other loan programs. In addition, borrowing authority is requested to cover the cost of the initial loan disbursement as well as any related negative subsidy to be transferred to Treasury General Fund receipt accounts. Treasury prescribes the terms and conditions of borrowing authority and lends to the financing account amounts as appropriate. Amounts borrowed, but not yet disbursed, are included in uninvested funds and earn interest. Treasury uses the same weighted average interest rates for both the interest charged on borrowed funds and the interest earned on uninvested funds. Treasury sets a different fixed interest rate to be used for each loan cohort once the loans are substantially disbursed. FSA may carry forward borrowing authority to future fiscal years provided that cohorts are disbursing loans. All borrowings from Treasury are effective on October 1st of the current fiscal year, regardless of when FSA borrowed the funds, except for amounts borrowed to make annual interest payments.

Authority to borrow from Treasury provides most of the funding for disbursements made under the Direct Loan program, FFEL, and other loan programs. Subsidy and administrative costs of the programs are funded by appropriations. Borrowings are repaid using collections from borrowers, fees, and interest on uninvested funds.

Unobligated balances represent the cumulative amount of budgetary resources that are not obligated and that remain available for obligation under law, unless otherwise restricted. Resources expiring at the end of the fiscal year remain available for five years, but only for upward adjustments of prior year obligations, after which they are cancelled and may not be used. Resources that have not expired at year-end are available for new obligations, as well as upward adjustments of prior-year obligations. Funds are appropriated on an annual, multi-year, or no-year basis. Appropriated funds expire on the last day of availability and are no longer available for new obligations. Amounts in expired funds are unavailable for new obligations, but may be used to adjust previously established obligations.

Permanent Indefinite Budget Authority. The Direct Loan, FFEL, and other loan programs have permanent indefinite budget authority through legislation. Parts B and D of the HEA pertain to the existence, purpose, and availability of permanent indefinite budget authority for these programs.

Reauthorization of Legislation. Funds for most FSA programs are authorized, by statute, to be appropriated for a specified number of years, with an automatic one-year extension available under Section 422 of the *General Education Provisions Act*. Congress may continue to appropriate funds after the expiration of the statutory authorization period, effectively reauthorizing the program through the appropriations process. The current *Budget of the United States Government* presumes all programs continue per congressional budgeting rules. (See Note 11)

Entity and Non-Entity Assets

Assets are classified as either entity or non-entity assets. Entity assets are those that FSA has authority to use for its operations. Non-entity assets are those held by FSA but not available for use in its operations. FSA non-entity assets are offset by liabilities to third parties and have no impact on net position. FSA combines its entity and non-entity assets on the balance sheets and discloses its non-entity assets in the notes. (See Note 2)

Fund Balance with Treasury

The Fund Balance with Treasury includes amounts available to pay current liabilities and finance authorized purchases, as well as funds restricted until future appropriations are received. Treasury processes cash receipts and cash disbursements for FSA. FSA's records are reconciled with Treasury's records. (See Note 3)

Accounts Receivable

Accounts receivable are amounts due to FSA from the public and other federal agencies. Receivables from the public result from overpayments to recipients of grants and other financial assistance programs, and disputed costs resulting from audits of educational assistance programs. Amounts due from federal agencies result from reimbursable agreements entered into by FSA with other agencies to provide various goods and services. Accounts receivable are reduced to net realizable value by an allowance for uncollectible amounts. The estimate of an allowance for loss on uncollectible accounts is based on FSA's experience in the collection of receivables and an analysis of the outstanding balances. (See Note 4)

Guaranty Agencies' Federal Funds

Guaranty Agencies' Federal Funds are primarily comprised of the federal government's interest in the program assets held by state and nonprofit FFEL program guaranty agencies. Section 422A of the HEA required FFEL guaranty agencies to establish federal student loan reserve funds (federal funds). Federal funds include initial federal start-up funds, receipts of federal reinsurance payments, insurance premiums, guaranty agency share of collections on defaulted loans, investment income, administrative cost allowances, and other assets.

The balance in the Federal Fund represents consolidated reserve balances of the 23 guaranty agencies based on the Guaranty Agency financial reports that each agency submits annually to FSA. Although FSA and the guaranty agencies operate on different fiscal years, all guaranty agencies are subject to an annual audit. A year-end valuation adjustment is made to adjust FSA's balances in order to comply with federal accounting principles and disclose funds held outside of Treasury.

Guaranty Agencies' Federal Funds are classified as non-entity assets with the public and are offset by a corresponding liability due to Treasury. The federal funds are held by the guaranty agencies but can only be used for certain specified purposes listed in FSA's regulations. The federal funds are the property of the U.S. and are reflected in the *Budget of the United States Government*. Payments made to the FSA from guaranty agencies' federal funds through a statutory recall or agency closures represent capital transfers and are returned to Treasury's General Fund. (See Notes 2, 4, and 9)

Credit Program Receivables, Net and Liabilities for Loan Guarantees

The financial statements reflect FSA's estimate of the long-term subsidy cost of direct and guaranteed loans in accordance with the FCRA. Loans and interest receivable are valued at their gross amounts less an allowance for the present value of amounts not expected to be recovered and thus having to be subsidized—called an "allowance for subsidy." The difference between the gross amount and the allowance for subsidy is the present value of the cash flows to, and from, FSA that are expected from receivables over their projected lives. Similarly, liabilities for loan guarantees are valued at the present value of the cash outflows from FSA less the present value of related inflows. The estimated present value of net long-term cash outflows of FSA for subsidized costs is net of recoveries, interest supplements, and offsetting fees.

The liability for loan guarantees presents the net present value of all future cash flows from currently insured FFEL loans, including claim payments, interest assistance, allowance payments, and recoveries from assigned loans. Guaranteed loans that default are initially turned over to guaranty agencies for collection. Defaulted FFEL loans are accounted for as assets and reported at their net present value, similar to direct loans, although they are legally not direct student loans. Credit program receivables, net includes defaulted FFEL loans owned by FSA and held by FSA or guaranty agencies. In most cases, after approximately four years, defaulted guaranteed loans not in repayment are turned over by the guaranty agencies to FSA for collection.

FFEL program receivables include purchased loans and other interests acquired under an expired program. The cash flows related to these receivables include collections on purchased loans and other activities, including transfers of re-estimated subsidy. The cash flows of these authorities also include inflows and outflows associated with the underlying or purchased loans and other related activities, including any positive or negative subsidy transfers.

Capitalization of interest occurs as a result of various initiatives such as loan consolidations. As a result, interest receivable is reduced and loan principal is increased. (See Note 5)

Property and Equipment, Net and Leases

FSA has very limited acquisition costs associated with buildings, furniture, and equipment as all federal and contractor staff are housed in leased buildings. The Department and FSA also lease information technology and telecommunications equipment, as part of a contractor-owned, contractor-operated services contract. Lease payments associated with this equipment have been determined to be operating leases and, as such, are expensed as incurred. The noncancellable lease term is one year, with the Department holding the right to extend the lease term by exercising additional one-year options. (See Note 4)

Liabilities

Liabilities represent actual and estimated amounts to be paid as a result of transactions or events that have already occurred.

- Liabilities are classified as covered by budgetary resources if budgetary resources are available to pay them. Credit program liabilities funded by permanent indefinite appropriations are also considered covered by budgetary resources.
- Liabilities are classified as not covered by budgetary resources when congressional action is needed before they can be paid. Although future appropriations to fund these liabilities are likely, it is not certain that appropriations will be enacted to fund these liabilities.
- Liabilities not requiring appropriated budgetary resources include those related to deposit funds, Subsidy Due to Treasury General Fund for Future Liquidating Account Collections (pre-1992 loan guarantee programs), and Federal Perkins Loan Program balances due to be repaid to the Treasury General Fund. (See Note 6)

Debt

FSA borrows from Treasury to provide funding for the Direct Loan, FFEL, and other credit programs for higher education. The liability to Treasury from borrowings represents unpaid principal at year-end. FSA repays the principal based on available fund balances. Interest rates are based on the corresponding rate for 10-year Treasury securities and are set for those borrowings supporting each cohort of loans once the loans for that cohort are substantially disbursed. Interest is paid to Treasury on September 30th. (See Note 7)

Subsidy Due To Treasury General Fund

FSA must transfer to the Treasury General Fund all excess funding resulting from downward re-estimates of credit program loans that are subject to FCRA requirements. This excess funding is included in the liability for subsidy due to Treasury and will be transferred to Treasury in the succeeding fiscal year upon receipt of authority from OMB. Subsidy due to Treasury also includes future liquidating account collections (estimated collections in excess of estimated outlays) for FSA’s pre-1992 FFEL and HEAL loans that, when collected, will also be transferred to the Treasury General Fund. (See Note 8)

Accounts Payable

Accounts payable include amounts owed by FSA for goods and services received from other entities and scheduled payments transmitted but not yet processed. Accounts payable to the public primarily consists of in-process grant and loan disbursements, including an accrued liability for schools that have disbursed loans prior to requesting funds. (See Note 9)

Accrued Grant Liability

Some grant recipients incur allowable expenditures as of the end of an accounting period but have not been reimbursed by FSA. FSA accrues a liability for these allowable expenditures. The amount is estimated using statistical sampling of unliquidated balances. (See Note 9)

Personnel Compensation And Other Employee Benefits

Annual, Sick, and Other Leave. The liability for annual leave, compensatory time off, and other vested leave is accrued when earned and reduced when taken. Each year, the accrued annual leave account balance is adjusted to reflect current pay rates. Sick leave and other types of nonvested leave are expensed as taken. Annual leave earned but not taken, within established limits, is funded from future financing sources.

Retirement Plans and Other Retirement Benefits. Employees participate in either the Civil Service Retirement System (CSRS), a defined benefit plan, or the Federal Employees Retirement System (FERS), a defined benefit and contribution plan. For CSRS employees, the Department contributes a fixed percentage of pay.

FERS consists of Social Security, a basic annuity plan, and the Thrift Savings Plan. The Department and the employee contribute to Social Security and the basic annuity plan at rates prescribed by law. In addition, the Department is required to contribute to the Thrift Savings Plan a minimum of 1 percent per year of the basic pay of employees covered by this system, match voluntary employee contributions up to 3 percent of the employee's basic pay, and match one-half of contributions between 3 percent and 5 percent of the employee's basic pay. For FERS employees, the Department also contributes the employer's share of Medicare.

Contributions for CSRS, FERS, and other retirement benefits are insufficient to fund the programs fully and are subsidized by the Office of Personnel Management (OPM). The Department imputes its share of the OPM subsidy, using cost factors provided by OPM, and reports the full cost of the programs related to its employees in FSA's Statements of Net Cost. These OPM imputed costs are offset by imputed financing sources from costs absorbed by others in FSA's Statements of Changes in Net Position.

Federal Employees' Compensation Act. The *Federal Employees' Compensation Act* (FECA) (Pub. L. 103-3) provides income and medical cost protection to covered federal civilian employees injured on the job, to employees who have incurred work-related occupational diseases, and to beneficiaries of employees whose deaths are attributable to job-related injuries or occupational diseases. The FECA program is administered by the Department of Labor (DOL), which pays valid claims and subsequently seeks reimbursement from the Department for these paid claims.

The FECA liability consists of two elements. The first element, accrued FECA liability, is based on claims paid by DOL but not yet reimbursed by the Department. The Department reimburses DOL for claims as funds are appropriated for this purpose. In general, there is a two- to three-year period between payment by DOL and reimbursement to DOL by the Department. As a result, the Department recognizes an intragovernmental liability, not covered by budgetary resources, for the claims paid by DOL that will be reimbursed by the Department.

The second element, actuarial FECA liability, is the estimated liability for future benefit payments and is recorded as a liability with the public, not covered by budgetary resources. The actuarial FECA liability includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. DOL determines the actuarial FECA liability annually, as of September 30, using an actuarial method that considers historical benefit payment patterns, wage inflation factors, medical inflation factors, and other variables. The projected annual benefit payments are discounted to present value. (See Notes 6 and 9)

Inter-Entity Costs

Services are received from other federal entities at no cost or at a cost less than the full cost to FSA. Consistent with accounting standards, certain costs of the providing entity that are not fully reimbursed by FSA are recognized as imputed cost in the Statements of Net Cost and are offset by imputed revenue in the Statements of Changes in Net Position. Such imputed costs and revenues relate to employee benefits. However, unreimbursed costs of services other than those related to employee benefits are not included in FSA's financial statements.

Net Cost of Operations

Net cost consists of gross costs and earned revenue. Major components of FSA's net costs include credit program subsidy expense, credit program interest revenue and expense, and grant expenses. Administrative overhead costs are allocated to loan and non-credit programs based on number of applications processed, number of loans serviced, dollar amount of loan originations, cost of school compliance actions, and the cost to collect defaulted loans. (See Note 10)

Credit Program Subsidy Expense. Subsidy expense is an estimate of the present value cost of providing loans, but excludes the administrative costs of issuing and servicing the loans. In order to estimate subsidy expense, FSA must project lifetime cash flows associated with loans disbursed in a specific fiscal year (i.e., the loan cohort). FSA projects these lifetime cash flows using a set of econometric and financial models, as well as cash flow models. FSA estimates subsidy expenses annually for new loans disbursed in the current year; updates the previous cost estimates for outstanding loans disbursed in prior years (subsidy re-estimates); and updates previous cost estimates based on changes to terms of existing loans (loan modifications). Loan modifications include actions resulting from new legislation or from the exercise of administrative discretion under existing law, which directly or indirectly alters the estimated subsidy cost of outstanding direct loans (or direct loan obligations). (See Notes 5 and 10)

Credit Program Interest Revenue and Expense. FSA recognizes interest revenue from the public when interest is accrued on Direct Loan program loans, defaulted and acquired FFEL loans, and outstanding principal for other loan programs. Interest due from borrowers is accrued at least monthly and is satisfied upon collection or capitalization into the loan principal. Federal interest revenue is recognized on the unused fund balances with Treasury in the financing accounts.

