Federal
Student
Aid

An OFFICE *of the*
U.S. DEPARTMENT *of* EDUCATION

2016 Annual Report

United States Department of Education
John B. King, Jr.
Secretary

Federal Student Aid
James W. Runcie
Chief Operating Officer

Finance Office
Jay Hurt
Chief Financial Officer

www.StudentAid.gov

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Letter from the Chief Operating Officer of Federal Student Aid

Dear Federal Student Aid Colleagues, Partners, and Customers:

I am pleased to provide the Fiscal Year (FY) 2016 Annual Report for Federal Student Aid (FSA). This report contains the results of FSA's performance throughout the past year and demonstrates our efforts to transform the *Free Application for Federal Student Aid* (FAFSA®) process, establish a robust enforcement unit, launch a feedback system for our customers, and continue to improve student loan servicing through our servicing recompetition.

James W. Runcie
Chief Operating Officer

FSA achieved our core mission and objectives, and managed significant changes in our core business process, while operating under an administrative budget of $1.6 billion. We delivered nearly $125.7 billion in aid to more than 13 million students attending over 6,000 postsecondary educational institutions this year. The student loan portfolio managed by Federal Student Aid now exceeds $1 trillion.

A key accomplishment for FSA was the change of the start date for the FAFSA. This change, articulated in the Student Aid Bill of Rights announced by President Obama in 2015, involves moving the start date for applying for aid for the 2017–18 award year from January 1, 2017 to October 1, 2016. This will provide students and families with financial aid eligibility information much earlier in the application process and enable families to better assess the true cost of attendance and make informed decisions.

A second change in the FAFSA process involves changing which tax year income borrowers report on the FAFSA. Starting with the 2017–18 FAFSA, applicants will provide income information from one tax year earlier, known as the "prior-prior" year. This means that the 2017–18 FAFSA will collect income information from 2015 rather than income information from 2016. This change will allow more students and families to complete their FAFSA using income information imported electronically from the Internal Revenue Service (IRS), through our IRS Data Retrieval Tool. Electronically transferring data eliminates the need to correct estimated tax information and prevents families from having to wait to complete a FAFSA until the previous year's tax return has been filed.

This year, we advanced toward our goal to build a new state-of-the-art loan servicing system—one that creates incentives and guidelines that support a more user-friendly single online loan management platform with high-quality, one-on-one customer service that provides the help and guidance borrowers need when they have questions or their circumstances change. We will build a system that makes it easier for borrowers to navigate loan repayment and clear enough to show how the system is performing and where improvements are needed. Our borrowers deserve world-class customer service and debt-management tools, and we are on track to provide them.

In addition, we have continued expanding our push to enroll borrowers who would benefit most from income-driven repayment, or IDR, plans, and have advanced the implementation of Gainful Employment regulations. This past spring's announcement that IDR growth will see enrollment of 2 million borrowers between April, 2016 and April, 2017 helped us become even more focused on meeting that goal. I am pleased to say we are on target, which will mean nearly 7 million borrowers will be in IDR plans by next April. The implementation of Gainful Employment resulted in draft debt-to-earnings rates being sent to schools in October 2016. These draft rates went to more than 2,500 schools that offer over 8,500 programs to more than 1.2 million students. In addition to sending the draft rates to appropriate schools, the earnings data will be sent to schools and posted to the FSA Data Center by the end of 2016. Final Gainful Employment rates are anticipated early next year.

Several recent cybersecurity incidents impacting major corporations and the federal government (e.g., at the Office of Personnel Management and the Internal Revenue Service) have heightened the issue of cybersecurity protection. As part of our ongoing efforts to ensure the security of FSA data systems, FSA has implemented a security protocol through which all users with enhanced privileges enter two forms of "authentication" to access FSA systems via the Internet. In addition, the FSA ID, which uses a user id and password, greatly enhances the security of access to FAFSA applicant data and increases protection for students and borrowers. We will continue working with the Department of Homeland Security, other federal agencies, and our multiple vendors as well as higher education institutions to increase security and reduce vulnerability across our systems.

We also created a Student Aid Enforcement Unit to strengthen FSA's enforcement and oversight activities. The new unit collaborates with, and incorporates evidence gathered in investigations by, partner state and federal agencies, to respond more quickly and efficiently to allegations of illegal actions by for-profit higher education institutions. We will continue working with the Office of Inspector General, the Department of Homeland Security, other federal agencies, and our multiple vendors to increase security and reduce vulnerability across our systems. The Department remains strongly committed to investigating violations that harm students and taxpayers and will take swift and immediate action as necessary. The new enforcement resources will help ensure such activities are completed in an effective and efficient manner, including supporting more reviews of high-risk institutions, responding to concerns raised by states' and other federal agencies' investigations of such institutions, as well as to complaints by students.

This summer, we launched the FSA Feedback System, an online portal that allows federal student aid customers to submit complaints, provide positive feedback, and report allegations of suspicious activity regarding their experience with the federal student aid programs. The creation of the FSA Feedback System fulfills one of the primary objectives of the President's 2015 Student Aid Bill of Rights—continuing the Obama Administration's work to help borrowers responsibly manage their federal student debt, improve federal student loan servicing, and protect taxpayers' investments in the student aid programs. Our customers can access the system at **StudentAid.gov/feedback**.

Our commitment to increased transparency and accountability is evidenced by our expanded Federal Student Aid Data Center, which includes a breadth of information about our programs and business operations, and enables the public to freely access this information. This fiscal year, we again experienced some significant school closures, including ITT Technical Institutes (ITT), which underscores the need for FSA to provide a rapid response to school actions that could adversely impact our customers. By communicating with ITT students frequently, and establishing instructional webinars and online resources, we helped ITT students make informed decisions about how to proceed with their educational efforts, or seek assistance to determine their eligibility for a student loan discharge.

Federal Student Aid's success is made possible through the dedication and hard work of more than 1,300 employees and I am honored to work with them. Another 12,000 contracted employees create a public-private partnership that drives our results. The data in this *Annual Report* highlights merely a few of the many accomplishments we have achieved, together, as we seek to advance the mission of Federal Student Aid.

Sincerely,

James W. Runcie
Chief Operating Officer
Federal Student Aid
United States Department of Education
November 14, 2016

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Introduction

About this Report

Federal Student Aid, a principal office of the United States Department of Education, is required by legislation to produce an *Annual Report*, which details Federal Student Aid's financial and program performance. This *Federal Student Aid Annual Report* is a comprehensive document that provides an analysis of Federal Student Aid's financial and program performance results for Fiscal Year 2016. The report enables the President, Congress, and the public to assess the organization's performance relative to its mission, and determine whether Federal Student Aid has demonstrated accountability for the resources entrusted to it.

This report presents information about Federal Student Aid'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:

- *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*
- *Higher Education Act of 1965, as amended*
- *Reports Consolidation Act of 2000*
- *Improper Payments Information Act of 2002, amended*
- *Federal Information Security Management Act of 2002*
- *Government Performance and Results Modernization Act of 2010*
- *Digital Accountability and Transparency Act of 2014*

The United States Department of Education produces the ***U.S. Department of Education FY 2016 Agency Financial Report***. That report provides a comprehensive view of the Department's stewardship over its resources and includes a summary of the information contained in the *Federal Student Aid Annual Report FY 2016.*

This report is available at **https://studentaid.ed.gov/sa/strategic-planning-and-reporting.**

Federal Student Aid at a Glance

(As of September 30, 2016)

History
Federal Student Aid is a principal office of the United States Department of Education, which seeks to ensure that all eligible individuals can benefit from federal financial assistance for education beyond high school. Designated as a Performance-Based Organization in 1998, Federal Student Aid is the nation's largest provider of student financial aid and is responsible for implementing and managing the federal student financial assistance programs authorized under the *Higher Education Act of 1965,* as amended. These programs provide grants, loans, and work-study funds to students attending college or career school.

Mission
Funding America's Future, One Student at a Time

Strategic Goals

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.

FY 2016 Administrative Budget
$1.6 billion

Regional Offices
10

Total Employees
1,369

Total Applications Processed
19.2 million

Total Postsecondary Student Aid Recipients in 2016
13.2 million

Total Federal Student Aid Delivered
$125.7 billion

Location
830 First Street, NE
Washington, DC 20002

Website:
www.StudentAid.gov

Guide to Federal Student Aid Programs

Federal Student Aid (FSA) delivers billions of dollars in federal financial aid to students. This aid covers expenses, such as tuition and fees, room and board, books and supplies, and transportation. The three main categories of federal student aid are:

- 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.

The information below presents a brief overview of the various aid types included in each category.

Loans

- 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 will be 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 one or more 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 on the original loans, which may result in a lower monthly payment.

- Federal Perkins Loans
  - Federal loans made by schools to undergraduate and graduate students who demonstrate financial need. Participating schools receive a certain amount of funds each year from FSA for distribution under this program, which supplement funds in a school's revolving fund, from which new disbursements are made. Once the full amount of the school's funds has been awarded to students, no more loans can be made under this program for the year.

Grants

- Federal Pell Grants
  - Federal financial aid awarded to undergraduate students with demonstrated financial need. This form of aid does not require repayment.

- Federal Supplemental Educational Opportunity Grants
  - 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 more awards can be made under this program for the year. This form of aid does not require repayment.

- Teacher Education Assistance for College and Higher Education Grants
  - Federal grants awarded annually to eligible undergraduate or graduate students who agree to teach mathematics, science, or other specialized subjects in high-need schools for at least four years, within eight years of their graduation. Eligible students may be awarded grants totaling up to $4,000 annually. If students fail to fulfill the service requirements, the grants will convert to Direct Unsubsidized Loans, with interest accrued from the time of the award.

- Iraq and Afghanistan Service Grants
  - Federal grants awarded to students who are not eligible for a Federal Pell Grant on the basis of 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 performed 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.