Federal interest expense is recognized monthly on the outstanding borrowing from Treasury (debt) used to finance direct loan and loan guarantee programs. Accrued interest to Treasury is paid on September 30th. The interest rate for federal interest expense is the same as the rate used for federal interest revenue.

Interest expense equals interest revenue plus administrative fees accrued for all credit programs due to subsidy amortization. Subsidy amortization is required by the FCRA and accounts for the difference between interest expense and revenue cash flows. For direct loans, the allowance for subsidy is adjusted with the offset to interest revenue. For guaranteed loans, the liability for loan guarantees is adjusted with the offset to interest expense. (See Note 10)

Net Position

Net position consists of unexpended appropriations and cumulative results of operations. Unexpended appropriations include undelivered orders and unobligated balances, except for federal credit financing and liquidating funds and trust funds. Cumulative results of operations represent the net difference since inception between (1) expenses and (2) revenues and financing sources.

Taxes

FSA is a Federal entity and is not subject to Federal, state or local taxes. Therefore, no provision for income taxes is recorded.

Use of Estimates

FSA and Department management are required to make certain estimates while preparing consolidated financial statements in conformity with GAAP. These estimates are reflected in the assets, liabilities, net cost, and net position of the financial statements and may differ from actual results. FSA's estimates are based on management's best knowledge of current events, historical experiences, and other assumptions that are believed to be reasonable under the circumstances. Significant estimates reported on the financial statements include: allocation of administrative overhead costs; allowance for subsidy and subsidy expense for direct, defaulted guaranteed and acquired loans; the liability for loan guarantees; and grant liability and advance accruals. (See Notes 4, 5, 9, and 10)

FSA's estimates for credit reform programs are calculated using a series of assumption models that are updated using a statistically valid sample of National Student Loan Data System (NSLDS®) data, data from the Debt Management and Collection System (DMCS), and economic assumptions provided by the Office of Management and Budget. Actual results may differ from those assumptions and estimates. Differences between actual results and these estimates may occur in the valuation of credit program receivables and liabilities for loan guarantees under guidelines in the FCRA. FSA recognizes the sensitivity of credit reform modeling. Slight changes in modeling methodology or data used to derive assumptions can produce largely varied results. FSA therefore continually reviews its model factors and statistical modeling techniques to reflect the most accurate credit program costs possible in its annual financial statements. FSA updates its assumption models in accordance with its model update plan, which takes into consideration statutory or new program requirements, major changes to the model structure or methodology, and data updates. This level of granularity in FSA's modeling methodology is essential to the budget process, so that the Department can forecast the costs of various program options when making policy decisions. (See Note 5)

Note 2. Non-Entity Assets

(Dollars in Millions)

	2019		2018	
	Intragovernmental	With the Public	Intragovernmental	With the Public
Non-Entity Assets				
Credit Program Receivables, Net	$ -	$ 607	$ -	$ 551
Other Assets				
Guaranty Agencies' Federal Funds	-	1,956	-	2,176
Accounts Receivable, Net	-	41	-	36
Total Non-Entity Assets	**-**	**2,604**	**-**	**2,763**
Entity Assets	62,574	1,201,698	73,424	1,209,078
Total Assets	**$ 62,574**	**$ 1,204,302**	**$ 73,424**	**$ 1,211,841**

FSA's FY 2019 assets are predominantly entity assets (99.8 percent), leaving the small portion of assets remaining as non-entity assets. Non-entity assets with the public primarily consist of guaranty agency reserves (75.1 percent), reported as Guaranty Agencies' Federal Funds, and Federal Perkins Loan program loan receivables (23.3 percent), reported as credit program receivables, net. The corresponding liabilities for these non-entity assets are reflected in various accounts, including intragovernmental accounts payable, Guaranty Agencies' Federal Funds due to Treasury, and other liabilities. (See Note 9)

Note 3. Fund Balance with Treasury

(Dollars in Millions)

	2019	2018
Unobligated Balance		
Available	$ 11,361	$ 12,290
Unavailable	18,984	24,024
Obligated Balance, Not Disbursed	87,678	99,484
Authority Temporarily Precluded from Obligation	1	1
Borrowing Authority Not Yet Converted to Fund Balance with Treasury (Note 11)	(55,457)	(62,394)
Total Fund Balance with Treasury	**$ 62,567**	**$ 73,405**

Available unobligated balances represent amounts that are apportioned for obligation in the current fiscal year. Unavailable unobligated balances represent amounts that are not apportioned for obligation during the current fiscal year and expired appropriations no longer available to incur new obligations. Total unavailable unobligated balance ($18.9 billion) differs from unapportioned and expired amounts on the SBR ($20.9 billion) due to the Guaranty Agencies' Federal Funds ($2.0 billion).

Note 4. Other Assets

(Dollars in Millions)

	2019		2018	
	Intragovernmental	With the Public	Intragovernmental	With the Public
Guaranty Agencies' Federal Funds	$ -	$ 1,956	$ -	$ 2,176
Accounts Receivable, Net	-	209	-	125
Advances	7	33	19	14
Property and Equipment, Net	-	6	-	27
Other	-	6	-	4
Total Other Assets	**$ 7**	**$ 2,210**	**$ 19**	**$ 2,346**

Note 5. Credit Programs for Higher Education: Credit Program Receivables, Net and Liabilities for Loan Guarantees

Credit Program Receivables, Net

(Dollars in Millions)

	Principal	Accrued Interest	Allowance for Subsidy	Net
2019				
Direct Loan Program	$1,164,883	$ 83,262	$ (124,438)	$1,123,707
FFEL Program	90,218	22,267	(35,718)	$76,767
Other Credit Programs for Higher Education	1,692	367	(441)	$1,618
Total Credit Receivables	**$1,256,793**	**$ 105,896**	**$ (160,597)**	**$ 1,202,092**
2018				
Direct Loan Program	$ 1,083,735	$ 71,981	$ (40,663)	$ 1,115,053
FFEL Program	95,083	21,116	(23,252)	92,947
Other Credit Programs for Higher Education	1,617	420	(542)	1,495
Total Credit Receivables	**$ 1,180,435**	**$ 93,517**	**$ (64,457)**	**$ 1,209,495**

The federal student loan programs provide students and their families with the funds to help meet postsecondary education costs. Funding for these programs is provided through permanent indefinite budget authority. What follows is additional analysis of the activity, costs and adjustments for each of the loan programs.

Direct Loan Program. The federal government makes loans directly to students and parents through participating institutions of higher education under the Direct Loan program. Direct Loans are originated and serviced through contracts with private vendors.

Direct Loan program loan receivables include defaulted and nondefaulted loans owned and held by FSA. Of the $1,248.1 billion in gross loan receivables, as of September 30, 2019, $99.7 billion (8.0 percent) in loan principal was in default and had been transferred to FSA's defaulted loan servicer, compared to $84.9 billion (7.3 percent) as of September 30, 2018.

Direct Loan Program Reconciliation of Allowance for Subsidy
(Dollars in Millions)

	2019	2018
Beginning Balance, Allowance for Subsidy	**$ 40,663**	**$ 16,805**
Activity		
Fee Collections	1,693	1,696
Loan Cancellations	(9,096)	(7,521)
Subsidy Allowance Amortization	30,290	25,918
Other Activities	(622)	(604)
Total Activity	**22,265**	**19,489**
Subsidy Expense for Direct Loans Disbursed in the Current Year by Component		
Interest Rate Differential	11,440	1,614
Defaults, Net of Recoveries	1,862	1,106
Fees	(1,720)	(1,747)
Other Components	(14,563)	(4,103)
Total of the Above Subsidy Expense Components	**(2,981)**	**(3,130)**
Components of Loan Modifications		
Loan Modification Costs	-	144
Modification Adjustment Transfers Gain	-	(8)
Loan Modifications	**-**	**136**
Ending Balance of the Subsidy Cost Allowance Before Re-estimates	**$ 59,947**	**$ 33,300**
Components of Subsidy Re-estimates		
Interest Rate Re-estimates	(981)	(4,573)
Technical and Default Re-estimates	65,472	11,936
Net Upward Subsidy Re-estimates	**64,491**	**7,363**
Ending Balance, Allowance for Subsidy	**$ 124,438**	**$ 40,663**

The estimation process used to determine the amount of positive or negative subsidy expense each fiscal year, and subsequently the cumulative taxpayer cost of the program (allowance for subsidy), is subject to various external risk factors which often show strong interdependence with one another. These risks include uncertainty about changes in the general economy, changes in the legislative and regulatory environment, and changing trends in borrower performance with regard to contractual cash flows within the loan programs.

Due to the complexity of the Direct Loan program, there is inherent projection risk in the process used for estimating long-term program costs. As stated, some uncertainty stems from potential changes in student loan legislation and regulations because these changes may fundamentally alter the cost structure of the program. Operational and policy shifts may also affect program costs by causing significant changes in borrower repayment timing. Actual performance may deviate from estimated performance, which is not unexpected given the long-term nature of these loans (cash flows may be estimated up to 40 years), and the multitude of projection paths and possible outcomes. The high percentage of borrowers in IDR plans has made projection of borrower incomes a key input for the estimation process. This uncertainty is directly tied to the macroeconomic climate and is another inherent program element that displays the interrelated risks facing the Direct Loan program.

Loan cancellations consist of write-offs of loans because the borrower died, became disabled, or declared bankruptcy. The interest rate re-estimate reflects the cost of finalizing the Treasury borrowing rate to be used for borrowings received to fund the disbursed portion of the loan awards obligated.

The two major components of the subsidy expense for direct loans disbursed in the current period (subsidy transfers) are Interest Rate Differential and Other Components. Interest rate differential is attributable to the difference between the borrowers' interest payments due to FSA and the FSA's estimated cost to finance the direct loan on a present value basis. The Other Components of subsidy transfers primarily consists of contract collection costs, program review collections, fees, and loan forgiveness. In FY 2019, FSA began including the prepayment effect on principal and interest repayments in the interest rate differential component rather the other component as in previous years.

Direct Loan Program Interest Expense and Revenues (See Note 10)
(Dollars in Millions)

	2019	2018
Interest Expense on Treasury Borrowing	$ 33,817	$ 32,329
Total Interest Expense	**$ 33,817**	**$ 32,329**
Interest Revenue from the Public	$ 59,815	$ 54,157
Interest Revenue on Uninvested Funds	4,082	3,890
Administrative Fees	210	200
Amortization of Subsidy	(30,290)	(25,918)
Total Revenues	**$ 33,817**	**$ 32,329**

Direct Loan Program Subsidy Expense
(Dollars in Millions)

	2019	2018
Subsidy Expense for Direct Loans Disbursed in the Current Year		
Interest Rate Differential	$ 11,440	$ 1,614
Defaults, Net of Recoveries	1,862	1,106
Fees	(1,720)	(1,747)
Other	(14,563)	(4,103)
Total Subsidy Expense for Direct Loans Disbursed in the Current Year	**(2,981)**	**(3,130)**
Loan Modifications	-	136
Net Upward Subsidy Re-estimates	64,491	7,363
Direct Loan Subsidy Expense	**$ 61,510**	**$ 4,369**

Net Upward Subsidy Re-estimates for All Prior Year Loan Cohorts. The Direct Loan program subsidy re-estimate increased subsidy expense in FY 2019 by $64.5 billion. Re-estimated costs only include cohorts that are 90 percent disbursed; cohort years 1994–2018. The re-estimate reflects the assumption updates and other changes described below.

- **IDR Model Changes.** During FY 2019, FSA enhanced the IDR model by examining the most current available IDR application data from NSLDS to supplement information previously used from the Department of Treasury's Office of Tax Analysis, in order to calibrate projected incomes. FSA's analysis determined a downward calibration was warranted, with the Departmental and FSA senior management concurrence. The impact of this calibration was the most significant factor in the IDR component of the re-estimate. The IDR update also reflects further refinement in the logic for switching borrowers among IDR plans and the appropriate balance to be paid off when they do switch. These updates led to a net upward re-estimate of $43.6 billion.
- **Deferment and Forbearance.** FSA made enhancements in the methodology for delinquency, to more precisely reflect interest accrual and the extension of the payment period than the method previously employed. These enhancements resulted in a lower rate of forbearance which lead to an upward re-estimate of subsidy as less interest is accrued, capitalized, and collected. Deferment rates increased for PLUS loans eligible for in-school deferments. The combined effect of these changes, in addition to updated data from NSLDS, was a net upward re-estimate of $18.3 billion.
- **Maturity, Prepayment, and Loan Payoff.** FSA further enhanced the forecasting of amount of debt distributions and aligned all three sub-components of this assumption to enter repayment cohorts. The loan payoff component was improved as well by using a more precise method to estimate payoff for loans enrolled in graduated repayment plans. As mentioned above, the impact on repayment of delinquency was moved to the payoff maturity assumption to better reflect interest accrual and the extension of the payment period. These adjustments resulted in longer assumed terms, resulting in a longer stream of payments, more interest accrual and less subsidy. The combined effect of these changes led to a net downward re-estimate of $26.1 billion.
- **Financing Account Interest Adjustment.** Beginning in FY 2019, FSA implemented a process to calculate and execute a financing account interest adjustment to address differences between net financing account interest executed for cohorts each year and amounts earned based on final Treasury interest rates for those cohorts. This resulted in a net upward re-estimate of $6.3 billion.
- **Default.** FSA updated the data and made a change in methodology to a weighted fractional logit in order to more appropriately reflect the different sizes of the grouped data. The combined effect of these changes led to a net downward re-estimate of $1.0 billion.
- **Collections.** As a result of analyzing updated DMCS data, collection rate estimates were revised which resulted in a net upward re-estimate of $4.2 billion.
- **2018 Cohort Assumption Changes.** The technical re-estimate cannot reflect the impacts of certain assumption changes applicable to the current year loan cohort until the following fiscal year per OMB guidance. The current year's re-estimate includes a net upward adjustment of $5.8 billion for these prior year changes attributable to the FY 2018 cohort.

- **Interest on the Re-estimate.** Interest on re-estimates is the amount of interest that would have been earned or paid by each cohort on the subsidy re-estimate, if the re-estimated subsidy had been included as part of the original subsidy estimate. The interest on the re-estimate calculated on the overall subsidy re-estimate resulted in a net upward re-estimate of $9.7 billion.
- **Interactive Effects.** The re-estimate includes a net upward re-estimate of $3.2 billion attributed to the interactive effects of the assumption changes described above.

Direct Loan Subsidy Rates—Cohort 2019

	Interest Differential	Defaults	Fees	Other	Total
Stafford	20.50%	1.63%	-1.06%	-12.42%	8.65%
Unsubsidized Stafford	13.85%	1.05%	-1.06%	-17.06%	-3.22%
PLUS	2.73%	0.75%	-4.25%	-18.27%	-19.04%
Consolidation	6.88%	1.40%	0.00%	3.76%	12.04%
Weighted Average Total	**-11.62%**	**1.25%**	**-1.16%**	**11.78%**	**0.25%**

*The Other component reflects costs associated with loan cancelations and the interactive affects of payment plans on the components of subsidy.

The subsidy rate represents the subsidy expense of the program in relation to the obligations or commitments made during the fiscal year and are weighted on gross volume. The subsidy rates shown above, which reflect aggregate positive subsidy in the FY 2019 cohort, cannot be applied to direct loans disbursed during the current reporting year to yield the subsidy expense, nor are these rates applicable to the portfolio as a whole. The Department does not re-estimate student loan cohorts until they are at least 90 percent disbursed. As a result, the financial statement re-estimate does not include a re-estimate of the current year cohort. The first re-estimate of this cohort will take place upon execution of the FY 2021 President's Budget.

The subsidy costs of the Department's student loan programs, especially the Direct Loan program, are highly sensitive to changes in actual and forecasted interest rates. The formulas for determining program interest rates are established by statute; the existing loan portfolio has a mixture of borrower and lender rate formulas. Interest rate projections are based on probabilistic interest rate scenario inputs developed and provided by OMB.

Direct Loan Program Loan Disbursements by Loan Type

(Dollars in Millions)

	2019	2018
Stafford	$ 19,984	$ 20,343
Unsubsidized Stafford	48,142	49,009
PLUS	22,709	23,117
Consolidation	39,830	41,625
Total Disbursements	**$ 130,664**	**$ 134,094**

The allocation of disbursements for the first three loan types is estimated based on historical trend information.

Student and parent borrowers may prepay existing loans without penalty through a new consolidation loan. Under the FCRA and requirements provided by OMB regulations, the retirement of direct loans being consolidated is considered a collection of principal and interest. This receipt is offset by the disbursement related to the newly created consolidation loan.

Underlying direct or guaranteed loans, performing or nonperforming, are paid off in their original cohort; new consolidation loans are originated in the cohort in which the new consolidation loan was obligated. Consolidation activity is taken into consideration in establishing subsidy rates for defaults and other cash flows. The cost of new consolidations is included in subsidy expense for the current-year cohort; the effect of prepayments on existing loans could contribute to re-estimates of prior cohort subsidy costs. The net receivables include estimates of future prepayments of existing loans through consolidations; they do not reflect subsidy costs associated with anticipated future consolidation loans.

Direct loan consolidations were $39.8 billion during FY 2019 and $41.6 billion during FY 2018. Under the FCRA, the subsidy costs of new consolidation loans are not reflected until the future fiscal year in which they are disbursed. The effect of the early payoff of the existing loans—those being consolidated—is recognized in the future projected cash flows associated with that cohort.

Federal Family Education Loan Program. FFEL was established in fiscal year 1965, and is a guaranteed loan program. As a result of the SAFRA Act, no new FFEL loans have been made since July 1, 2010. Federal guarantees on FFEL program loans and commitments remain in effect for loans made before July 1, 2010, unless they were sold to FSA through an ECASLA authority (acquired FFEL loans), consolidated into a direct loan, or otherwise satisfied, discharged, or cancelled.

FFEL Guaranteed Loans Outstanding
(Dollars in Billions)

	FY 2019
Outstanding Principal of Guaranteed Loans, Face Value	$ 141.6
Amount of Outstanding Principal Guaranteed	$ 141.6

As of September 30, 2019, the total principal value of guaranteed loans outstanding and the amount of that principal which is guaranteed is approximately $141.6 billion.

Additionally, the FFEL program guarantees outstanding interest balances. As of September 30, 2019, the interest balances outstanding for guaranteed loans held by lenders was approximately $4.0 billion.

FSA’s total FFEL program guarantees (principal and interest) are approximately $145.6 billion as of September 30, 2019. Of the total guaranteed amount, FSA would expect to pay a smaller amount to the guaranty agencies. The guarantee rates range from 75 to 100 percent of the principal and interest balance depending on the type of claim, when the loan was made and the guaranty agency's claim experience. For purposes of disclosing FSA’s total risk exposure for FFEL guarantees, the highest reimbursement rate of 100 percent is assumed.

Defaulted and acquired FFEL loans are accounted for as assets as shown in the following table.

FFEL Program Loan Receivables
(Dollars in Millions)

	Principal	Accrued Interest	Allowance for Subsidy (Present Value)	Net
2019				
DEFAULTED FFEL GUARANTEED LOANS				
FFEL GSL Program (Pre-1992)	$ 3,729	$ 5,858	$ (8,776)	$ 811
FFEL GSL Program (Post-1991)	33,780	8,561	(20,113)	22,228
Total Defaulted FFEL Guaranteed Loans	37,509	14,419	(28,889)	23,039
ACQUIRED FFEL LOANS				
Loan Purchase Commitment	17,536	2,519	(2,531)	17,524
Loan Participation Purchase	33,696	4,983	(3,843)	34,836
ABCP Conduit	1,477	346	(455)	1,368
Total Acquired FFEL Loans	52,709	7,848	(6,829)	53,728
FFEL Program Loan Receivables	**$ 90,218**	**$ 22,267**	**$ (35,718)**	**$ 76,767**
2018				
DEFAULTED FFEL GUARANTEED LOANS				
FFEL GSL Program (Pre-1992)	$ 3,917	$ 5,836	$ (8,077)	$ 1,676
FFEL GSL Program (Post-1991)	33,849	7,802	(15,186)	26,465
Total Defaulted FFEL Guaranteed Loans	37,766	13,638	(23,263)	28,141
ACQUIRED FFEL LOANS				
Loan Purchase Commitment	19,277	2,435	(21)	21,691
Loan Participation Purchase	36,475	4,713	458	41,646
ABCP Conduit	1,565	330	(426)	1,469
Total Acquired FFEL Loans	57,317	7,478	11	64,806
FFEL Program Loan Receivables	**$ 95,083**	**$ 21,116**	**$ (23,252)**	**$ 92,947**

FFEL Program Reconciliation of Liabilities for Loan Guarantees
(Dollars in Millions)

	2019	2018
Beginning Balance, FFEL Financing Account Liability for Loan Guarantees	**$ 2,591**	**$ 3,636**
Activity		
Interest Supplement Payments	(1,332)	(1,052)
Claim Payments	(5,583)	(5,716)
Fee Collections	1,385	1,550
Interest on Subsidy Amortization	(1,096)	(1,099)
Other	2,374	6,476
Total Activity	**(4,252)**	**159**
Upward/(Downward) Subsidy Re-estimates	6,866	(1,204)
Ending Balance, FFEL Financing Account Liability for Loan Guarantees	**5,205**	**2,591**
FFEL Liquidating Account Liability for Loan Guarantees	1	1
FFEL Liabilities for Loan Guarantees	**$ 5,206**	**$ 2,592**

Liabilities for Loan Guarantees is included as a component of other liabilities on the balance sheet (see Note 9).

Other activity includes negative special allowance collections, collections on defaulted FFEL loans, guaranty agency expenses, and loan cancellations due to death, disability, or bankruptcy.

Allowance for Subsidy Reconciliation for Acquired FFEL Loans
(Dollars in Millions)

	Loan Purchase Commitment	Loan Participation Purchase	ABCP Conduit	Total
2019				
Beginning Balance, Allowance for Subsidy	**$ 21**	**$ (458)**	**$ 426**	**$ (11)**
Activity				
Subsidy Allowance Amortization	571	1,027	52	1,650
Loan Cancellations	(165)	(308)	(18)	(491)
Direct Asset Activities	(40)	(62)	(5)	(107)
Total Activity	**366**	**657**	**29**	**1,052**
Ending Balance of the Subsidy Cost Allowance Before Re-estimates	**$ 387**	**$ 199**	**$ 455**	**$ 1,041**
Net Upward Subsidy Re-estimates	2,144	3,644	-	5,788
Ending Balance, Allowance for Subsidy	**$ 2,531**	**$ 3,843**	**$ 455**	**$ 6,829**
2018				
Beginning Balance, Allowance for Subsidy	**$ (1,656)**	**$ (2,072)**	**$ 400**	**$ (3,328)**
Activity				
Subsidy Allowance Amortization	550	903	48	1,501
Loan Cancellations	(168)	(314)	(16)	(498)
Direct Asset Activities	(44)	(68)	(6)	(118)
Total Activity	**338**	**521**	**26**	**885**
Ending Balance of the Subsidy Cost Allowance Before Re-estimates	**$ (1,318)**	**$ (1,551)**	**$ 426**	**$ (2,443)**
Net Upward Subsidy Re-estimates	1,339	1,093	-	2,432
Ending Balance, Allowance for Subsidy	**$ 21**	**$ (458)**	**$ 426**	**$ (11)**

FFEL Program Subsidy Expense
(Dollars in Millions)

	2019	2018
Upward/(Downward) Subsidy Re-estimates		
FFEL Loan Guarantee Program	$ 6,866	$ (1,204)
Loan Purchase Commitment	2,144	1,339
Loan Participation Purchase	3,644	1,093
FFEL Program Subsidy Expense	**$ 12,654**	**$ 1,228**

The FFEL subsidy re-estimate increased subsidy expense in FY 2019 by $12.7 billion. The net upward re-estimates in these programs were due primarily to interest rates provided by OMB and updated collection and prepayment rates.

Other Credit Programs for Higher Education
(Dollars in Millions)

	Principal	Accrued Interest	Allowance for Subsidy (Present Value)	Net
2019				
Federal Perkins Loans	$ 532	$ 235	$ (160)	$ 607
TEACH Program Loans	764	99	(247)	616
HEAL Program Loans	396	33	(34)	395
Total	**$ 1,692**	**$ 367**	**$ (441)**	**$ 1,618**
2018				
Federal Perkins Loans	$ 474	$ 297	$ (220)	$ 551
TEACH Program Loans	746	91	(253)	584
HEAL Program Loans	397	32	(69)	360
Total	**$ 1,617**	**$ 420**	**$ (542)**	**$ 1,495**

Federal Perkins Loan Program. The Federal Perkins Loan program provides low-interest loans to eligible postsecondary school students. In some statutorily defined cases, funds are provided to reimburse schools for loan cancellations. For defaulted loans assigned to FSA, collections of principal, interest, and fees, net of amounts paid by FSA to cover contract collection costs, are transferred to Treasury annually. The *Federal Perkins Loan Program Extension Act of 2015* (Extension Act) eliminated the authorization for schools to make new Perkins Loan disbursements as of September 30, 2017, and ended all Perkins Loan disbursements by June 30, 2018.

TEACH Grant Program. FSA awards annual grants of up to $4,000 to eligible undergraduate and graduate students who agree to serve as full-time mathematics, science, foreign language, bilingual education, special education, or reading teachers at high-need schools for four years within eight years of graduation. The maximum lifetime grant for students is $16,000 for undergraduate programs and $8,000 for graduate programs. For students failing to fulfill the service requirement, the grants are converted to Direct Unsubsidized Stafford Loans. The program is operated as a loan program under the FCRA for budget and accounting purposes since grants can be converted to direct loans.

TEACH Subsidy Rates—Cohort 2019

	Interest Differential	Defaults	Fees	Other	Total
Subsidy Rates	71.18%	0.25%	0.00%	-43.06%	28.37%

*The Other component reflects costs associated with loan cancelations and the interactive affects of payment plans on the components of subsidy.

HEAL Program. FSA assumed responsibility in FY 2014 for the HEAL program and the authority to administer, service, collect, and enforce the program. The HEAL program is structured as required by the FCRA. A liquidating account is used to record all cash flows to and from the government resulting from guaranteed HEAL loans committed prior to 1992. All loan activity for 1992 and beyond is recorded in corresponding financing accounts.

Note 6. Liabilities Not Covered by Budgetary Resources

(Dollars in Millions)

	2019		2018	
	Intragovern-mental	With the Public	Intragovern-mental	With the Public
Liabilities Not Covered By Budgetary Resources				
Other Liabilities				
Accrued Unfunded Annual Leave	$ -	$ 12	$ -	$ 13
FECA Liabilities	-	1	-	1
Total Liabilities Not Covered By Budgetary Resources	-	13	-	14
Liabilities Not Requiring Budgetary Resources				
Subsidy Due to Treasury General Fund	1,239	-	2,029	-
Federal Perkins Loan Program	593	-	538	-
Miscellaneous Receipt, Deposit Funds and Clearing Accounts	55	-	52	-
Total Liabilities Not Requiring Budgetary Resources	1,887	-	2,619	-
Total Liabilities Covered By Budgetary Resources	1,298,515	11,352	1,266,159	7,414
Total Liabilities	**$ 1,300,402**	**$ 11,365**	**$ 1,268,778**	**$ 7,428**

Note 7. Debt

(Dollars in Millions)

	Beginning Balance	Borrowing	Repayments	Ending Balance
2019				
Direct Loan Program	$ 1,150,610	$ 137,583	$ (96,055)	$ 1,192,138
FFEL Program	107,261	-	(12,590)	94,671
Other Credit Programs for Higher Education	610	106	(31)	685
Total	**$ 1,258,481**	**$ 137,689**	**$ (108,676)**	**$ 1,287,494**
2018				
Direct Loan Program	$ 1,061,559	$ 155,257	$ (66,206)	$ 1,150,610
FFEL Program	116,290	227	(9,256)	107,261
Other Credit Programs for Higher Education	624	71	(85)	610
Total	**$ 1,178,473**	**$ 155,555**	**$ (75,547)**	**$ 1,258,481**

FSA borrows from Treasury to fund the disbursement of new loans and the payment of credit program outlays and related costs. During FY 2019, debt increased 2.3 percent from $1,258.5 billion in the prior year to $1,287.5 billion. FSA makes periodic principal payments, after evaluating the cash position and liability for future outflows in each program and pays interest, as mandated by the FCRA.