Federal Work-Study

- Federal program that provides part-time jobs for undergraduate, graduate, and professional students with 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. It is administered by the schools that participate in the Federal Work-Study program.

To obtain federal financial aid, prospective aid recipients must complete the Free Application for Federal Student Aid. For more information on obtaining federal student aid, visit **StudentAid.gov.**

How the Federal Student Aid Annual Report is Organized

The *Federal Student Aid Annual Report FY 2016 (Annual Report)* is organized into five major sections, which includes a glossary of commonly used acronyms and terms used in the *Annual Report*.

Management's Discussion and Analysis

This section provides an overview of the entire *Annual Report.* It includes a synopsis of FSA's mission and its organizational structure, as well as the organization's fiscal year financial and performance highlights, which are discussed in more detail within the subsequent sections of this report. This 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 section presents the strategic goals included in the *Federal Student Aid: Strategic Plan, Fiscal Years 2015–19* and discusses the results of the various performance metrics as related to each strategic goal. These results demonstrate the organization's effectiveness in accomplishing its mission. The *Annual Performance Report* also presents the fiscal year accomplishments of the organization and discusses the process by which it provides legislative and regulatory recommendations to the Department on issues that affect federal student financial aid. Concluding this section are the subsections, Annual Bonus Awards, which details executive compensation in the organization, and the Report of the Federal Student Aid Ombudsman, which details its processes in assisting borrowers in obtaining resolutions to federal student aid issues.

Financial Section

This section provides a detailed view of FSA's stewardship and accountability for its resources. The Message from the Chief Financial Officer begins the section and is followed by the audited financial statements, the accompanying Notes to the financial statements, Required Supplementary Stewardship Information, Required Supplementary Information, and the **Independent Auditors' Report**.

The **Independent Auditors' Report** presents the combined audit report issued by the Independent Auditors. The subsection consists of the Office of Inspector General Audit Transmittal Letter and the combined Independent Auditors' Report, which includes the Report on the Financial Statements, the Report on Internal Control, and the Report on Compliance and Other Matters. The subsection closes with Management's Response to the Audit, the official response of FSA's executive management to the findings and recommendations contained in the audit report.

Other Information

This section includes the Schedule of Spending, which provides an overview of how and where FSA spent its money during the fiscal year. This section also provides links to the ***U.S. Department of Education FY 2016 Agency Financial Report*,** which includes a discussion of FSA's improper payments, the Summary of Financial Statement Audit and Management Assurances and FSA's Management Challenges.

Appendices

This section includes a discussion on discontinued strategic goals and performance metrics, an index of tables and charts, a glossary of acronyms and terms, and concludes with information on the availability of the *FSA Annual Report*

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Management's Discussion and Analysis

- Overview of the Management's Discussion and Analysis
- FY 2016 Financial and Performance Highlights of Federal Student Aid
- Mission and Organizational Structure
- Performance Management
- Financial Analysis
- Analysis of Systems, Controls, and Legal Compliance
- Limitations of Financial Statements

Overview of the Management's Discussion and Analysis

The Management's Discussion and Analysis section is a required supplementary section that provides an overview of the *Annual Report.* It includes a synopsis of Federal Student Aid's (FSA) mission and its organizational structure, as well as the organization's fiscal year (FY) financial and performance highlights, which are discussed in more detail within the subsequent sections of this report. This section concludes with a discussion of the organization's systems, controls, and compliance with laws and regulations and the Limitations of Financial Statements.

Mission and Organizational Structure

The Mission and Organizational Structure subsection provides the history of Federal Student Aid, along with a discussion of its federal student aid programs. It also highlights the mission, vision and values of FSA as presented in the FSA Strategic Plan.

Performance Management

The Performance Management subsection presents an overview of the FSA's strategic and performance-planning framework, an overview of the *Federal Student Aid: Strategic Plan, FY 2015-19* and the results of the FY 2016 performance metrics.

Financial Analysis

The Financial Analysis subsection provides an overview of FSA's financial data, which includes an analysis of the financial data presented in the audited financial statements and a discussion of the financial management risks faced by FSA.

Analysis of Systems, Controls, and Legal Compliance

The Analysis of Systems, Controls, and Legal Compliance subsection 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* and discusses the organization's compliance with the *Federal Financial Management Improvement Act*, *Federal Information Security Management Act* and other laws and regulations related to the compliance of financial systems with federal requirements.

Limitations of Financial Statements

The Limitation of Financial Statements sections is a required section that details the limitations of the financial statements and requires the financial statements be read and reviewed in conjunction with the Notes to the Financial Statements.

Fiscal Year 2016 Financial and Performance Highlights of Federal Student Aid

Table 1: Operational Highlights

	For the year ended, September 30, 2016	For the year ended, September 30, 2015	Difference	Percentage Change
Total Student Aid Loan Portfolio[1]	$ 1,292 billion	$ 1,212 billion	$ 80 billion	6.6%
Total Borrowers with Federal Student Loans Outstanding	42 million	42 million	0 million	0.0%
Total Number of Postsecondary Education Institutions	6,051	6,101	50	(0.8)%
Audit Opinion	Unmodified	Unmodified	Not applicable	Not applicable

Table 2: Financial Highlights

Dollars in Millions	For the year ended, September 30, 2016	For the year ended, September 30, 2015	Difference	Percentage Change
Total Assets	$ 1,136,919	$ 1,086,058	$ 50,861	4.7%
Total Liabilities	$ 1,138,601	$ 1,065,750	$ 72,851	6.8%
Net Position	$ (1,682)	$ 20,308	$ (21,990)	(108.3)%
Net Cost of Operations	$ 58,772	$ 27,953	$ 30,819	110.3%
Total Budgetary Resources Available for Spending (Budgetary)	$ 54,951	$ 69,669	$ (14,718)	(21.1)%
Total Budgetary Resources Available for Spending (Non-Budgetary Credit Reform Financing Accounts)	$ 231,455	$ 231,957	$ (502)	(0.2)%
Total Outlays, Net (Budgetary)	$ 32,112	$ 44,605	$ (12,493)	(28.0)%
Total Outlays, Net (Non-Budgetary Credit Reform Financing Accounts)	$ 82,610	$ 76,935	$ 5,675	7.4%

Table 3: Performance Highlights

Performance Measures	FY 2016 Target	FY 2016 Actual	Performance Results
A.3: Customer Visits to StudentAid.gov	>=43.4 million	47.2 million	✓
B.2: Percent of Borrowers>90 Days Delinquent	9.9%	8.8%	✓
D.3: Collection rate	$51.79	$53.07	✓

[1] The amounts provided for the Total Federal Student Aid Portfolio include federal student loan amounts managed by Federal Student Aid and those held by lenders or schools.

Mission and Organizational Structure

Federal Student Aid, a principal office of the United States (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 college or career school.

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

- Educating students and families about the process of obtaining financial aid;
- Processing millions of student financial aid applications;
- Disbursing billions of dollars in student financial aid;
- Insuring billions of dollars in guaranteed student loans previously issued by financial institutions;
- Enforcing financial aid rules and regulations;
- Servicing millions of student loans and helping borrowers avoid default;
- Securing repayment from borrowers who have defaulted on their loans; and
- Partnering with schools, financial institutions, and guaranty agencies to prevent program fraud, waste, and abuse.

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

Significant Legislation that Directs Federal Student Aid's Mission

Historically, there have been several legislative acts that have significantly impacted FSA's mission. The *Higher Education Amendments of 1998* established FSA as a PBO, to administer the Title IV programs at the Department. The table below, while not all-inclusive, details additional significant pieces of legislation that have influenced FSA's mission.

Overview of Legislative Authority

- ***Higher Education Act of 1965, as amended***
  Created the federal student financial assistance programs known as the Title IV programs.

- ***Higher Education Amendments of 1992***
  Initially authorized the William D. Ford Federal Direct Loan Program as a demonstration pilot.

- ***Student Loan Reform Act of 1993***
  Authorized a multi-year phased implementation of the William D. Ford Federal Direct Loan Program.

- ***Higher Education Amendments of 1998***
  Amended the HEA and authorized the designation of FSA as the first PBO in the federal government.

- ***Higher Education Reconciliation Act of 2005***
  Allowed graduate and professional students to utilize 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 the Income Based Repayment plan.

- ***Ensuring Continued Access to Student Loans Act of 2008***
  Provided the Department with the authority to implement programs to ensure that 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 will be originated under the Federal Family Education Loan Program.