Approximately 92.6 percent of FSA’s debt, as of September 30, 2019, is attributable to the Direct Loan program. The majority of the net borrowing activity (borrowing less repayments) for the year was designated for funding new Direct Loan disbursements.

FSA also borrows from Treasury for activity in the Other Credit Programs for Higher Education. During FY 2019, TEACH net borrowing of $63.3 million was used for the advance of new grants and repayments of principal made to Treasury.

Note 8. Subsidy Due to Treasury General Fund
(Dollars in Millions)

	2019	2018
Credit Program Downward Subsidy Re-estimates		
Direct Loan Program	$ 2,718	$ 2,484
FFEL Program	6,345	3,015
Total Credit Program Downward Subsidy Re-estimates	**9,063**	**5,499**
Future Liquidating Account Collections		
FFEL Program	1,239	1,856
Other Credit Programs for Higher Education	-	173
Total Future Liquidating Account Collections	**1,239**	**2,029**
Total Subsidy Due to Treasury General Fund	**$ 10,302**	**$ 7,528**

When downward subsidy re-estimates are executed, the amounts will be transferred to the Treasury General Fund in the following fiscal year. Future liquidating account collections represent the net present value of estimated future excess collections (estimated collections in excess of estimated outlays) for FSA’s pre-1992 FFEL and HEAL loan programs.

Note 9. Other Liabilities
(Dollars in Millions)

	2019		2018	
	Intragovernmental	With the Public	Intragovernmental	With the Public
Accounts Payable	$ -	$ 3,597	$ 1	$ 3,656
Accrued Grant Liability	-	2,304	-	932
Guaranty Agencies' Funds Due to Treasury	1,956	-	2,176	459
Loan Guarantee Liability	-	5,436	-	2,814
Federal Perkins Loan Program	593	-	538	-
Miscellaneous Receipt, Deposit Funds and Clearing Accounts	55	-	52	-
Advances from Others and Deferred Credits	-	8	-	4
Accrued Unfunded Annual Leave	-	12	-	13
FECA Liabilities	-	1	-	1
Accrued Payroll and Benefits	-	7	-	8
Employer Contributions and Payroll Taxes	2	-	2	-
Total Other Liabilities	**$ 2,606**	**$ 11,365**	**$ 2,769**	**$ 7,428**

Note 10. Net Cost of Operations

Gross Costs and Exchange Revenue by Program

(Dollars in Millions)

	2019	2018
EXPAND POSTSECONDARY OPPORTUNITIES, IMPROVE OUTCOMES TO FOSTER ECONOMIC OPPORTUNITY, AND PROMOTE PRODUCTIVE CITIZENRY		
Direct Loan Program		
Gross Cost		
Credit Program Interest Expense	$ 33,817	$ 32,329
Subsidy Expense	61,510	4,369
Administrative Expenses	1,369	1,267
Earned Revenue		
Interest & Administrative Fees	(64,107)	(58,247)
Subsidy Amortization	30,290	25,918
Net Cost of Direct Loan Program	**62,879**	**5,636**
FFEL Program		
Gross Cost		
Credit Program Interest Expense	3,838	4,233
Subsidy Expense	12,654	1,228
Subsidy Amortization (Guaranteed Loans)	(1,096)	(1,099)
Guaranty Agencies	212	96
Administrative Expenses	151	141
Earned Revenue		
Interest & Administrative Fees	(4,392)	(4,635)
Subsidy Amortization (Acquired FFEL Loans)	1,650	1,501
Guaranty Agencies	(128)	(202)
Net Cost of FFEL Program	**12,889**	**1,263**
Other Credit Programs for Higher Education		
Gross Cost		
Credit Program Interest Expense	22	19
Subsidy Expense	(4)	56
Administrative Expenses	2	1
Earned Revenue		
Interest & Administrative Fees	(50)	(48)
Subsidy Amortization	28	29
Other	(111)	(540)
Net Cost of Other Credit Programs for Higher Education	**(113)**	**(483)**
Non-Credit Programs		
Gross Cost		
Grants	32,208	28,456
Other	182	136
Net Cost of Non-Credit Programs	**32,390**	**28,592**
Net Program Costs	**108,045**	**35,008**
Total Program Gross Costs	**144,865**	**71,232**
Total Program Earned Revenue	**(36,820)**	**(36,224)**
Net Cost of Operations	**$ 108,045**	**$ 35,008**

Credit Program Interest Expense and Revenues
(Dollars in Millions)

	Gross Interest Expense	Subsidy Amortization	Net Interest Expense	Gross Interest and Administrative Fee Revenue		Subsidy Amortization	Net Revenue
	Intragovern-mental	With the Public		Intragovern-mental	With the Public	With the Public	
2019							
Direct Loan Program	$ 33,817	$ -	$ 33,817	$ 4,082	$ 60,025	$ (30,290)	$ 33,817
FFEL Program	3,838	(1,096)	2,742	905	3,487	(1,650)	2,742
Other Credit Programs for Higher Education	22	-	22	7	43	(28)	22
Total	**$ 37,677**	**$ (1,096)**	**$ 36,581**	**$ 4,994**	**$ 63,555**	**$ (31,968)**	**$ 36,581**
2018							
Direct Loan Program	$ 32,329	$ -	$ 32,329	$ 3,890	$ 54,357	$ (25,918)	$ 32,329
FFEL Program	4,233	(1,099)	3,134	1,032	3,603	(1,501)	3,134
Other Credit Programs for Higher Education	19	-	19	4	44	(29)	19
Total	**$ 36,581**	**$ (1,099)**	**$ 35,482**	**$ 4,926**	**$ 58,004**	**$ (27,448)**	**$ 35,482**

Interest expense equals interest revenue plus administrative fees accrued for all credit programs due to subsidy amortization. Subsidy amortization is required by the FCRA and accounts for the difference between interest expense and revenue cash flows. For direct loans, the allowance for subsidy is adjusted with the offset to interest revenue. For guaranteed loans, the liability for loan guarantees is adjusted with the offset to interest expense.

Grant Expenses
(Dollars in Millions)

	2019	2018
Pell Grants	$ 30,530	$ 26,672
Federal Work-Study Program	1,030	1,015
Federal Supplemental Educational Opportunity Grants	648	769
	$ 32,208	$ 28,456

Federal Pell Grants Program provides need-based grants to students to promote access to postsecondary education. Grant amounts are dependent on: the student’s expected family contribution; the cost of attendance (as determined by the institution); the student’s enrollment status (full-time or part-time); and whether the student attends for a full academic year or less. Pell grants are the single largest source of grant aid for postsecondary education.

Federal Work-Study Program provides funds by formula to enable eligible institutions to offer employment to students based on financial needs. The program is available to full-time or part-time students and encourages community service work. The work is often related to the student’s course of study. This program is administered by the schools that participate in the Federal Work-Study program. Hourly earnings under this program must be at least the Federal minimum wage. Federal funding, in most cases, pays 75 percent of a student’s hourly wage, with the remaining 25 percent paid by the employer.

Federal Supplemental Education Opportunity Grants Program provides funds by formula to enable eligible institutions to offer grants to students based on need. Federal grants distributed under this program are administered directly by the financial aid office at each participating school.

Note 11. Statements of Budgetary Resources

The SBR compares budgetary resources with the status of those resources. As of September 30, 2019, budgetary resources were $306.1 billion and net agency outlays were $97.3 billion. As of September 30, 2018, budgetary resources were $305.9 billion and net agency outlays were $101.7 billion.

Net Adjustments to Unobligated Balances Brought Forward
(Dollars in Millions)

	2019	
	Budgetary	Non-Budgetary Credit Reform Financing Accounts
Prior Year Unobligated Balance, End of Year (Total)	$ 15,033	$ 23,457
Recoveries of Prior Year Unpaid Obligations	738	24,840
Borrowing Authority Withdrawn	-	(17,520)
Actual Repayments of Debt, Prior-Year Balances	-	(16,261)
Actual Capital Transfers to the Treasury General Fund	(322)	-
Canceled Authority	(25)	-
Downward Adjustments of Prior-Year Paid Delivered Orders	4	342
Other Differences	(50)	
Unobligated Balance from Prior Year Budget Authority (Net)	$ 15,378	$ 14,858

Unused Borrowing Authority
(Dollars in Millions)

	2019	2018
Beginning Balance, Unused Borrowing Authority	**$ 62,394**	**$ 58,433**
Current Year Borrowing Authority	148,272	167,543
Funds Drawn from Treasury	(137,689)	(155,555)
Borrowing Authority Withdrawn	(17,520)	(8,027)
Ending Balance, Unused Borrowing Authority	**$ 55,457**	**$ 62,394**

FSA is given authority to draw funds from Treasury to finance the Direct Loan, FFEL, and other loan programs. Unused borrowing authority is a budgetary resource and is available to support obligations for these programs. FSA periodically reviews its borrowing authority balances in relation to its obligations resulting in the withdrawal of unused amounts.

Undelivered Orders at the End of the Period
(Dollars in Millions)

	2019		2018	
	Intragovern-mental	With the Public	Intragovern-mental	With the Public
Unpaid	$ 76	$ 82,607	$ 73	$ 95,736
Paid	7	561	19	206
Undelivered Orders	**$ 83**	**$ 83,168**	**$ 92**	**$ 95,942**

Undelivered orders represent the amount of goods and/or services ordered which have not been actually or constructively received. The paid amount includes any orders which may have been prepaid or advanced but for which delivery or performance has not yet occurred.

Distributed Offsetting Receipts
(Dollars in Millions)

	2019	2018
Negative Subsidies and Downward Re-estimates of Subsidies:		
Direct Loan Program	$ 9,906	$ 26,539
FFEL Program	2,099	236
TEACH Program	1	-
HEAL Program	34	8
Total Negative Subsidies and Downward Re-estimates	12,040	26,783
Other	105	538
Distributed Offsetting Receipts	**$ 12,145**	**$ 27,321**

The majority of the distributed offsetting receipts line item on the SBR represents amounts paid from the Direct Loan program and FFEL program financing accounts to Treasury General Fund receipt accounts for downward current fiscal year executed subsidy re-estimates and negative subsidies. The collections are recorded as offsetting receipts and they offset the agency's budget authority and outlays.

Explanation of Differences Between the Statements of Budgetary Resources and the *Budget of the United States Government*

Budgetary accounting as shown in the President’s Budget includes a public enterprise fund that reflects the gross obligations by the FFEL program for the estimated activity of the consolidated Federal Fund of the guaranty agencies. Ownership by the federal government is independent of the actual control of the assets. Since the actual operation of the Federal Fund is independent from FSA’s direct control, budgetary resources and obligations are estimated and disclosed in the President’s Budget to approximate the gross activities of the combined Federal Funds. Amounts reported on the SBR for the Federal Fund are compiled through combining all guaranty agencies’ annual reports to determine a net valuation amount for the Federal Fund.

Note 12. Reconciliation of Net Cost to Net Outlays

(Dollars in Millions)

	2019		
	Intragovern-mental	With the Public	Total
Net Cost of Operations	**$ 32,828**	**$ 75,217**	**$ 108,045**
Components of Net Operating Cost Not Part of the Net Budgetary Outlays			
Subsidy Expense	-	(74,160)	(74,160)
Increase/(Decrease) in Assets	(12)	(5)	(17)
(Increase)/Decrease in Liabilities	1	(1,255)	(1,254)
Federal Employee Retirement Benefit Costs Paid by OPM and Imputed to Agency	(14)	-	(14)
Total Components of Net Operating Cost Not Part of the Net Budgetary Outlays	**(25)**	**(75,420)**	**(75,445)**
Components of the Net Budgetary Outlays Not Part of Net Operating Costs			
Loan Disbursement/(Collection) Activities, Net	-	52,696	52,696
Loan Subsidy Transfers	12,040	-	12,040
Total Components of the Net Budgetary Outlays Not Part of Net Operating Costs	**12,040**	**52,696**	**64,736**
Net Outlays (Calculated Total)	**$ 44,843**	**$ 52,493**	**$ 97,336**
Related Amounts on the Statement of Budgetary Resources			
Outlays, Net (Discretionary and Mandatory)			109,481
Distributed Offsetting Receipts			(12,145)
Agency Outlays, Net (Discretionary and Mandatory)			**$ 97,336**

FSA implemented SFFAS 53, Budget and Accrual Reconciliation, in FY 2019 requiring this reconciliation to explain the relationship between FSA's net cost of operations and its net outlays. Reconciling items result from transactions which did not result in a current period outlay but did result in a current period cost, and current period outlays that did not result in a current period cost. Comparison with the prior year is not required in the initial year of implementation.

Subsidy expense included in net cost of operations primarily represents subsidy re-estimates that are recognized without a concurrent cash disbursement. For credit programs, most loan disbursement and collection activities, other than those related to loan administrative costs, increase or decrease loan asset and liability balances and therefore do not affect net cost of operations. Loan subsidy transfers are amounts paid from FSA'S financing accounts to Treasury receipt accounts when there are negative subsidies for new loan disbursements or downward re-estimates of the subsidy cost of existing loans.

Note 13. Commitments and Contingencies

FSA discloses contingencies where any of the conditions for liability recognition are not met and there is at least a reasonable possibility that a loss or an additional loss may have been incurred in accordance with FASAB Standard No. 5, *Accounting for Liabilities of the Federal Government*. The following commitments are amounts for contractual arrangements that may require future financial obligations.

Future Minimum Lease Payments
(Dollars in Millions)

2019			2018		
FY	Amount		FY	Amount	
2020	$	13	2019	$	13
2021	$	13	2020		13
2022	$	13	2021		14
2023	$	14	2022		14
2024	$	14	2023		15
After 2024	$	14	After 2023		15
Total	**$**	**81**	**Total**	**$**	**84**

FSA leases three buildings from the General Services Administration. The table above presents the estimated future minimum lease payments for these buildings.

Guaranty Agencies

FSA may assist guaranty agencies experiencing financial difficulties. FSA has not done so in fiscal years 2019 or 2018 and does not expect to in future years. No provision has been made in the financial statements for potential liabilities.

Federal Perkins Loan Program

The Federal Perkins Loan program provided financial assistance to eligible postsecondary school students. In FY 2019, FSA reported for Academic Year 2017-2018 that it provided funding of 83.0 percent of the capital used to make loans to eligible students through participating schools at 5 percent interest. The schools provided the remaining 17.0 percent of program funding. For the academic year that ended June 30, 2018, approximately 256 thousand loans were made totaling $630.5 million at 1,079 institutions, making an average of $2,461 per loan. FSA's equity interest, as of the end of Academic Year 2016-2017 (June 30, 2017), was approximately $5.8 billion.

Federal Perkins Loan program borrowers who meet statutory eligibility requirements—such as those who provide service as teachers in low-income areas or as Peace Corps or AmeriCorps VISTA volunteers, as well as those who serve in the military, law enforcement, nursing, or family services—may receive partial loan forgiveness for each year of qualifying service.

The Federal Perkins Loan program was scheduled to officially end on September 30, 2015. However, the program was extended through September 30, 2017 by the *Federal Perkins Loan Program Extension Act of 2015* (Extension Act). The Extension Act eliminated the Perkins Loan grandfathering provisions that FSA had put in place, and establishes new eligibility requirements for undergraduate and graduate students to receive Perkins Loans. As of September 30, 2017, schools are no longer authorized to make new Perkins Loans.

Litigation and Other Claims

The Department is involved in various lawsuits incidental to its operations. In the opinion of management, the ultimate resolution of pending litigation will not have a material effect on FSA's financial position.

The cost of loan forgiveness related to borrower defense claims reflected in the accompanying financial statements is limited to loans originated through September 30, 2019. The final disposition of claims filed and those yet to be filed from loans originated before September 30, 2019, is not expected to have a material impact on these financial statements.

Other Matters

Some portion of the current-year financial assistance expenses (grants) may include funded recipient expenditures that are subsequently disallowed through program review or audit processes. In the opinion of management, the ultimate disposition of these matters will not have a material effect on the FSA's financial position.

Required Supplementary Stewardship Information (Unaudited)

Human Capital investments are those expenses included in net cost for general public education and training programs that are intended to increase or maintain national economic productive capacity.

Year to date expenses incurred for human capital investments consisted of the following as of September 30, 2019 and the preceding four fiscal years' end:

Summary of Human Capital Expenses

(Dollars in Millions)

	2019	2018	2017	2016	2015
Federal Student Aid Expense					
Direct Loan Program Subsidy	$ 61,510	$ 4,369	$ 5,329	$ 16,119	$ (892)
FFEL Program Subsidy	12,654	1,228	3,411	10,235	(3,856)
Perkins Loans, Pell and Other Grants	32,204	28,512	28,770	30,671	31,400
FSA Salaries and Administrative	262	246	224	308	242
Total	**$ 106,630**	**$ 34,355**	**$ 37,734**	**$ 57,333**	**$ 26,894**

The William D. Ford Federal Direct Loan (Direct Loan) program is a direct-lending program in which loan capital is provided to students by the federal government through borrowings from the United States (U.S.) Department of the Treasury. This program has expanded dramatically since the passage of the *SAFRA Act*, which was included in the *Health Care and Education Reconciliation Act of 2010* (HCERA), under which no new loan originations were permitted to be made from the Federal Family Education Loan (FFEL) program after June 30, 2010, so that loans that may have previously been made through the FFEL program are now made through the Direct Loan program.

The FFEL Loan program has originated no new loans since June 30, 2010, but its permanent budget authority allows it to continue to operate with state and private nonprofit guaranty agencies to honor loan guarantees and for the Department to pay or collect (special allowance or subsidy) payments on outstanding loans made by private lenders to eligible students. The FFEL Loan program expenses include the Loan Participation Purchase, Loan Purchase Commitment, and ABCP Conduit expenses.

Perkins Loan and Grant programs include the Federal Pell Grant program that awards direct grants through participating institutions to undergraduate students with financial need. Participating institutions either credit the appropriated funds to the student's school account or pay the student directly once per term.

The Teacher Education Assistance for College and Higher Education (TEACH) Grant program awards annual grants to students who agree to teach in a high-need subject area in a public or private elementary or secondary school that serves low-income students. If the students do not satisfy their agreement to serve, the grants are converted to Direct Unsubsidized Loans.

Federal Student Aid's programs link with the overall initiatives of the Department in enhancing education—a fundamental stepping-stone to higher living standards for American citizens. While education is vital to national economic growth, education's contribution is more than increased productivity and incomes. Education improves health, promotes social change, and opens doors to a better future for children and adults.

In the past, economic outcomes, such as wage and salary levels, have been determined largely by the educational attainment of individuals and the skills employers expect of those entering the labor force. Both individuals and society as a whole continue to place increased emphasis on educational attainment as the workplace has become increasingly technological, and employers now seek employees with the highest level of skills. For prospective employees, the focus on higher-level skills means investing in learning or developing skills through education. Like all investments, developing higher-level skills involves costs and benefits.

Returns, or benefits, of investing in education come in many forms. While some returns accrue for the individual, others benefit society and the nation in general. Returns related to the individual include higher earnings, better job opportunities, and jobs that are less sensitive to general economic conditions. Returns, related to the economy and society, include reduced reliance on welfare subsidies, increased participation in civic activities, and greater productivity.

Over time, the returns of developing skills through education have become evident. Statistics illustrate the rewards of investing in postsecondary education.

Required Supplementary Information (Unaudited)

United States Department of Education
Federal Student Aid
Combining Statement of Budgetary Resources
For the Year Ended September 30, 2019
(Dollars in Millions)

	Combined		Health Education Assistance Loans	
	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Non-Budgetary Credit Reform Financing Accounts
Budgetary Resources:				
Unobligated Balance from Prior Year Budget Authority, Net (Note 11)	$ 15,378	$ 14,858	$ -	$ 21
Appropriations (Discretionary and Mandatory)	69,804	-	-	-
Borrowing Authority (Discretionary and Mandatory) (Note 11)	-	148,272	-	34
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	409	57,418	7	7
Total Budgetary Resources	**$ 85,591**	**$ 220,548**	**$ 7**	**$ 62**
Status of Budgetary Resources:				
New Obligations Incurred and Upward Adjustments (Total) (Note 11)	$ 71,433	$ 202,405	$ 1	$ 40
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	11,361	-	-	-
Unapportioned, Unexpired Accounts	1,935	18,143	6	22
Unexpired Unobligated Balance, End of year	**$ 13,296**	**$ 18,143**	**$ 6**	**$ 22**
Expired Unobligated Balance, End of Year	862	-	-	-
Unobligated Balance, End of Year (Total)	**$ 14,158**	**$ 18,143**	**$ 6**	**$ 22**
Total Status of Budgetary Resources	**$ 85,591**	**$ 220,548**	**$ 7**	**$ 62**
Outlays, Net (Discretionary and Mandatory)	69,396	40,085	(6)	33
Distributed Offsetting Receipts (-) (Note 11)	(12,145)	-	(34)	-
Agency Outlays, Net (Discretionary and Mandatory) (Note 11)	**$ 57,251**	**$ 40,085**	**$ (40)**	**$ 33**

United States Department of Education
Federal Student Aid
Combining Statement of Budgetary Resources
For the Year Ended September 30, 2019
(Dollars in Millions)

	Direct Student Loan Program		Teach Program	
	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Non-Budgetary Credit Reform Financing Accounts
Budgetary Resources:				
Unobligated Balance from Prior Year Budget Authority, Net (Note 11)	$ 522	$ 375	$ 12	$ (1)
Appropriations (Discretionary and Mandatory)	33,812	-	34	-
Borrowing Authority (Discretionary and Mandatory) (Note 11)	-	148,159	-	79
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	-	44,443	-	46
Total Budgetary Resources	**$ 34,334**	**$ 192,977**	**$ 46**	**$ 124**
Status of Budgetary Resources:				
New Obligations Incurred and Upward Adjustments (Total) (Note 11)	$ 33,812	$ 187,172	$ 34	$ 123
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	-	-	-	-
Unapportioned, Unexpired Accounts	-	5,805	-	1
Unexpired Unobligated Balance, End of year	**$ -**	**$ 5,805**	**$ -**	**$ 1**
Expired Unobligated Balance, End of Year	522	-	12	-
Unobligated Balance, End of Year (Total)	**$ 522**	**$ 5,805**	**$ 12**	**$ 1**
Total Status of Budgetary Resources	**$ 34,334**	**$ 192,977**	**$ 46**	**$ 124**
Outlays, Net (Discretionary and Mandatory)	33,235	46,829	31	32
Distributed Offsetting Receipts (-) (Note 11)	(9,906)	-	(1)	-
Agency Outlays, Net (Discretionary and Mandatory) (Note 11)	**$ (23,329)**	**$ 46,829**	**$ 30**	**$ 32**

United States Department of Education
Federal Student Aid
Combining Statement of Budgetary Resources
For the Year Ended September 30, 2019
(Dollars in Millions)

	Federal Family Education Loan Program		Perkins Loans and Grants	Administrative Funds
	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Budgetary
Budgetary Resources:				
Unobligated Balance from Prior Year Budget Authority, Net (Note 11)	$ 2,049	$ 14,463	$ 12,781	$ 14
Appropriations (Discretionary and Mandatory)	3,661	-	30,618	1,679
Borrowing Authority (Discretionary and Mandatory) (Note 11)	-	-	-	-
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	403	12,922	(1)	-
Total Budgetary Resources	**$ 6,113**	**$ 27,385**	**$ 43,398**	**$ 1,693**
Status of Budgetary Resources:				
New Obligations Incurred and Upward Adjustments (Total) (Note 11)	$ 3,913	$ 15,070	$ 31,986	$ 1,687
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	287	-	11,070	4
Unapportioned, Unexpired Accounts	1,913	12,315	17	(1)
Unexpired Unobligated Balance, End of year	**$ 2,200**	**$ 12,315**	**$ 11,087**	**$ 3**
Expired Unobligated Balance, End of Year	-	-	325	3
Unobligated Balance, End of Year (Total)	**$ 2,200**	**$ 12,315**	**$ 11,412**	**$ 6**
Total Status of Budgetary Resources	**$ 6,113**	**$ 27,385**	**$ 43,398**	**$ 1,693**
Outlays, Net (Discretionary and Mandatory)	3,507	(6,809)	30,907	1,722
Distributed Offsetting Receipts (-) (Note 11)	(2,099)	-	(105)	-
Agency Outlays, Net (Discretionary and Mandatory) (Note 11)	**$ 1,408**	**$ (6,809)**	**$ 30,802**	**1,722**

United States Department of Education
Federal Student Aid
Combining Statement of Budgetary Resources
For the Year Ended September 30, 2019
(Dollars in Millions)

	Combined		Health Education Assistance Loans	
	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Non-Budgetary Credit Reform Financing Accounts
Budgetary Resources:				
Unobligated Balance from Prior Year Budget Authority, Net	$ 12,015	$ 15,859	$ -	$ 25
Appropriations (Discretionary and Mandatory)	48,627	-	-	-
Borrowing Authority (Discretionary and Mandatory) (Note 11)	-	167,543	-	-
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	393	61,439	6	8
Total Budgetary Resources	**$ 61,035**	**$ 244,841**	**$ 6**	**$ 33**
Memorandum (non-add) entries:				
Net adjustments to unobligated balance brought forward, Oct. 1	$ 901	$ (7,024)	$ (6)	$ -
Status of Budgetary Resources:				
New Obligations Incurred and Upward Adjustments (Total) (Note 11)	$ 46,002	$ 221,384	$ 1	$ 10
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	12,290	-	-	-
Unapportioned, Unexpired Accounts	2,168	23,457	5	23
Unexpired Unobligated Balance, End of year	**$ 14,458**	**$ 23,457**	**$ 5**	**$ 23**
Expired Unobligated Balance, End of Year	575	-	-	-
Unobligated Balance, End of Year (Total)	**$ 15,033**	**$ 23,457**	**$ 5**	**$ 23**
Total Status of Budgetary Resources	**$ 61,035**	**$ 244,841**	**$ 6**	**$ 33**
Outlays, Net (Discretionary and Mandatory)	45,918	83,059	(5)	2
Distributed Offsetting Receipts (-) (Note 11)	(27,321)	-	(8)	-
Agency Outlays, Net (Discretionary and Mandatory) (Note 11)	**$ 18,597**	**$ 83,059**	**$ (13)**	**$ 2**

United States Department of Education
Federal Student Aid
Combining Statement of Budgetary Resources
For the Year Ended September 30, 2019
(Dollars in Millions)

	Direct Student Loan Program		Teach Program	
	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Non-Budgetary Credit Reform Financing Accounts
Budgetary Resources:				
Unobligated Balance from Prior Year Budget Authority, Net	$ 276	$ 472	$ 4	$ -
Appropriations (Discretionary and Mandatory)	12,490	-	75	-
Borrowing Authority (Discretionary and Mandatory) (Note 12)	-	167,206	-	110
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	-	45,435	-	42
Total Budgetary Resources	**$ 12,766**	**$ 213,113**	**$ 79**	**$ 152**
Memorandum (non-add) entries:				
Net adjustments to unobligated balance brought forward, Oct. 1	$ 276	$ (5,786)	$ -	$ (2)
Status of Budgetary Resources:				
New Obligations Incurred and Upward Adjustments (Total) (Note 12)	$ 12,490	$ 207,845	$ 75	$ 150
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	-	-	-	-
Unapportioned, Unexpired Accounts	-	5,268	-	2
Unexpired Unobligated Balance, End of year	**$ -**	**$ 5,268**	**$ -**	**$ 2**
Expired Unobligated Balance, End of Year	276	-	4	-
Unobligated Balance, End of Year (Total)	**$ 276**	**$ 5,268**	**$ 4**	**$ 2**
Total Status of Budgetary Resources	**$ 12,766**	**$ 213,113**	**$ 79**	**$ 152**
Outlays, Net (Discretionary and Mandatory)	12,014	92,745	64	(11)
Distributed Offsetting Receipts (-) (Note 12)	(26,539)	-	-	-
Agency Outlays, Net (Discretionary and Mandatory) (Note 12)	**$ (14,525)**	**$ 92,745**	**$ 64**	**$ (11)**