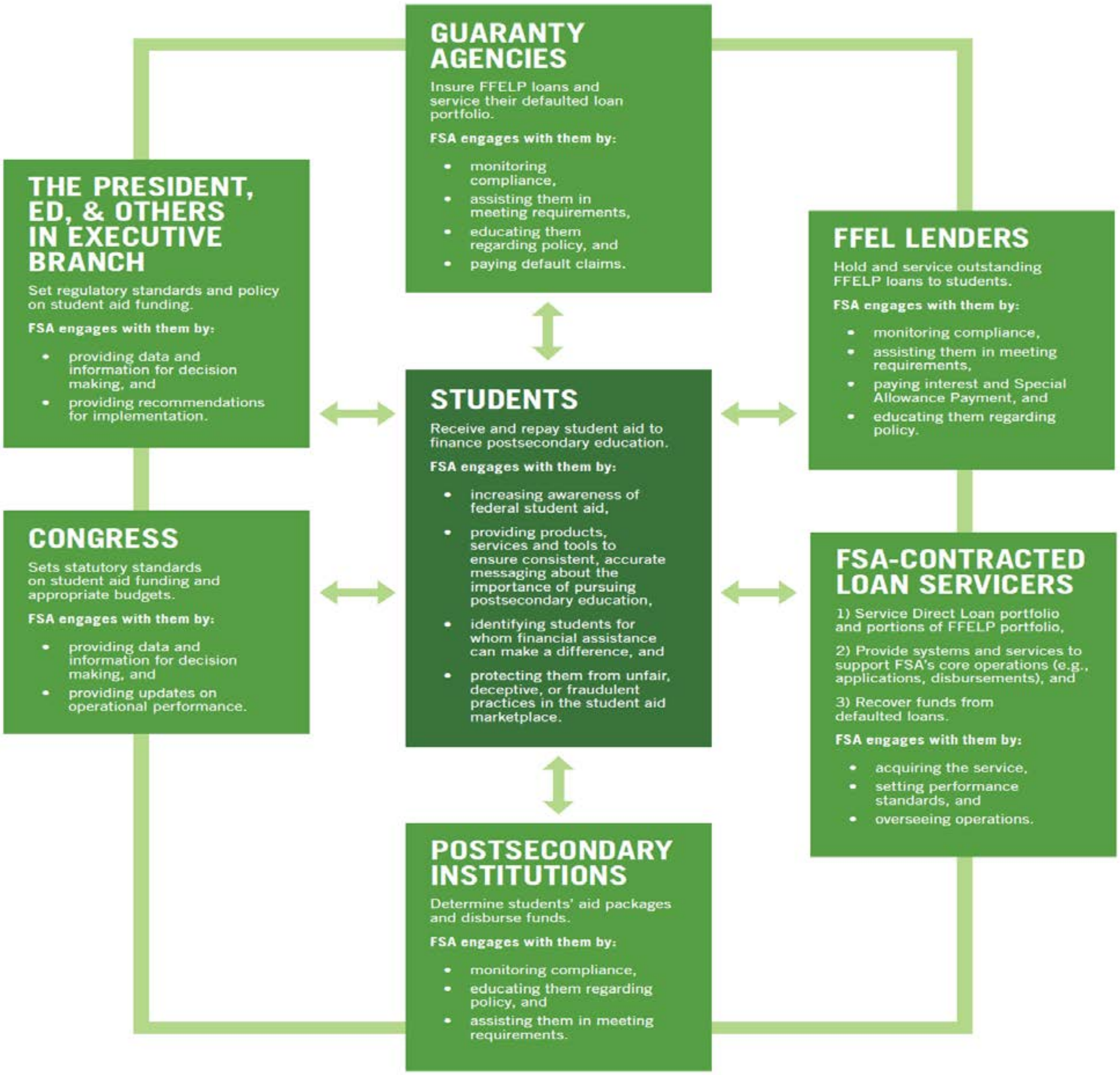
- ***Bipartisan Student Loan Certainty Act of 2013***
  Established that federal student loan interest rates will be tied to financial markets and that each loan will have a fixed interest rate for the life of the loan.

- ***Consolidated Appropriations Act, 2014***
  Transferred all Health Education Assistance Loan program loans as of July 1, 2014 from the 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 the 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

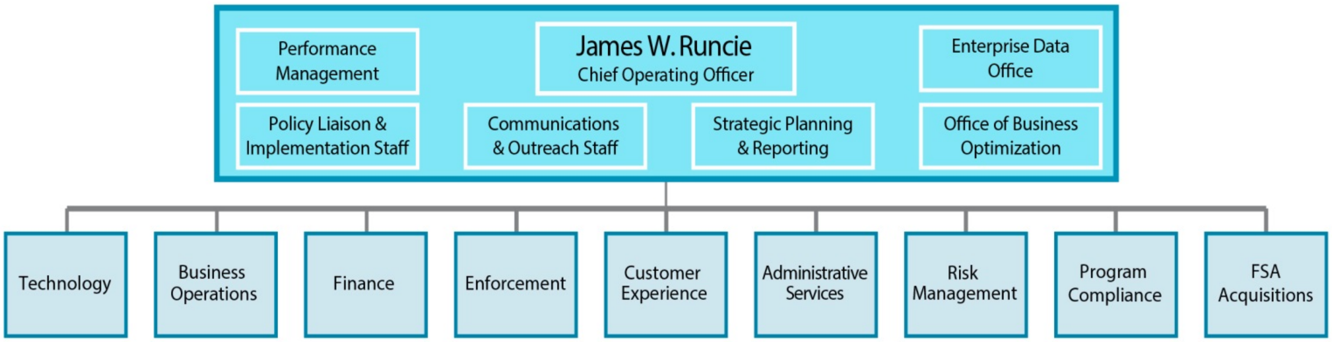


One of FSA's responsibilities is to coordinate and monitor the activity of the large number of federal, state, nonprofit, and private entities involved in federal student aid delivery, within a statutory framework established by Congress, and a regulatory framework established by the Department.

FSA Organizational Structure

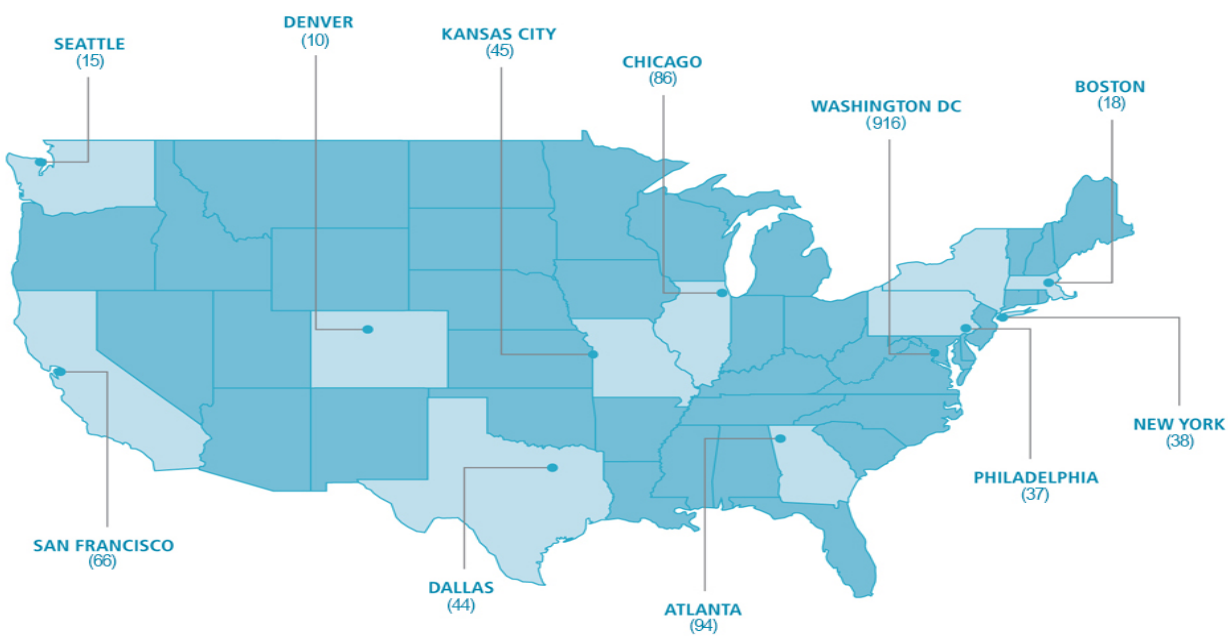
FSA currently operates under a functional organizational structure that aligns the organization closely with its strategic drivers, business objectives, and mission goals. A Chief Operating Officer (COO), who is appointed to a five-year term by the Secretary of Education (Secretary), leads FSA. The Secretary re-appointed James W. Runcie as the COO in December 2015. The following graphic illustrates the current functional organizational structure of FSA.

Federal Student Aid Functional Organizational Structure



During Fiscal Year 2016, the organization operated on an annual administrative budget of approximately $1.6 billion. FSA is staffed by 1,369 full-time employees and is augmented by contractors who provide outsourced business operations. The workforce is based in Washington, D.C., with ten regional offices located throughout the country as reflected in the following graphic. The number of full-time employees at each location is shown in parentheses immediately following the location name.

Federal Student Aid Regional Map



Federal Student Financial Aid Programs

The federal student financial assistance programs collectively represent the nation's largest source of federal financial aid for postsecondary students. In FY 2016, FSA processed more than 19.2 million *Free Applications for Federal Student Aid* (FAFSA®), resulting in the delivery of approximately $125.7 billion in Title IV aid to over 13.2 million postsecondary students and their families. These students attend over 6,000 active institutions of postsecondary education that participate in student aid programs and are accredited by dozens of agencies.

On August 2, 2011, Congress passed the *Budget Control Act of 2011* (Pub. L. 112-25), which put into place automatic federal budget cuts, known as "sequestration", to take effect if Congress did not enact legislation to reduce the federal deficit by March 1, 2013. Because Congress did not act, these budget cuts went into effect. The impact of sequestration reduced the aid available to students for various programs and forced increases in origination fees. These reductions, along with numerous other factors, including economic conditions and decreases in student aid applicants, affected the student aid disbursement amounts presented in the following table. The table below presents a comparison of the amounts of Title IV aid disbursed to students by program in 2016 and 2015[2]. A summary of each of the Title IV student assistance programs is presented in the paragraphs that follow the table.