United States Department of Education
Federal Student Aid
Combining Statement of Budgetary Resources
For the Year Ended September 30, 2019
(Dollars in Millions)

	Federal Family Education Loan Program		Perkins Loans and Grants	Administrative Funds
	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Budgetary
Budgetary Resources:				
Unobligated Balance from Prior Year Budget Authority, Net	$ 2,091	$ 15,362	$ 9,613	$ 31
Appropriations (Discretionary and Mandatory)	2,596	-	31,787	1,679
Borrowing Authority (Discretionary and Mandatory) (Note 12)	-	227	-	-
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	388	15,954	(1)	-
Total Budgetary Resources	**$ 5,075**	**$ 31,543**	**$ 41,399**	**$ 1,710**
Memorandum (non-add) entries:				
Net adjustments to unobligated balance brought forward, Oct. 1	$ (85)	$ (1,236)	$ 728	$ (12)
Status of Budgetary Resources:				
New Obligations Incurred and Upward Adjustments (Total) (Note 12)	$ 2,678	$ 13,379	$ 29,053	$ 1,705
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	249	-	12,039	2
Unapportioned, Unexpired Accounts	2,148	18,164	15	-
Unexpired Unobligated Balance, End of year	**$ 2,397**	**$ 18,164**	**$ 12,054**	**$ 2**
Expired Unobligated Balance, End of Year	-	-	292	3
Unobligated Balance, End of Year (Total)	**$ 2,397**	**$ 18,164**	**$ 12,346**	**$ 5**
Total Status of Budgetary Resources	**$ 5,075**	**$ 31,543**	**$ 41,399**	**$ 1,710**
Outlays, Net (Discretionary and Mandatory)	2,275	(9,677)	29,985	1,585
Distributed Offsetting Receipts (-) (Note 12)	(236)	-	(538)	-
Agency Outlays, Net (Discretionary and Mandatory) (Note 12)	**$ 2,039**	**$ (9,677)**	**$ 29,447**	**1,585**

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Independent Auditors' Report
Office of Inspector General Audit Transmittal

UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

THE INSPECTOR GENERAL

November 15, 2019

Mark A. Brown
Chief Operating Officer
Federal Student Aid
Washington, D.C. 20202

Dear Mr. Brown:

The enclosed Independent Auditors' Report (report) presents the results of the audit of Federal Student Aid's (FSA) financial statements for fiscal years 2019 and 2018 to comply with the Higher Education Amendments of 1998. The report should be read in conjunction with FSA's financial statements and notes to fully understand the context of the information contained therein.

We contracted with the independent certified public accounting firm KPMG LLP (KPMG) to audit the financial statements of FSA as of September 30, 2019 and 2018, and for the years then ended. The contract requires that the audit be performed in accordance with U.S. generally accepted government auditing standards and Office of Management and Budget bulletin, *Audit Requirements for Federal Financial Statements.*

Results of the Independent Audit

KPMG found:

- The fiscal years 2019 and 2018 financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America;
- One material weakness in internal control over financial reporting:
    - Controls over the Reliability of Information Used in the Modeling Activities Need Improvement;
- Two significant deficiencies in internal control over financial reporting:
    - Information Technology Controls Need Improvement, and
    - Effective Monitoring of Service Organizations Needs Improvement; and
- One instance of reportable noncompliance with Federal law related to referring delinquent student loan debts to Treasury.

400 MARYLAND AVENUE, S.W., WASHINGTON, DC 20202-1510

Promoting the efficiency, effectiveness, and integrity of the Department's programs and operations.

In connection with the contract, we reviewed KPMG's report and related documentation and inquired of its representatives. Our review, as differentiated from an audit of the financial statements in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express an opinion on FSA's financial statements, or conclusions on internal control over financial reporting, compliance and other matters. KPMG is responsible for the report dated November 15, 2019, and the conclusions expressed therein. However, our review disclosed no instances where KPMG did not comply, in all material respects, with U.S. generally accepted government auditing standards.

We appreciate the cooperation given KPMG and my office during the audit. If you have any questions or would like to discuss the report, please contact me at (202) 245-6900, or your staff may contact Bryon S. Gordon, Assistant Inspector General for Audit, at (202) 245-6051 or through e-mail at Bryon.Gordon@ed.gov.

Sincerely,

Sandra D. Bruce

Sandra D. Bruce
Deputy Inspector General delegated the duties of Inspector General

Enclosure

Independent Auditors' Report

KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

Independent Auditors' Report

Deputy Inspector General delegated the duties of Inspector General
United States Department of Education

Chief Operating Officer
Federal Student Aid:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the Federal Student Aid (FSA), a component of the United States Department of Education, which comprise the consolidated balance sheets as of September 30, 2019 and 2018, and the related consolidated statements of net cost, and changes in net position, and combined statements of budgetary resources for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with Office of Management and Budget (OMB) Bulletin No. 19-03, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 19-03 require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Federal Student Aid as of September 30, 2019 and 2018, and its net costs, changes in net position, and budgetary resources for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Interactive Data

Management has elected to reference to information on websites or other forms of interactive data outside the *Fiscal Year 2019 Annual Report* to provide additional information for the users of its financial statements. Such information is not a required part of the basic consolidated financial statements or supplementary information required by the Federal Accounting Standards Advisory Board. The information on these websites or the other interactive data has not been subjected to any of our auditing procedures, and accordingly we do not express an opinion or provide any assurance on it.

Required Supplementary Information

U.S. generally accepted accounting principles require that the information in the Management's Discussion and Analysis, Required Supplementary Information, and Required Supplementary Stewardship Information sections be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated financial statements, is required by the Federal Accounting Standards Advisory Board who considers it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audits of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements as a whole. The information on pages i through x, Annual Performance Report section, Overview of the Financial Section, Other Information section, Appendices, and Acknowledgements is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements as of and for the year ended September 30, 2019, we considered the FSA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the FSA's internal control. Accordingly, we do not express an opinion on the effectiveness of the FSA's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying exhibits, we did identify certain deficiencies in internal control that we consider to be a material weakness and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying Exhibit A, *Controls over the Reliability of Information Used in the Modeling Activities Need Improvement*, to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Exhibit B, *Information Technology Controls Need Improvement* and *Effective Monitoring of Service Organizations Needs Improvement*, to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the FSA's consolidated financial statements as of and for the year ended September 30, 2019 are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 19-03, and which are described in the accompanying Exhibit C, *Requirement for Referring Delinquent Student Loan Debts to Treasury*.

FSA's Responses to Findings

The FSA's responses to the findings identified in our audit are described in Exhibit D. The FSA's responses were not subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on the responses.

Purpose of the Other Reporting Required by Government Auditing Standards

The purpose of the communication described in the Other Reporting Required by *Government Auditing Standards* section is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the FSA's internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington, D.C.
November 15, 2019

3

Exhibit A

Material Weakness

Controls over the Reliability of Information Used in the Modeling Activities Need Improvement

Under the *Federal Credit Reform Act of 1990* (FCRA), the United States Department of Education (Department) is required to perform periodic interest rate and technical reestimates of the subsidy costs of its direct loan and guaranty programs. These reestimates are calculated using an internally developed cash flow model. The cash flow model utilizes assumptions based on internally sourced data elements from the National Student Loan Data System (NSLDS) in unison with external data to provide macro-economic context to the data. These future cash flow outputs generated from the Department's cash flow model, the Student Loan Model (SLM), are then input into the format required by the Office of Management and Budget (OMB) Credit Subsidy Calculator (CSC), a required present value discount tool for agencies with credit reform programs. These procedures are necessary to generate subsidy reestimates in accordance with the FCRA, as required by U.S. generally accepted accounting principles.

Condition:

During the fiscal year (FY) 2018 audit, we reported a number of deficiencies in controls over management's review and documentation of the subsidy reestimate. During FY 2019 audit, we noted improvements in certain processes and controls; however, the documentation supporting the subsidy reestimate, with respect to key assumptions used, and management's review control of the reestimate are still not at a sufficient level of detail and precision that would detect and prevent material misstatements.

For example, in FY 2019, management updated the Income Driven Repayment (IDR) model and the most significant update within the model was the reduction of the income assumption by 20%. Although management included in its documentation an analysis noting that the NSLDS derived borrower income data was 30% lower than the projected income data sourced from the 2013 Internal Revenue Service (IRS) data, management could not provide sufficient documentation to support its determination that 20% reduction is appropriate. This lack of documentation does not allow an independent reviewer to assess the reasonableness of this key assumption used in the calculation of the subsidy reestimate.

Cause/Effect:

Management's review controls were not designed to ensure that key assumptions used to develop the subsidy reestimate are properly supported and such support is reviewed and maintained. Insufficient documentation supporting the credit reform reestimate model and management review, including documentation supporting key assumptions, could lead to a material misstatement of the financial statements.

Criteria:

The following criteria were considered in the evaluation of the material weakness presented in this exhibit:

- *Green Book* (GAO-14-704G – Federal Internal Control Standards), Principle 10.03
- FASAB Technical Release 6, *Preparing Estimates for Direct Loan and Loan Guarantee Subsidies under the Federal Credit Reform Act – Amendments to Technical Release No. 3 Preparing and Auditing Direct Loan and Loan Guarantee Subsidies under the Federal Credit Reforms Act*, Paragraphs 20 and 40

Recommendation:

We recommend that the Cost Estimation and Analysis Division (CEAD) design and implement policies and procedures requiring a formalized review, approval, and documentation of key assumption updates and risk assessments. This documentation should be at a sufficient level of detail to demonstrate management determinations and rationale for their decisions, and the process for selecting specific assumption values, specifically in cases where management's determination differ from the assumption values supported by the available evidence. The documentation should also address any limitations of the available evidence and how these impact management's determination of selected assumption values.

Exhibit B

Significant Deficiencies

A. Information Technology Controls Need Improvement

Conditions:

In FY 2018, we reported a significant deficiency related to Federal Student Aid's (FSA's) Information Technology (IT) controls due to persistent unmitigated IT control deficiencies. During FY 2019, the FSA management demonstrated progress implementing corrective actions to remediate some prior year deficiencies. However, management has not fully remediated prior-year deficiencies related to logical access administration, separated/transferred user access removal, user access reviews and recertification, and data validation upon system conversion. We noted IT control deficiencies related to logical access, segregation of IT duties, and application change control for two of FSA's financial and mixed systems. In addition, we noted deficiencies related to logical access for Education's Central Automated Processing System (EDCAPS) servers at the Department. Specifically, we noted the following:

Department:

1. Weaknesses in IT logical access controls. A user was granted access to EDCAPS server without a completed access authorization form.

FSA:

1. Weaknesses in IT logical access controls. For a number of selected new users in the two FSA systems, FSA could not provide completed access authorization forms; FSA did not remove separated users' access timely for one FSA system; and FSA did not verify the completeness and accuracy of the user lists utilized for the quarterly access review for one FSA system.
2. Weaknesses in IT controls related to the segregation of IT duties. For one FSA system, developers retained greater than read-only access to the application in the production environment.
3. Weaknesses in IT controls related to application change control where FSA was unable to provide a complete and accurate list of changes for one FSA application. Consequently, FSA was unable to demonstrate that it tested and approved all changes to this application prior to migration to production.

Cause/Effect:

There was a lack of effective monitoring controls by the Department and FSA to ensure:

1. Systems and support processes consistently adhered to documented agency-wide policies and procedures and the National Institute of Standards and Technology (NIST) security control requirements for the financially and mixed systems hosted and managed by FSA, the Department, or by service organizations.

Additionally, there was a lack of effective monitoring controls by FSA to ensure:

1. Corrective actions to remediate prior-year conditions and associated causes are fully implemented, as well as verifying and validating that these corrective actions were successful; and

2. The change management system generates a complete and accurate population of changes, and the change tickets had no errors due to manual updates resulting in human error.

Ineffective IT controls increases the risk of unauthorized use, disclosure, disruption, modification, or destruction of information and information systems that could impact the integrity and reliability of information processed in the associated applications which may lead to misstatements of the financial statements.

Criteria:

The following criteria were considered in the evaluation of the significant deficiency presented in this exhibit:

- The Departmental Directive OM 3-104, *Clearance of Personnel for Separation or Transfer*
- Baseline Cybersecurity Standard, OCIO-STND-01, dated October 15, 2018, Section 3.8, *Personnel Access*
- Departmental Handbook, OCIO 01, Section *4.9 Personnel Security*
- National Institute of Standards and Technology Special Publication 800-53, *Security and Privacy Controls for Federal Information Systems and Organizations,* Revision 4, dated April 2013, specifically security control requirements *AC-2 Account Management, AC-5 Separation of Duties, AC-6 Least Privilege, CM-3 Configuration Change Control, and CM-5 Access Restrictions for Change*
- Federal Information Processing Standards 200, *Minimum Security Requirements for Federal Information and Information systems*
- The *Standards for Internal Control in the Federal Government,* issued by the Comptroller General of the United States (Green Book), Principle No. 7, *Identify, Analyze, and Respond to Risks,* Principle No. 11, *Design Activities for the Information System,* and Principle No. 13, *Use Quality Information*

Recommendations:

We recommend that the Department:

1. Implement a quality control process to ensure that accounts and associated privileges are properly reviewed and approved prior to creating the account in the system.

We recommend that FSA:

1. Implement a quality control process to ensure that user accounts and associated privileges are properly reviewed and approved prior to creating the account in the system.
2. Implement processes and procedures to timely deactivate separated users’ accounts.
3. Perform comprehensive user access reviews and confirm the access lists received for review by designated management are complete and accurate prior to commencing the review.
4. Prevent or limit developer access in the production environment to read-only.
5. Evaluate its change/configuration management process ensuring that it is completely and accurately capturing all changes throughout the various phases of the change management life cycle. Additionally, identify, implement, and follow a quality control review process to make sure that the change process was completely and accurately followed prior to closing the change ticket.

B. Effective Monitoring of Service Organizations Needs Improvement

Conditions:

The Department and FSA rely on service organizations to host and administer financial and mixed systems, such as NTT Data Services[1] and PIVOT, which hosted the Department's core financial management system and consolidated general ledger, and Next Generation Data Center (NGDC)[2] and Amazon Web Services (AWS), which host FSA's financial information, student loan information, and loan origination and disbursement systems. Each servicer has either begun or concluded their contracts with the Department or FSA within the last two fiscal years. We noted the following deficiencies with the testing performed over the design and operation of the controls at these service organizations:

1. The Department management did not receive a System and Organization Controls (SOC) 1, Type 2, reports from NTT and PIVOT to cover the controls at the service organizations.

2. The SOC 1, Type 2, report for the NGDC service organization did not sufficiently provide assurance over key processes and controls at NGDC. Specifically, we noted the following:

   - The SOC 1, Type 2, report covered the period of May 1, 2018 through April 30, 2019 but did not cover the remaining five months of the current fiscal year. We noted that a bridge letter would not be sufficient to cover the operating effectiveness of the controls for the remainder of the fiscal year.
   - The SOC 1, Type 2, report only covered physical security and environmental controls. It did not address controls over security management, logical access, change and configuration management, production control, incident handling, and backups.

   In addition, the testing performed by FSA was not sufficient to address relevant internal control over financial reporting considerations that should have been addressed through management's internal control processes and/or an adequately scoped SOC 1, Type 2 report issued by service organizations' auditors.

3. The AWS SOC 1 report covered the period of October 1, 2018 through March 31, 2019 but did not cover the remaining six months of the current fiscal year.

Cause/Effect:

The Department's plan for the systems migration from NIT to PIVOT did not ensure testing of controls at the service organizations would be performed for FY 2019.

FSA's monitoring controls were sufficient to ensure that the collective controls at the service organization and at FSA are properly designed and implemented throughout the fiscal year.

The Department and FSA have limited assurance on the implementation and operating effectiveness of the hosting controls and processes they are relying on for their systems, at the service organization. Therefore, the Department and FSA may not be aware of existing or potential weaknesses that could impact the integrity of their financial and mixed systems production data.

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[1] In April 2019, the Department of Education began migrating its core financial management system and consolidated general ledger from the legacy service organization, NTT, to the new service organization, PIVOT.

[2] FSA has a contractual relationship with the Mid-Atlantic Data Center (MDC) to host its financial and mixed systems and refers to this service organization as NGDC.

Criteria:

The following criteria were considered in the evaluation of the significant deficiency presented in this exhibit:

- The United States Government Accountability Office, Standards for Internal Control in the Federal Government, September 2017, and (the Green Book) *Section 4 – Additional Considerations, Service Organizations* and *Principle 16 – Perform Monitoring.*
- National Institute of Standards and Technology (NIST) Special Publication 800-53, *Security and Privacy Controls for Federal Information Systems and Organizations*, Revision 4, dated April 2013, security control requirement *SA-9 External Information System Services Control.*

Recommendations:

We recommend that the Department:

1. On an annual basis, obtain an annual SOC1, Type 2, report for the core financial management system and consolidated general ledger that covers the appropriate time period for financial reporting operations and includes IT controls in relevant control areas, such as security management, logical and physical access controls, change and configuration management, backup, and production control.
2. Develop a process to review new and existing contracts with service organizations to require the service organizations to provide appropriate SOC 1, Type 2, reports and bridge letters. Such review should include assessing the relevancy to Department's controls to be tested in the SOC 1 report, the period covered, and understanding of complementary user controls to be performed by the Department.
3. Obtain a bridge letter from the service organization on their environment and/or design and operation of the controls covered in the SOC 1 report did not change from the SOC report date through September 30.

We recommend that the FSA:

1. Ensure the contractual requirements are met to obtain the required SOC report(s) and related bridge letter(s) applicable for the user's operational and business needs, to include internal control over financial reporting considerations. The SOC reports, and bridge letters, as applicable, should cover the appropriate time period for the financial reporting operations.
2. Review and revise, as necessary, contracts with service organizations to ensure appropriate SOC 1, Type 2, reports and bridge letters are required.
3. Consider additional controls for new service organizations to set proper expectations and needs of the user entity with respect to SOC 1, Type 2, reports.

Exhibit C

Compliance Matter

Requirement for Referring Delinquent Student Loan Debts to Treasury

In 2014, Federal Law (31 U.S. Code Section 3716(c) (6)) was amended (Public Law 113-101 (*DATA Act*) Section 5) to require agencies to notify the Secretary of the Treasury of valid, delinquent nontax debts that are over 120 days delinquent – 60 days earlier than the previous 180 days requirement – for the purpose of administrative offset (i.e., collection through the reduction of future Federal payments). Due to the number of entities and systems involved in handling student loan debts and the decentralized nature of such processes, FSA is not yet capable of meeting this accelerated timeline. Accordingly, as of September 30, 2019, the FSA is not in compliance with the requirement to refer student debt delinquent for 120 days to the Department of the Treasury.

To meet this requirement, FSA obtained legal clarification of how certain specific requirements of the amended law apply to the Direct Loan Program and other FSA programs, and are improving delinquent debt reporting procedures, increasing the frequency of some debt referrals, and modifying its defaulted loan management system to accommodate this change. FSA is also evaluating the impact of defining defaulted loans earlier in schools' performance reporting and has developed a long-term project plan to incorporate the new referral requirements into various servicer contracts and guaranty agency agreements, so it can initiate the required system programming changes. FSA is also working with the Department in evaluating certain options for other requirements needed to achieve compliance.

Recommendation:

We recommend that the FSA continue to execute the corrective actions as outlined in FSA's project plan to comply with the timing requirement for the referral of delinquent non-tax debts.

Management's Response **Exhibit D**

Federal Student Aid
An OFFICE of the U.S. DEPARTMENT of EDUCATION
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November 11, 2019

MEMORANDUM

TO: Sandra D. Bruce
Deputy Inspector General
Delegated the Duties of the
Inspector General

Alison L. Doone

FROM: Alison L. Doone
Chief Financial Officer

SUBJECT: DRAFT AUDIT REPORTS
Fiscal Years 2019 and 2018 Financial Statements
Federal Student Aid
ED-OIG/A17T0002

With respect to the Fiscal Year 2019 Financial Statement Audit, Federal Student Aid (FSA) received the findings and recommendations as identified in the Report on Internal Control over Financial Reporting exhibits to the auditor's report.

FSA will address the recommendations directed to FSA through appropriate corrective action plans. We are committed to maintaining an unmodified opinion and will work to mitigate the relevant findings and the Debt Collection Improvement Act noncompliance cited in these reports. We thank the Office of Inspector General and KPMG for completion of the audit of Federal Student Aid's financial statements.

Other Information (Unaudited)

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Other Information

Summary of Financial Statement Audit and Management Assurances

Summary of Financial Statement Audit
Audit Opinion: Unmodified
Restatement: No

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Total Material Weaknesses	1	0	0	0	1

For details on the management assurances related to the FSA programs, please refer to the ***Analysis of Systems, Controls and Legal Compliance*** discussion in the Management's Discussion and Analysis section of this document as well as the *Summary of Financial Statement Audit and Management Assurances* section in the Other Information section of the Department's ***AFR***.

FSA Management Challenges

For details on FSA Management Challenges, please refer to the *Office of Inspector General's Management Challenges for FY 2019 Executive Summary* found in the Other Information section located within the Department's ***AFR***.

Payment Integrity

Improper Payment Information Act (as Amended by IPERA and IPERIA) Reporting Details
The Improper Payments Information Act of 2002 (Pub. L. 107-300) as amended by the Improper Payments Elimination and Recovery Act of 2010 (IPERA; Pub. L. 111-204) and the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA; Pub. L. 112-248) requires federal agencies to report information annually on improper payments to the President and Congress through the annual Performance and Accountability Reports or Annual Financial Reports. For improper payments information, FSA's activities are part of an overall Departmental integrated reporting effort and reported within the Department's ***AFR***.

In FY 2019, the Pell Grant and Direct Loan Programs are the FSA programs identified as susceptible to significant improper payments and OMB-designated high priority programs.

Improper Payment Estimates
In FY 2019, FSA implemented a new methodology to estimate improper payments. The new statistically valid sampling and estimation methodology was used to estimate the improper payment rates for the Pell Grant and Direct Loan Programs. This new methodology, which is based on a larger, random sample of schools and used data obtained from compliance audits performed by external auditors at the over 5,700 schools, improves the accuracy of the improper payment estimates allowing for more precise root cause analyses to improve corrective actions.

FSA estimated improper payments for the Pell Grant and Direct Loan Programs by reviewing the results of annual compliance audits performed by external auditors of the sampled schools. A compliance audit sample was selected by dividing the population of Pell Grant and Direct Loan disbursing schools into mutually exclusive groups or "strata" based on school disbursement amounts. FSA randomly selected schools into the sample from each stratum so that schools in the same stratum had equal probabilities of selection. All schools in the two strata containing the schools disbursing the largest amounts (i.e., schools with Direct Loan disbursements over $150 million and schools with Pell disbursements over $50 million) were included in the sample. The Pell Grant and Direct Loan improper payment estimates are based in part on improper payments identified by the auditor for each sampled school. To account for improper payments associated with misreported income, the Pell Grant improper payment estimate also incorporates improper payment rates reported in the Study, which estimates Pell Grant improper payment rates based on a comparison between information reported by applicants on the FAFSA and income details reported to the IRS.

To estimate Direct Loan improper payments, the Direct Loan compliance audit estimate was combined with two independent statistical sample estimates derived from the sampling of loan consolidations and refund payments. FSA reviewed an independent sample of FFEL to Direct Loan consolidation overpayment and underpayment activity using a Probability Proportional to Size (PPS) technique. The PPS technique was based on dollar amount and used to draw the sample reducing the probability that small Direct Loan consolidations were selected. After selecting the monthly samples, each overpayment and underpayment was reviewed to determine which of these transactions were improper payments. Similarly, an independent sample of Direct Loan refund activity was selected. The selection was also made using a PPS technique. Each refund was tested to determine if it was an improper payment.

The Pell Grant and Direct Loan improper payments estimated using this new statistically valid estimation methodology are included in **Figure 28** and **Figure 29**, respectively.

Figure 28: Fiscal Year 2019 Pell Grant Program Estimates
(Dollars in Millions)

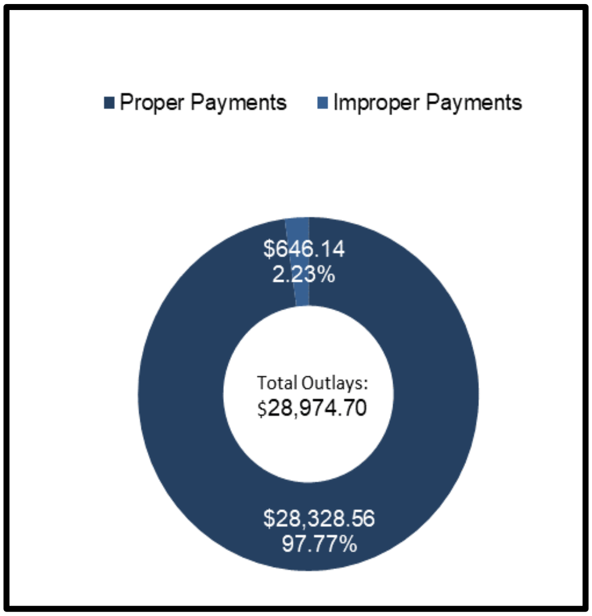
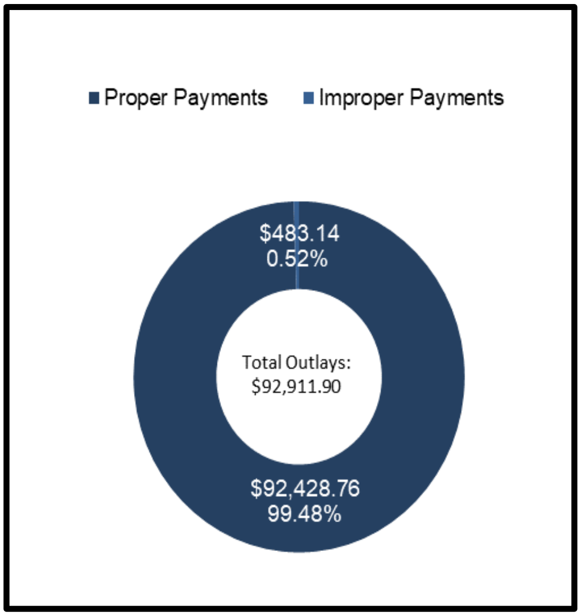
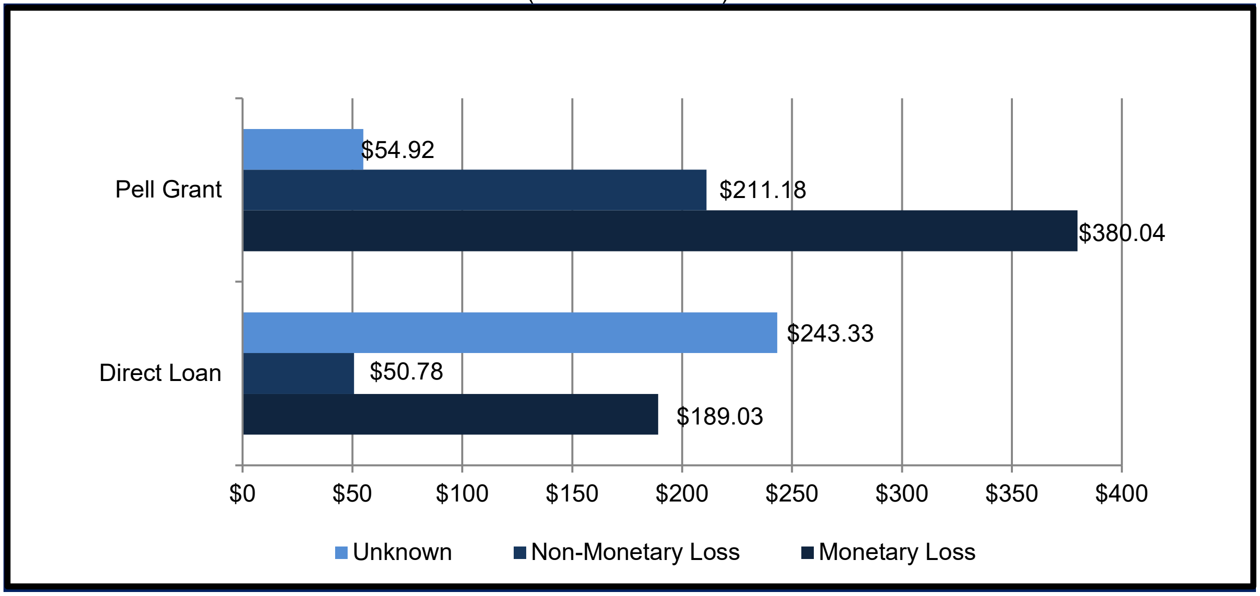


Figure 29: Fiscal Year 2019 Direct Loan Program Estimates
(Dollars in Millions



For the Pell Grant and Direct Loan Programs, respectively, FSA estimates the portion of projected improper payments that are attributed to monetary loss to the Federal Government, attributed to non-monetary loss, and unknown due to inability to discern whether a payment was proper as a result of insufficient or lack of documentation. These estimates are reported in Figure 30.