Table 4: Summary of Federal Aid Disbursed to Students by Program[2]
(*Dollars in Millions*)

Programs	2016 Aid Disbursed to Students	2015 Aid Disbursed to Students	Difference	Percentage Change
Loan Programs				
William D. Ford Federal Direct Loan Program	$ 94,685	$ 95,853	$ (1,168)	(1.2)%
Federal Perkins Loan Program	1,044	1,158	(114)	(9.8)
Subtotal Loan Programs	**$ 95,729**	**$ 97,011**	**$ (1,282)**	**(1.3)%**
Grant Programs				
Federal Pell Grant Program	$ 28,189	$ 29,909	$ (1,720)	(5.8)%
Federal Supplemental Educational Opportunity Grant Program	729	730	(1)	(0.1)
The Teacher Education Assistance for College and Higher Education Grant Program	90	91	(1)	(1.1)
Other Grant Programs/Rounding	1	-	1	N/A
Subtotal Grant Programs	**$ 29,009**	**$ 30,730**	**$ (1,721)**	**(5.6)%**
Work-Study Programs				
Federal Work-Study Program	$ 964	$ 950	$ 14	1.5%
Rounding	(1)	-	(1)	N/A
Grand Total	**$ 125,701**	**$ 128,691**	**$ (2,990)**	**(2.3)%**

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[2] 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 section, 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-to-date amounts, except for the Federal Perkins Loan Program, which is reported as an award year amount. The number of awards or recipients reported in the Management's Discussion and Analysis section is derived from a variety of sources including FSA's Common Origination and Disbursement System and amounts 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 almost $1.3 trillion in outstanding loans—representing more than 199 million student loans to approximately 42 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 U.S. Department of the Treasury (Treasury) borrowings, as well as an appropriation for subsidy costs. As of September 30, 2016, FSA's portfolio of Direct Loans included $958.9 billion in credit program receivables, net. In FY 2016, the Department made $94.7 billion[3] in net loans to 9.8 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 guaranty agencies. Federal subsidies ensure private lenders earn at least a certain yield on the loans they made.

The passage of the *SAFRA Act*, which was included as part of 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 agencies held a FFEL Program loan portfolio of approximately $335.2 billion, as of September 30, 2016. Of this portfolio, $114.9 billion represented FSA's credit program receivables, net. In FY 2016, FSA made gross payments of approximately $0.8 billion to lenders for interest and special allowance subsidies and $6.9 billion to guaranty agencies for reinsurance claims and fees paid for account maintenance, default aversion, and collection activities. In addition, in FY 2016, under authority granted in the *Budget Reconciliation Act of 2014*, guaranty agencies began assigning rehabilitated loans to FSA that they were unsuccessful in selling to lenders.

The *Ensuring Continued Access to Student Loans Act of 2008* (ECASLA) authorized the Department to implement a number of programs to ensure that credit market disruptions did not deny eligible students and parents access to federal student loans for the 2008–09 and 2009–10 academic years. Under this authorization, the Department implemented three activities, two of which allowed for loan purchase commitments and purchases of loan participation interests. The authority to make these purchases expired after September 30, 2010. The third program that the Department implemented under the authority of ECASLA was the Asset-Backed Commercial Paper (ABCP) Conduit Program (Conduit). This program, under which the Department entered into forward purchase commitments with a Conduit, ended in January 2014.

As of September 30, 2016, FSA-held FFEL credit program receivables, net totaled $114.9 billion, comprising $32.0 billion acquired under the "traditional" (Non-ECASLA) guaranteed loan program, and $82.9 billion in loans acquired under the ECASLA authorization.

[3] Excludes consolidation loans of $45.5 billion.

The **Federal Perkins Loan 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 low-interest loans to students based on financial need. In FY 2016, approximately $1.0 billion were disbursed through approximately 421,000 Perkins awards.

The Federal Perkins Loan program was scheduled to officially end on September 30, 2015; however on December 18, 2015, the program was extended through September 30, 2017 due to the enactment of the *Federal Perkins Loan Program Extension Act of 2015* (Extension Act). The Extension Act eliminated the Perkins Loan grandfathering provisions, **Dear Colleague Letter (DCL) GEN-16-05**, that the Department had put in place, and establishes new eligibility requirements for undergraduate and graduate students to receive Perkins Loans. The grandfathering guidance is no longer applicable to the Perkins Loan Program.

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, or chiropractic or in programs in health administration and clinical psychology to obtain federally insured loans through participating lenders. Since September 30, 1998, no new loans 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. In addition, the functions, assets, and liabilities of the Secretary of Health and Human Services that are associated with the HEAL program were permanently transferred to the Secretary of Education. Credit program receivables, net of allowance for subsidy, were $335.7 million for FY 2016.

Federal Grant Programs

In its responsibility for administering Title IV aid, FSA oversaw the disbursement of $29.0 billion in grants to 7.3 million recipients. The following provides a summary for each grant program, including aid disbursed for FY 2016.

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 2016, the Department disbursed $28.2 billion in Pell Grants averaging approximately $3,668 to more than 7.2 million students. The maximum Pell Grant award was $5,775 for the 2015–16 award year and increased to $5,815 for the 2016–17 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. In FY 2016, approximately $729.4 million were disbursed through approximately 1.5 million campus-based awards.

The Teacher Education Assistance for College and Higher Education (TEACH) Grant Program provides 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. Under sequestration, award amounts for any TEACH Grant first disbursed on or after October 1, 2015 and before October 1, 2016, were reduced by 6.8 percent from the award amount for which a recipient would otherwise have been eligible. The maximum award of $4,000 was reduced by approximately $272, resulting in a maximum award amount of $3,728. If students fail to fulfill the service requirements, their TEACH Grants convert to Direct Unsubsidized Loans, with interest accrued from the time of the award. This grant program began in the 2008–09 school year, starting July 1, 2008. In FY 2016, the Department disbursed approximately 29,425 grants totaling $90.3 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 performing military service after September 11, 2001. These grants are equal to the maximum Pell Grant for a given award year. Under sequestration, award amounts for any Iraq and Afghanistan Service Grant first disbursed on or after October 1, 2015 and before October 1, 2016 were reduced by 6.8 percent from the award amount for which a recipient would otherwise have been entitled. For example, the 2015–16 maximum award of $5,775 was reduced by approximately $393, resulting in a maximum award amount of $5,382. The Department disbursed $362,100 to support approximately 75 awards in FY 2016.

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 employment to students based on financial need. In FY 2016, approximately $963.6 million were disbursed through approximately 674,200 campus-based awards.

Mission, Vision and Core Values

FSA's mission is student-focused, which drives its vision to be a reliable provider of federal student financial aid and services, and to be a trusted source of postsecondary education information to students and their families 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

Funding America's Future,
One Student at a Time

FSA VISION

To be the most trusted and reliable source of student financial aid, information, and services in the nation

FSA CORE 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 and related measurable performance metrics. The realization of these goals will enable the organization to accomplish its mission successfully.

Performance Management

This section of the *Federal Student Aid Annual Report FY 2016 (Annual Report)* provides a general overview of the performance management processes at FSA; a summary of FSA's FY 2016 performance metrics, objectives, and results; discussion of FSA's Agency Priority Goal (APG), if an APG has been assigned; and discussion of FSA's efforts to validate the quality of performance data reported.

Performance Management Processes at Federal Student Aid
FSA uses three tools to establish goals, and to communicate, measure, and report performance. These tools are the following:

- *Five-Year Strategic Plan*;
- *Annual Performance Report*; and
- Annual Organizational Performance Review (OPR).

Five-Year 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 long-term 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 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 (i.e., language is unambiguous and terminology 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 *Federal Student Aid: Strategic Plan, FY 2015–19* (*FSA Strategic Plan, FY 2015–19).*

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

Key Component	Description
Strategic Goals	Statements of long-term purpose outlined in the *FSA Strategic Plan, FY 2015–19* 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 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 2014–18,* 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 principle offices an opportunity to establish specific milestones. FSA tracks the status of its OPR metrics and reports on its progress to the Department.

FY 2016 Strategic Goals, Objectives, and Performance Metrics

In its earlier strategic plans, FSA focused primarily on achieving operational efficiency and system integration, both of which are vital to its designation as a PBO. As part of the initial update to its earlier plans, FSA developed and implemented a strategic plan that would improve the overall system of funding for postsecondary education. The strategic plan outlined steps that would improve the system by (1) equipping students and their families with better information to make improved decisions about postsecondary education; and (2) actively shaping the behavior of participants in education funding, by using FSA's knowledge, data, oversight authority, and relationships to improve the coordination of all participants in the system.

FSA's current strategic plan, the *FSA Strategic Plan, FY 2015-2019* reflects Federal Student Aid's increased focus on quality of service as well as increasing analytical and research capabilities. As part of the new strategic plan, FSA redefined a number of strategic objectives that will help meet the goals set forth for FY 2015–2019. It is also important to note the key strategic drivers, listed below, that influence FSA's process and development when implementing a strategic plan.

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. • Increasing demand for Federal Student Aid. • Continued growth of student debt and focus on delinquency and default. • Increasing pressure to improve student interaction with the aid system. • Increasing demand for accountability in the use of federal funds. • Increased attention to availability and uses of data.

Key Strategic Driver	Relevance to FSA's Strategic Planning Process
The Department's Five-Year *Strategic Plan*	Requires FSA's support of the Department's strategic goals related to postsecondary education.
President Obama's higher education goal that, by 2020, America will have the highest proportion of college graduates in the world	Requires the Department's and FSA's support to achieve the goal.
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 2016 include: • Improper Payments; • Information Technology Security; • Oversight and Monitoring; • Data Quality and Reporting; and • Information Technology System Development and Implementation.
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.
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 identified the following five Strategic Goals based upon analysis of the above key strategic drivers:

- **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 this goal to FSA's mission.
- **Objective:** Includes a brief discussion of the objectives identified for the strategic goal.
- **Performance Metrics:** Includes a brief summary of FSA's performance as measured by the performance metrics for the strategic goal, followed by a table that details, for each performance metric, prior year actual results, the current reporting period target, the current year actual result, and the page reference to the detailed discussion contained 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 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 (i.e., September 30, 2016) unless otherwise noted. If the required data are not available as of fiscal year-end in sufficient time for inclusion, data as of the most recent period available is used. Data as of fiscal year-end may not be available in some instances, where the required data are obtained from external sources (i.e., state and private nonprofit guaranty agencies, lenders and loan servicers, grant and loan recipients, etc.).

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 loan 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 loan disbursement and ensures that customers remain connected to the best resources available at every stage of the student aid lifecycle.

Strategic Goal A focuses directly on borrower 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 table lists the performance metrics, prior year actual results, FY 2016 target and actual performance levels, result (i.e., met, not met, etc.), and reference to supporting detail in the *Annual Performance Report* section of this document. In summary, FSA met or exceeded the target for three of these performance metrics and did not meet the target for two of the performance metrics under this strategic goal.