Figure 30: FY 2019 Monetary Loss, Non-Monetary Loss, and Unknown
(Dollars in Millions)



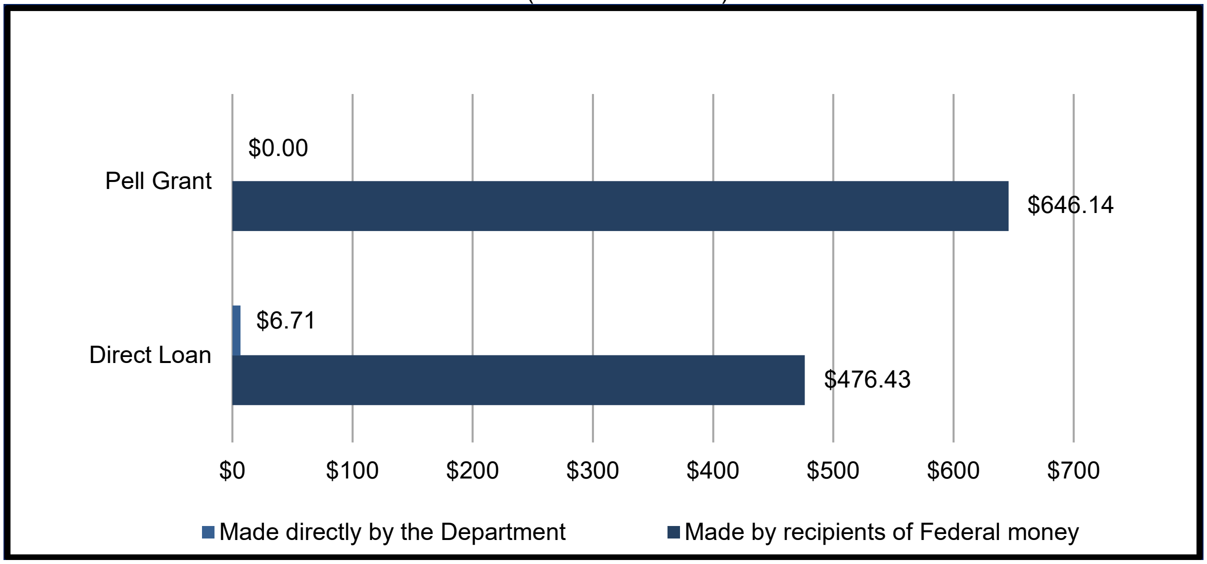
Monetary loss to the Federal Government, as defined by OMB, is an amount that should not have been paid and in theory should/could be recovered. The monetary loss amounts reported in Figure 30 are estimates, and therefore, not all reported monetary loss is recoverable. Of the estimated monetary loss for the Pell Grant and Direct Loan programs, the majority is outside of the agency's control. FSA must rely heavily on controls established by external entities that receive FSA payments, including federal, state, and private organizations and institutions, because they further distribute the funds they receive from FSA to subordinate organizations and individuals. These "third-party" controls are outside of FSA's operational control.

Non-Monetary loss to the Federal Government is either an underpayment or a payment to the right recipient for the correct amount where the payment process fails to follow applicable regulations and/or statutes.

An "Unknown" amount to the Federal Government, as defined by OMB, is the estimated amount within the improper payment estimate that could be either proper or improper, but the agency is unable to discern whether the payment was proper or improper as a result of insufficient or lack of documentation. Documentation deficiencies for the Pell Grant and Direct Loans programs include but are not limited to, inadequate tracking of attendance by schools, including inadequate tracking of students' last date of attendance or withdrawal date, lack of supporting eligibility documentation retained by schools, and lack of evidence to support a school completed required verification of information reported by an applicant on their FAFSA.

Of the total projected improper payments for the Pell Grant and Direct Loan Programs, 99 percent are estimated to be made by recipients of federal money and 1 percent are estimated to be made by FSA. Improper payments attributed to recipients include improper disbursements of Title IV funds by schools. Improper payments attributed to FSA include, for Pell, estimates of misreported income for students not selected for verification and who did not use the IRS DRT and, for Direct Loan, consolidation and refund improper payments related to the Department's loan servicing operations. Misreported income accounts for approximately 77.2 percent of the estimated FY 2019 Pell Grant improper payments.

Figure 31: FY 2019 Sources of Improper Payments
(Dollars in Millions)



Controls to Prevent, Detect, and Recover Improper Payments
FSA maintains an internal control framework which includes an integrated system of complementary oversight functions to help prevent, detect, and recover improper payments, and ensure compliance by all participating parties.

In designing controls, FSA attempts to strike a balance between making timely and accurate payments and ensuring that controls put in place are not too costly or overly burdensome and thereby deter intended beneficiaries from obtaining funds they are entitled to receive. Additionally, there are limitations to the availability of data necessary to verify FAFSA information without increasing the burden on schools and students. For example, the Internal Revenue Code does not currently permit a database match with the IRS. Such a match would eliminate the need to rely on tax transcripts submitted by the applicant (and the applicant's parent, if the applicant is a dependent) to verify income data in cases where the IRS DRT is not used to transfer tax information directly into the FAFSA form. In its most recent budget submission, the Department included information on pursuing legislation to aid an income data match between FSA and the IRS.

Improper Payment Corrective Actions
When control deficiencies are detected, either within FSA or at external entities, FSA seeks to identify the root causes, develop corrective action plans, and track corrective actions through to completion. In FY 2019, the most significant root cause, misreported income, is derived from the Study performed for the Pell Grant Program that compares information reported by applicants on the FAFSA and income details reported to the IRS. The Department is coordinating with Treasury and OMB to pursue legislation that would provide an exemption to the IRS Tax Code Section 6103 to further streamline FSA's ability to receive and verify applicants' and borrowers' income data.

For additional details about the root causes of improper payments identified from FY 2019 improper payment fieldwork, and the corrective actions FSA has identified to address these root causes of improper payments, please refer to the Other Information section located within the Department's ***AFR***.

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Appendices

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Appendix A: Glossary of Acronyms and Terms

Acronym	Description
A	
ABCP Conduit	Asset-Backed Commercial Paper Conduit
ACSD	Automatic Closed School Discharge
ACSI	American Customer Satisfaction Index
AFR	*U.S. Department of Education FY 2019 Agency Financial Report*
APG	Agency Priority Goal
Appendix A	OMB Circular A-123, Appendix A, *Management of Reporting and Data Integrity Risk*
Annual Report	*Federal Student Aid FY 2019 Annual Report*
B	
BDR	Borrower Defense to Repayment
C	
Caucus	Student Loan Ombudsman Caucus
COO	Chief Operating Officer
CSRS	Civil Service Retirement System
D	
DCC	Digital and Customer Care
the Department	U.S. Department of Education
Direct Loan	William D. Ford Federal Direct Loan
DMCS	Debt Management and Collection System
DOL	U.S. Department of Labor
DRT	IRS Data Retrieval Tool
E	
ECASLA	*Ensuring Continued Access to Student Loans Act of 2008*
EDMAP	Enterprise-wide Data Management and Analytics Platform
EDWA	Enterprise Data Warehouse and Analytics
EEI	Employee Engagement Index
ERM	Enterprise Risk Management

F

FAFSA®	Free Application for Federal Student Aid
FASAB	Financial Accounting Standards Advisory Board
FCRA	*Federal Credit Reform Act of 1990*
FECA	*Federal Employees' Compensation Act*
Federal Funds	Federal Student Loan Reserve Funds
FERS	Federal Employees Retirement System
FEVS	Federal Employee Viewpoint Survey
FDMS	Feedback and Dispute Management System
FFEL	Federal Family Education Loan
FMFIA	*Federal Managers' Financial Integrity Act of 1982*
FPRD	Final Program Review Determinations
FSA	Federal Student Aid
FSA FY 2015–19 Strategic Plan	*Federal Student Aid: Strategic Plan, FY 2015–19*
FSEOG	Federal Supplemental Educational Opportunity Grants
FY	Fiscal Year

G

GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
GLBA	*Gramm-Leach-Bliley Act*

H

HCERA	*Health Care and Education Reconciliation Act of 2010*
HEA	*Higher Education Act of 1965,* as amended
HEAL	Health Education Assistance Loan

I

IDR	Income Driven Repayment
IHE	Institution of Higher Education
IPERA	*Improper Payments Elimination and Recovery Act of 2010*
IPERIA	*Improper Payments Elimination and Recovery Improvement Act of 2012*
IRS	Internal Revenue Service
IT	Information Technology

M

Met	Performance result met or exceeded target

N

N/A	Performance result is not applicable because the performance metric was not developed, the performance metric was not implemented, or the required data were not available in time for inclusion.
NCES	National Center for Education Statistics
Next Gen FSA	Next Generation Financial Services Environment
Next Gen PPO	Next Generation Partnership Participation and Oversight
Not met	Performance result did not meet target
NSLDS	National Student Loan Data System

O

OCIO	Office of the Chief Information Officer
OIG	Office of Inspector General
OMB	U.S. Office of Management and Budget
OMB Circular A-123	OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*
OPM	U.S. Office of Personnel Management
OPR	Organizational Performance Review

P

PAYE	Pay As You Earn
PBO	Performance-Based Organization
PCA	Private Collection Agency
Pell Grant	Federal Pell Grant Program
PLUS	Parent Loan for Undergraduate Students
POE	Principles of Excellence
PPS	Probability Proportional to Size
Pub. L	Public Law
PSLF	Public Service Loan Forgiveness

S

SAFRA	*Student Aid and Fiscal Responsibility Act*
SBR	Statement of Budgetary Resources
Secretary	Secretary of Education
Study	FAFSA/IRS Data Statistical Study

T

TEACH	Teacher Education Assistance for College and Higher Education Grant
TEPSLF	Temporarily Expanded Public Service Loan Forgiveness
Title IV	Title IV of *the Higher Education Act of 1965*, as amended
TOP	Treasury Offset Program
TPD	Total and Permanent Disability
Treasury	U. S. Department of the Treasury

U

U.S.	United States

Appendix B: Availability of the Federal Student Aid Annual Report

The *Federal Student Aid FY 2019 Annual Report* and the *Annual Reports* from prior years are available on the following websites:

FSA: StudentAid.gov/strategic-planning-reporting

The Department: http://www.ed.gov/about/reports/annual/index.html

The *Federal Student Aid: Strategic Plan, Fiscal Years 2015–19* and the strategic plans from prior years are also available at **StudentAid.gov/strategic-planning-reporting**

Stay connected to Federal Student Aid through social media:

- Visit the FSA website: **StudentAid.gov**
- Like FSA on Facebook : **Facebook.com/FederalStudentAid**
- Follow FSA on Twitter : **@FAFSA**
- Find FSA on YouTube : **YouTube.com/user/FederalStudentAid**

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Acknowledgements

The *FSA FY 2019 Annual Report* was prepared with the energies and talents of many Federal Student Aid employees. To these dedicated individuals, the Chief Operating Officer and Chief Financial Officer would like to offer their sincere appreciation and recognition.

In particular, we would like to recognize the following Federal Student Aid offices for their contributions:

- Finance Office
- Strategic Planning and Reporting
- Office of the Ombudsman
- Office of Strategic Communications
- COO Front Office

We also offer our sincerest thanks and acknowledgement to the staff of the following Department of Education offices for their contributions:

- Office of Finance and Operations
- Budget Service
- Office of the Secretary
- Office of Legislative and Congressional Affairs
- Office of Chief Information Officer

We would also like to acknowledge the Office of Inspector General and KPMG LLP for the professional manner in which they conducted the audit of the FY 2019 Financial Statements.

The *Federal Student Aid FY 2019 Annual Report*

Federal Student Aid
A Principal Office of the U.S. Department of Education
Finance Office
November 2019

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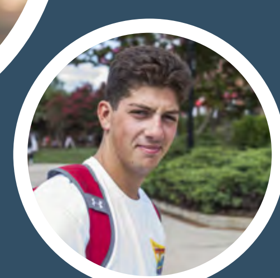

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