Table 5: Performance Summary for Strategic Goal A

Performance Metrics	FY 2014 Actual	FY 2015 Actual	FY 2016 Target	FY 2016 Actual	Result	Reference Page
A.1: Percent of First-Time FAFSA Filers among High School Seniors	60.1%	60.5%	59.5%–61.5%	57.5%	✗	64
A.2: Persistence among First-Time Filing Aid Recipients	79.6%	79.5%	78.5%–80.5%	79.7%	✓	65
A.3: Customer Visits to StudentAid.gov	32.7 million	43.3 million	>=43.4 million	47.2 million	✓	66
A.4: Social Media Channel Subscribership	368,042	454,066	>454,000	528,251	✓	67
A.5: ACSI Aid Life Cycle Surveys	78.4	77.2	74	70.4	✗	68

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 for 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 table lists the performance metrics, prior year actual results, FY 2016 target and actual performance levels, result (i.e., met, not met, etc.), and reference to supporting detail in the *Annual Performance Report* section of this document. In summary, FSA met or exceeded the target for one performance metric.

Table 6: Performance Summary for Strategic Goal B

Performance Metrics	FY 2014 Actual	FY 2015 Actual	FY 2016 Target	FY 2016 Actual	Result	Reference Page
B.1: Improper Payment Rate*	-	2.38%[4]	N/A	4.85%	N/A	69
B.2: Percent of Borrowers > 90 days Delinquent*	-	9.8%	9.9%	8.8%	✓	71

***Note: These performance metrics were revised in FY 2015; prior-year data not available under revised method.**

[4]The FY 2015 improper payment Target and Actual 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 rate is 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.

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 a number of 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 table lists the performance metrics, prior year actual results, FY 2016 target and actual performance levels, result (i.e., met, not met, etc.), and reference to supporting detail in the *Annual Performance Report* section of this document. In summary, FSA met or exceeded the target for both of these performance metrics.

Table 7: Performance Summary for Strategic Goal C

Performance Metrics	FY 2014 Actual	FY 2015 Actual	FY 2016 Target	FY 2016 Actual	Result	Reference Page
C.1: Aid Delivery Costs per Application	$11.43	$10.73	$13.11	$11.53	✓	72
C.2: Outstanding Direct Loan Portfolio in Current Repayment Status*	-	-	85.3%	85.4%	✓	73

***Note: This performance metric is a new metric in FY 2016; prior-year data not available under revised method.**

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. FSA annually disburses more than $125 billion in aid and administers a loan portfolio valued at more than $1.3 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 table lists the performance metrics, prior year actual results, FY 2016 target and actual performance levels, result (i.e., met, not met, etc.), and reference to supporting detail in the *Annual Performance Report* section of this document. In summary, FSA met or exceeded the target for two of these performance metrics and did not meet the target for one of the performance metric under this strategic goal.

Table 8: Performance Summary for Strategic Goal D

Performance Metrics	FY 2014 Actual	FY 2015 Actual	FY 2016 Target	FY 2016 Actual	Result	Reference Page
D.1: Ease of Doing Business with FSA	77	75.8	74.3–77.3	72.3	✘	75
D.2: Percentage of Contract Dollars Competed by FSA	88.7%	90.3%	89.3%–91.3%	92.9%	✓	76
D.3: Collection rate	$35.90	$51.58	$51.79	$53.07	✓	77

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's customers. Acquiring talent and maintaining a skilled workforce remain priority areas for FSA. FSA has launched a number of 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 build and 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 lists the performance metric, prior year actual results, FY 2016 target and actual performance levels, result (i.e., met, not met, etc.), and reference to supporting detail in the *Annual Performance Report* section of this document. In summary, FSA met the target for this performance metric.

Table 9: Performance Summary for Strategic Goal E

Performance Metrics	FY 2014 Actual	FY 2015 Actual	FY 2016 Target	FY 2016 Actual	Result	Reference Page
E.1: Employee Engagement Index	67.7%	67.9%	66.9% - 68.9%	67.4%	✓	78

Agency Priority Goal

An Agency Priority Goal is a measurable commitment to a specific result the federal government will deliver to the American people. These goals represent high priorities for both the administration as well as for the Department and have high relevance to the public, or reflect the achievement of key agency missions. As required by OMB's guidance for implementing the *Government Performance and Results Modernization Act of 2010* (Pub. L. 111-352), the Department identified FSA's APG for FY 2016 during the budget, policy, and strategic planning processes.

For FY 2016–17, "Federal Student Aid Transparency" was established as an APG. Clear, consistent, and timely information about FSA's mission, objectives, and services to stakeholders enables FSA to be the most trusted source of information on federal funding of postsecondary education. FSA has built a rich database of Title IV related information and this data helps to inform discussion and improve student outcomes

FSA understands that different stakeholders have different needs, interests, and familiarity with federal financial aid programs. FSA has worked to increase the dissemination of useful information through general channels, such as the FSA Data Center, meant to support transparency initiatives. The increased availability of information to stakeholders will provide critical value to stakeholders seeking a consistent and accurate understanding of the contours of the higher education environment.

FSA currently releases a variety of financial aid information and data on a quarterly basis on the FSA Data Center. The focus on "Federal Student Aid Transparency" also commits FSA to add new and important information and data that will increase the general public's understanding of the federal student aid programs. The information and data will take the form of reports or datasets related to one or more of the following categories:

- Student Aid Data, including information on income-driven repayment plans, the Federal student loan portfolio, aid eligibility and applications, default, and forgiveness;
- School Data, including information on school eligibility and participation as well as school compliance;
- Servicer Data; and/or
- Ad Hoc Studies and Reports.

FSA's commitment to transparency will inform discussion and help stakeholders in the system of higher education improve outcomes for students and borrowers.

Due to the specific focus of an APG, it does not fully reflect the agency's strategic goals nor cover the entire agency mission. FSA will continue to provide support as needed to the Department in accomplishing the Departmental Priority Goals. For more information on the Department's Priority goals, see **The Department's FY 2016–17 Priority Performance Goals.**

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 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 of this *Annual Report*.

Financial Analysis

The Financial Analysis section provides an overview of FSA's financial results for FY 2016. This section is included to assist readers in understanding FSA's financial results, position, and condition as portrayed 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 that 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. The financial statements are subject to an annual independent audit to ensure that FSA's financial position has been presented fairly. In FY 2016, FSA achieved an unmodified audit opinion on its financial statements for the fifteenth consecutive year.

FSA presents its financial statements and notes in the format required by the OMB Circular A-136, *Financial Reporting Requirements*. For the comparative fiscal years, FY 2016 and FY 2015, 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. The Independent Auditors' Report on these statements, which includes the Report on the Financial Statements, the Report on Internal Control, and the Report on Compliance and Other Matters, can be found in the subsection, ***Independent Auditors' Report***.

Federal Student Aid has oversight responsibilities for over $1.3 trillion in federal student loans, of which approximately $1.1 trillion is directly owned and managed by FSA. As described in **Note 1** and **Note 5**, FSA reports this portfolio on its Balance Sheet as the line item Credit Program Receivables, net of allowances for loss, loan guaranty liability and subsidy cost, that adjust the portfolio amount to its present value. As of September 30, 2016, FSA reported $1.1 trillion in Credit Program Receivables, Net including an allowance for subsidy cost of approximately $8.2 billion. FSA's portfolio of Credit Program Receivables, Net has seen significant growth, increasing by 5.8 percent over the FY 2015 net portfolio balance. This growth continues to be driven by the expansion of the Direct Loan program. Operationally, FSA must manage the resources it has available to ensure that this portfolio is serviced efficiently and effectively, and that quality customer service is provided to its borrowers. FSA must mitigate several risks to ensure this portfolio is managed effectively. These risks are discussed at the conclusion of the analysis of the financial statements.

The FY 2016 FSA Financial Highlights tables presented below provide a condensed summary of the significant balances in FSA's financial statements over a five year period, beginning with FY 2012 and the percentage change between the prior and current fiscal years as of September 30, 2015 and 2016 respectively.

Table 10: FSA Financial Highlights
Condensed Balance Sheet
Fiscal Years 2012–16

(Dollars in millions)	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	Percentage Change[5]
Fund Balance with Treasury	$ 78,452	$ 69,997	$ 61,506	$ 67,985	$ 60,358	(11.2)%
Credit Program Receivables, Net[6]	672,835	825,660	922,418	1,016,425	1,075,227	5.8
Remaining Assets	1,451	1,588	1,596	1,648	1,334	(19.1)
Total Assets	**$ 752,738**	**$ 897,245**	**$ 985,520**	**$ 1,086,058**	**$ 1,136,919**	**4.7%**
Debt	$ 714,324	$ 851,258	$ 965,362	$ 1,050,344	$ 1,126,345	7.2%
Subsidy due to Treasury General Fund[7]	6,663	8,425	5,958	8,237	2,642	(67.9)
Remaining Liabilities	8,978	7,568	7,530	7,169	9,614	34.1
Total Liabilities	**$ 729,965**	**$ 867,251**	**$ 978,850**	**$ 1,065,750**	**$ 1,138,601**	**6.8%**
Unexpended Appropriations	$ 30,361	$ 33,595	$ 30,485	$ 28,325	$ 26,531	(6.3)%
Cumulative Results of Operations	(7,588)	(3,601)	(23,815)	(8,017)	(28,213)	251.9
Net Position	**$ 22,773**	**$ 29,994**	**$ 6,670**	**$ 20,308**	**$ (1,682)**	**(108.3)%**
Total Liabilities & Net Position	**$ 752,738**	**$ 897,245**	**$ 985,520**	**$ 1,086,058**	**$ 1,136,919**	**4.7%**

Table 11: Statement of Net Cost Summary
Fiscal Years 2012–16

(Dollars in millions)	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	Percentage Change[6]
Gross Cost	$ 35,989	$ 13,266	$ 65,470	$ 59,500	$ 93,032	56.4%
Less: Earned Revenue	(25,306)	(26,688)	(28,979)	(31,547)	(34,260)	8.6
Net Cost of Operations	**$ 10,683**	**$ (13,422)**	**$ 36,491**	**$ 27,953**	**$ 58,772**	**110.3%**

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.

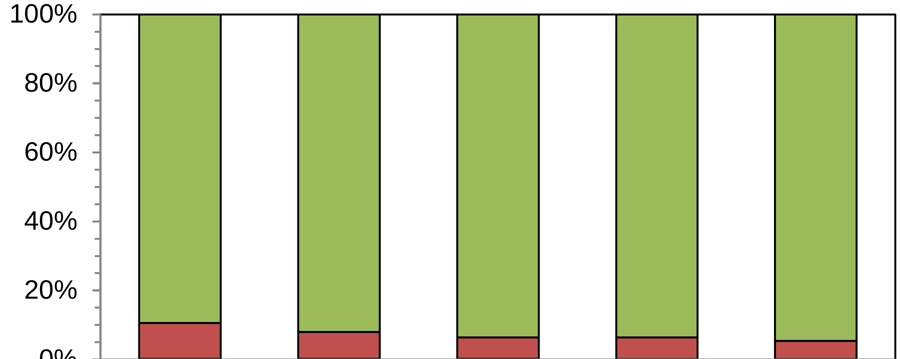
[5] Note that the percentage change is calculated as the FY 2015–16 difference, divided by the FY 2015 amount. In some instances, where the current year amount has an opposite sign to the prior year amount, the percentage change may be negative even though the annual change is positive (and vice versa). 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.

[6] During FY 2013, as required by Treasury and Departmental guidance, excess collections from pre-1992 FFEL loan guarantees, which are payable to Treasury, were reported for the first time as non-current liabilities not covered by budgetary resources. This reclassification resulted in a $3 billion reduction of the FY 2012 reported balance of Intragovernmental Accounts Payable and a corresponding increase in the FY 2012 reported Other Liabilities balance.

[7] 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 the years FY 2012–15 have been restated using the FY 2016 format.

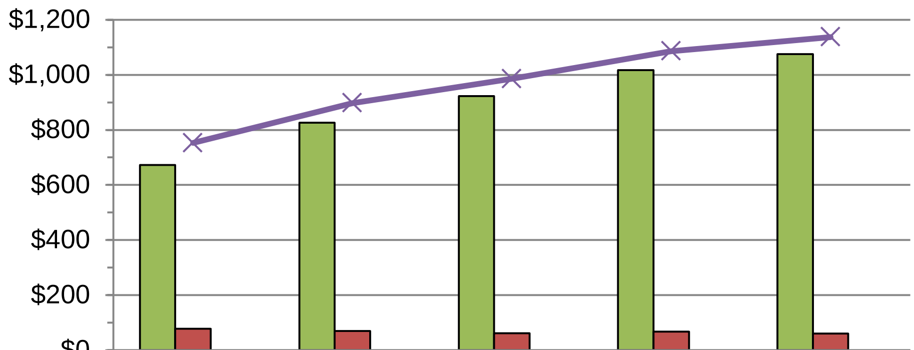
Composition of FSA Assets. The consolidated Balance Sheet shows that FSA had total assets of $1.137 trillion as of September 30, 2016, an increase of $50.9 billion, or 4.7 percent over the September 30, 2015 total assets balance of $1.086 trillion. The difference resulted primarily from an increase in net Credit Program Receivables ($58.8 billion), less a decrease in Fund Balance with Treasury ($7.6 billion). Together, FSA's Fund Balance with Treasury and its net Credit Program Receivables accounted for almost 99.9 percent of Total Assets as of September 30, 2016, as illustrated in the Composition of Assets chart (Chart 1) below. Following Chart 1 is the Comparison of Assets chart (Chart 2) that presents the growth of these two principal Balance Sheet line items over the past five fiscal years.

Chart 1: Composition of Federal Student Aid Assets
Fiscal Years 2012–16



	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Credit Program Receivables, Net	89.4%	92.0%	93.6%	93.6%	94.6%
Fund Balance with Treasury	10.4%	7.8%	6.2%	6.3%	5.3%
Remaining Assets	0.2%	0.2%	0.2%	0.1%	0.1%

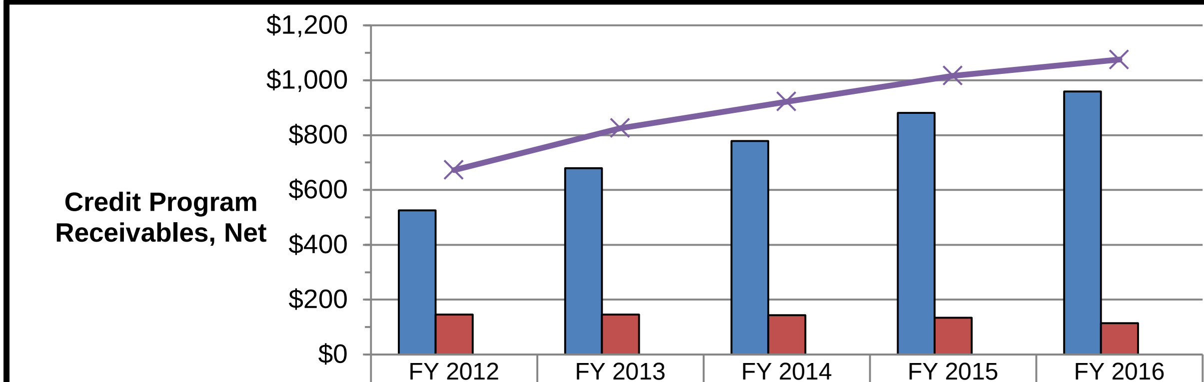
Chart 2: Comparison of Federal Student Aid Assets
Fiscal Years 2012–16
(*Dollars in Billions*)



	FY 2013	FY 2013	FY 2014	FY 2015	FY 2016
Credit Program Receivables, Net	$672.8	$825.7	$922.4	$1,016.4	$1,075.2
Fund Balance with Treasury	$78.5	$70.0	$61.5	$68.0	$60.4
Remaining Assets	$1.4	$1.5	$1.6	$1.7	$1.4
Total Assets	$752.7	$897.2	$985.5	$1,086.1	$1,137.0

Credit Program Receivables, Net. With a $1.075 trillion balance as of September 30, 2016, Credit Program Receivables, Net represent FSA's most important asset category and accounted for 94.6 percent of Total Assets. This balance included $1,083.4 billion in principal, interest, and fees together with an allowance for subsidy cost of approximately $8.2 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 Chart 3 below and discussed more fully in the following sections.

Chart 3: Total Federal Student Aid Loan Portfolio
Fiscal Years 2012–16
(*Dollars in Billions*)



	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Direct Loans	$526.0	$679.1	$778.5	$880.6	$958.9
FFEL	$146.1	$145.8	$142.9	$134.7	$114.9
Other Programs	$0.7	$0.8	$1.0	$1.1	$1.4
Total	$672.8	$825.7	$922.4	$1,016.4	$1,075.2

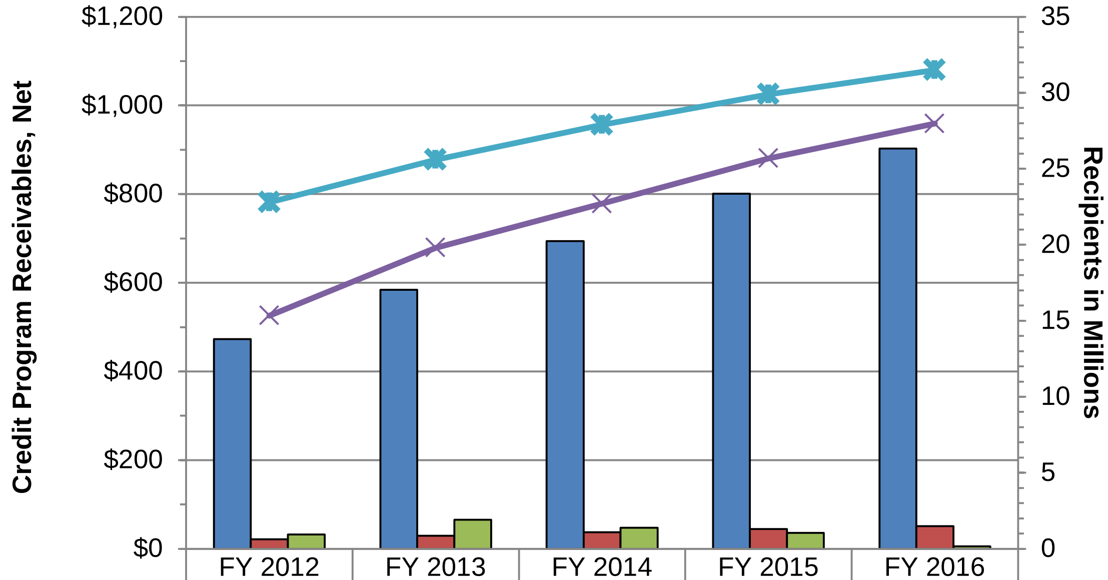
This chart also shows that over the five-year period FY 2012–16, FSA's portfolio of Federal Student Aid net credit program receivables increased by $402.4 billion or 59.8 percent, with the Direct Loan program accounting for most of this change. In fact, the Direct Loan portfolio increased by a slightly greater amount, $432.8 billion or 82.3 percent, but the increase was offset by the $31.2 billion (21.4 percent) reduction of the FFEL Portfolio over the same period.

The changes observed in both 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 education loans into one loan. It allows borrowers to potentially take advantage of features such as simplified repayment with only a single monthly bill to pay, an extended repayment period to reduce monthly payments and access to alternative repayment plans such as income based or income contingent repayment plans. For more information about which federal loans may be eligible for consolidation and other requirements please visit **https://studentaid.ed.gov/sa/repay-loans/consolidation.**

Direct Loan Credit Program Receivables, Net. Direct Loan Credit Program receivables continue to be the major component of this portfolio and as of September 30, 2016 comprised 89.2 percent of the net balance, a total of $958.9 billion. This total includes $953.6 billion in principal, interest, and fees, together with a negative subsidy allowance in the amount of $5.3 billion. In practical terms, a negative subsidy occurs when the interest rate and/or fees charged to the borrower are more than sufficient to cover the costs of the risk of default.

The $78.3 billion increase in Direct Loan Receivables during FY 2016 was mainly driven by the growth in the outstanding amount owed by borrowers, principally resulting from new loan originations ($94.7 billion), consolidation disbursements net of consolidation payoffs ($36.8 billion), and the net increase in interest and fees payable ($6.5 billion). This was offset by reductions to principal due to loan payments by borrowers ($47.1 billion), loan discharge ($3.1 billion) and other adjustments. In addition, increased subsidy costs during FY 2016 that reduced the estimated negative subsidy allowance by $30.2 billion, reduced Direct Loan Credit Program Receivables, Net by the same amount, as explained in more detail in **Note 5**.

Chart 4: Components of Direct Loan Receivables, Net
Fiscal Years 2012–16[8]
(*Dollars in billions*)



	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Principal	$472.9	$584.5	$694.0	$800.8	$902.8
Accrued Interest	$21.1	$29.3	$37.2	$44.3	$50.8
Subsidy	$32.0	$65.3	$47.3	$35.5	$5.3
Total Receivable	$526.0	$679.1	$778.5	$880.6	$958.9
Total Recipients	22.8	25.6	27.9	29.9	31.5

Table 12: Components of Direct Loan Credit Program Receivables, Net by Percentage
Fiscal Years 2012–16

Direct Loan Component	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Principal	89.9%	86.1%	89.1%	90.9%	94.1%
Accrued Interest	4.0%	4.3%	4.8%	5.0%	5.3%
Subsidy	6.1%	9.6%	6.1%	4.0%	0.6%
Total Receivable	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Table 13: Increase in Principal, Interest and Subsidy Components of Direct Loan Credit Program Receivables, Net and Recipient Counts

Direct Loan Component	FY 2012–13	FY 2013–14	FY 2014–15	FY 2015–16	FY 2012-16 Average Year-to-Year change
Principal	23.6%	18.7%	15.4%	12.7%	17.6%
Accrued Interest	38.9%	27.0%	19.1%	14.7%	24.9%
Subsidy	104.1%	-27.6%	-24.9%	-85.1%	-8.4%
Total Receivable	29.1%	14.6%	13.1%	8.9%	16.4%
Total Recipients	12.3%	9.0%	7.2%	5.4%	8.4%

The growth in principal outstanding has accounted for virtually all of the growth of the Direct Loan portfolio over the past five years in dollar terms, as clearly seen in Chart 4[8]. Over the same period accrued interest actually increased at a higher average annual rate than did principal outstanding (24.9 percent versus 17.6 percent), but accrued interest only increased from 4.0 percent to 5.3 percent of the net receivable amount, while principal outstanding increased from 89.9 percent to 94.1 percent of the total. By comparison, increased subsidy costs reduced the impact of the net negative subsidy (discussed in **Note 5**) from 6.1 percent to 0.6 percent of the total amount over the FY 2012–16 period.

Chart 4 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 child is the recipient. The chart shows that Direct Loan recipients grew from 22.8 million to 31.5 million over the five-year period, reflecting an average annual increase of 8.4 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 39.7 percent during this time, from $21,665 to $30,273, the higher debt burden per student likely an indication of increasing secondary education costs.

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

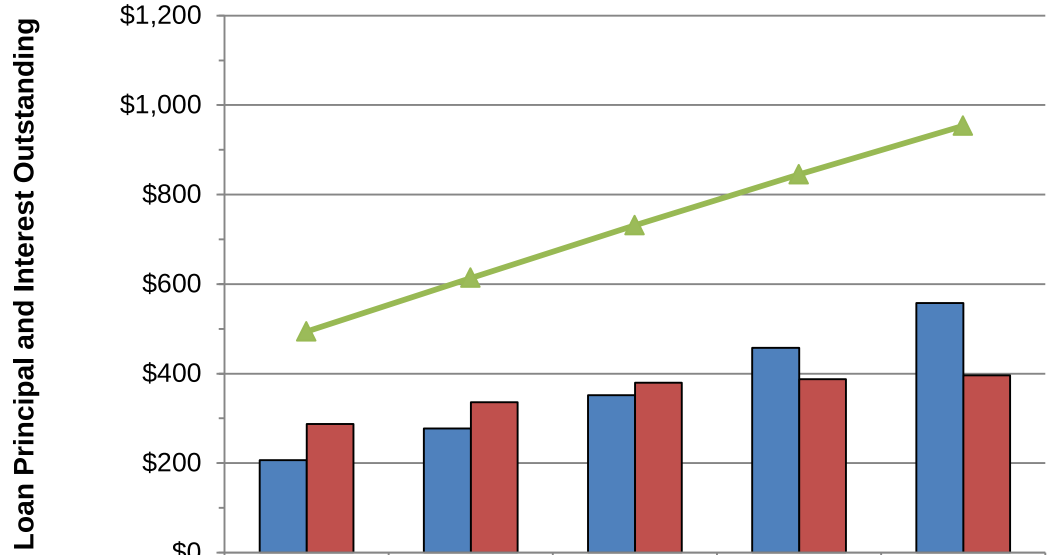
Repayment on most federal student loans is not required while the student recipient is “In School” unless they drop below half-time enrollment. However, PLUS loans enter repayment as soon as the loan is fully disbursed (paid out). Then, after the student graduates, leaves school, or drops below half-time enrollment student borrowers are frequently entitled to a “Grace” period, a set period of time during which 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 any Grace period, the loan will enter “Repayment” status, and regular monthly payments will be required according to an agreed 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 then 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

[8]Recipients in Millions for FY 2012–16 are based on data published by the FSA Data Center, at: https://studentaid.ed.gov/sa/about/data-center/student/portfolio.

technically considered to be “In Default”. However, 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 borrower treatment with that of FFEL borrowers by lenders and guaranty agencies.

Chart 5[9] divides FSA’s portfolio of direct loans into two main categories, based on whether or not payments have been temporarily suspended. The first of these, “not in repayment” includes not only loans In School or In Grace but also loans where a deferment or forbearance has been granted. The loan status “Deferment” includes loans in which payments have been postponed due to certain circumstances, such as returning to school, military service, or economic hardship. Similarly, “Forbearance” includes loans in which payments have been temporarily suspended or reduced as a result of certain types of financial hardships. The second major category, “In Repayment” includes not only loans identified as Current or Delinquent, but also those that have defaulted, are in non-defaulted bankruptcy, in a disability status or not otherwise categorized. For both categories Chart 5 reports the portfolio balance as the sum of principal and interest balances owed by the borrower, and excludes any subsidy cost or allowance that would adjust the outstanding balance to its net present value.

Chart 5: Direct Loan Portfolio by Repayment Status
Principal and Interest Only
Fiscal Years 2012–16
(*Dollars in Billions*)



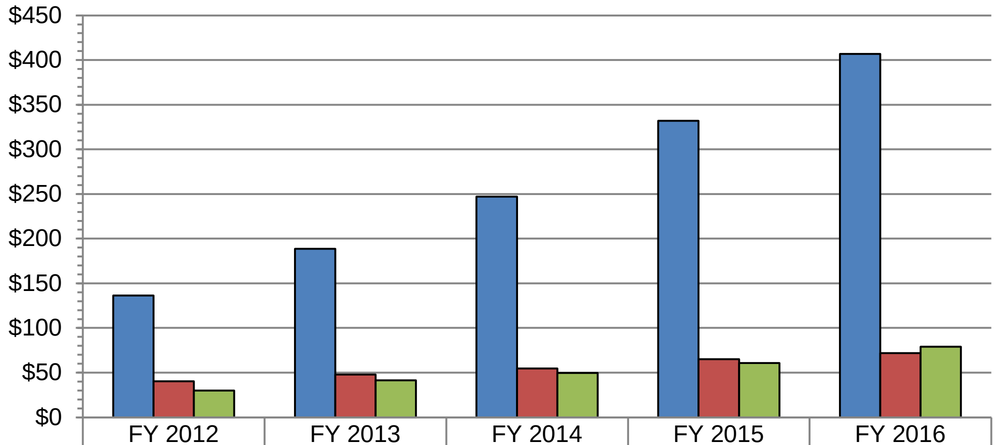
	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
In Repayment Status*	$206.8	$277.8	$351.6	$457.8	$557.5
Not in Repayment	$287.2	$336.0	$379.6	$387.3	$396.1
Total Direct Loan Portfolio*	$494.0	$613.8	$731.2	$845.1	$953.6

*Adjusted to eliminate differences in the total Direct Loan principal and Interest reported by FSA Data Center as compared to the amount reported in FSA’s Financial Statements.

[9] FY 2013–16 based on data published by the FSA Data Center, https://studentaid.ed.gov/sa/about/data-center/student/portfolio. The FY 2012 data was not available from the Data Center so an alternative source was used.

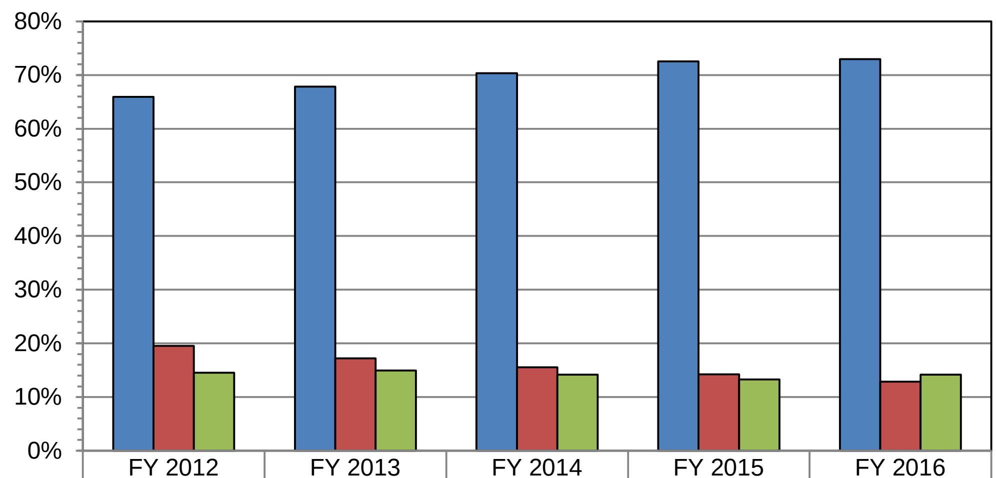
As can be seen in Chart 5, over the past five years the growth in principal and interest of the “In Repayment” segment increased from 41.9 percent to 58.5 percent of the total amount outstanding, increasing the need for FSA to focus on ensuring that it facilitates the ability of Direct Loan borrowers to meet their repayment obligations timely.

Chart 6: Direct Loan Portfolio Segment in Repayment by Status
Fiscal Years 2012–16
Principal and Interest only
Chart 6A - *Dollars in Billions*



	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Current	$136.3	$188.5	$247.2	$332.0	$406.8
Delinquent	$40.4	$47.8	$54.6	$65.1	$71.8
Default/Bankruptcy/Other*	$30.1	$41.5	$49.8	$60.7	$78.9

Chart 6B – *Percentage of Total*



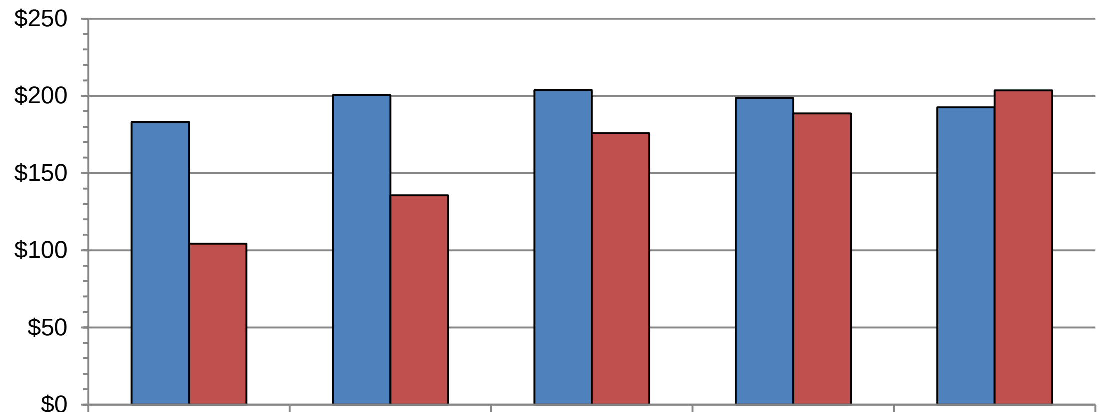
	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Current	65.9%	67.9%	70.3%	72.5%	73.0%
Delinquent	19.5%	17.2%	15.5%	14.2%	12.9%
Default/Bankruptcy/Other*	14.6%	14.9%	14.2%	13.3%	14.2%

*
Adjusted to eliminate differences in the total Direct Loan principal and Interest reported by FSA Data Center as compared to the amount reported in FSA’s Financial Statements

In Chart 6[10], 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. The chart reveals that, with a September 2016 principal and interest balance of $406.8 billion, the current portion of the “In Repayment” segment is its largest component and has grown faster in both dollar and percentage terms over the five years FY 2012–16 than either of the other two components. This subcomponent grew from 65.9 percent to 73.0 percent of the In-Repayment Sector, a positive trend. In addition, while both the Delinquent and Default/Bankruptcy/Other components of the portfolio also increased in dollar terms over the past five years to $71.8 billion and $78.9 billion respectively, both declined in percentage terms from 19.5 percent and 14.6 percent of the total outstanding at the end of FY 2012, to 12.9 percent and 14.2 percent respectively as of September 30, 2016. However, with respect to the Default/Bankruptcy/Other category, the downward trend reversed in FY 2016 with the proportion of *In Repayment* Direct Loan principal and interest in *Default/Bankruptcy/Other* increasing from 13.3 percent to 14.2 percent of the total. In addition, of the total $953.6 billion in Direct Loan principal and interest at the current fiscal year end, $57.3 billion (6.0 percent of total receivables) in loan principal was in default and had been transferred to the Department’s defaulted loan servicer, compared to $44.1 billion (5.2 percent of total receivables) as of September 30, 2015. For related performance information about the percentage of borrowers more than 90 days delinquent (FSA's performance metric B.2), please see **page 71**.

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. Chart 7[11] subdivides this segment into two such categories, “In School/Grace” and “In Deferment/Forbearance, as defined earlier.

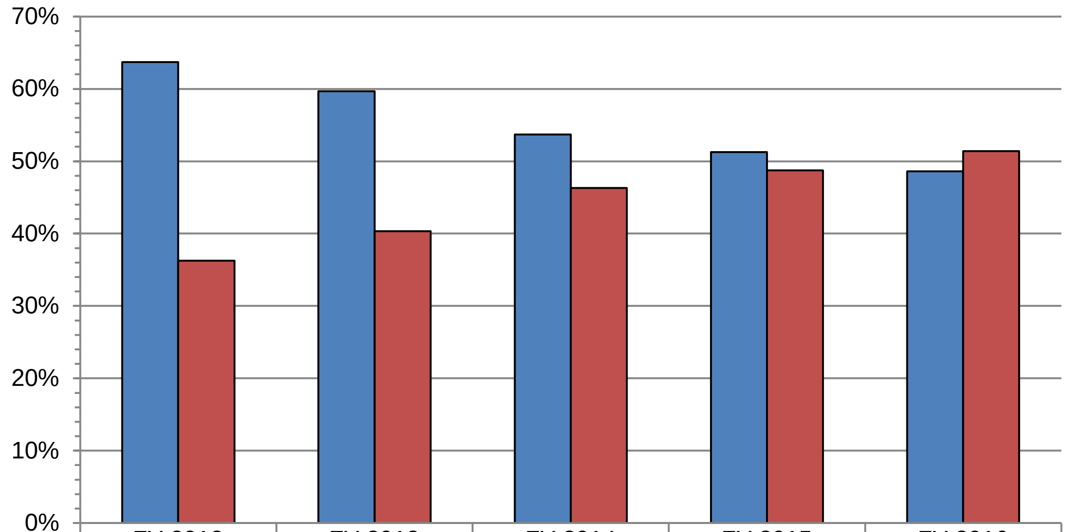
Chart 7: Direct Loan Portfolio Segment not in Repayment by Status
Principal and Interest only
Fiscal Years 2012–16
Chart 7A - *Dollars in Billions*



	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
In School/Grace	$183.0	$200.5	$203.8	$198.6	$192.6
In Deferment/ Forbearance	$104.2	$135.5	$175.8	$188.7	$203.5

[10] *ibid.*
[11] *ibid.*

Chart 7: Direct Loan Portfolio Segment not in Repayment by Status
Principal and Interest only
Fiscal Years 2012–16
Chart 7B – *Percentage of Total*

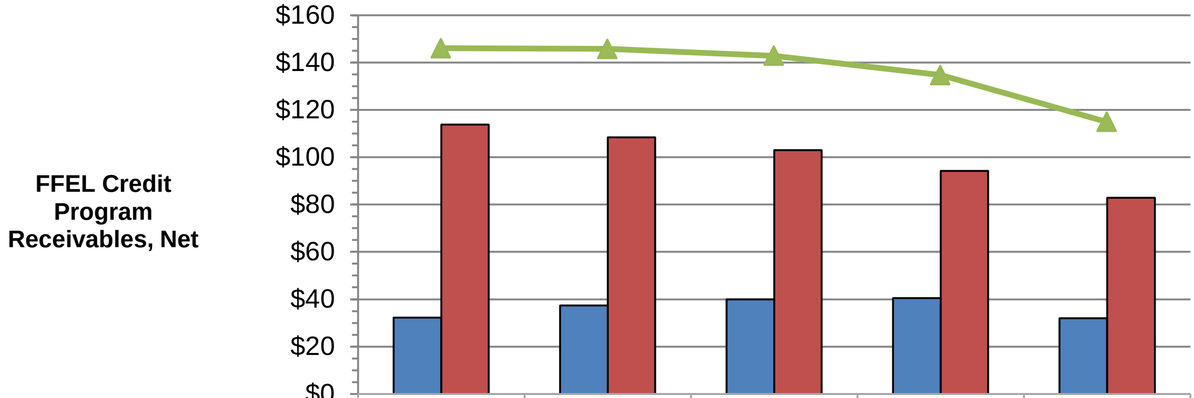


	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
In School/Grace	63.7%	59.7%	53.7%	51.3%	48.6%
In Deferment/ Forbearance	36.3%	40.3%	46.3%	48.7%	51.4%

Chart 7 shows that, after increasing from FY 2012–14, the amount of Direct Loan principal and interest categorized as In School/Grace, declined steadily from $203.8 billion in FY 2014 to $192.6 billion in 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 $104.2 billion to $203.5 billion, increasing from 36.3 percent to 51.4 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 remained close to 22 percent. This suggests that the underlying factors that result in a deferment or forbearance being granted have also remained fairly consistent.

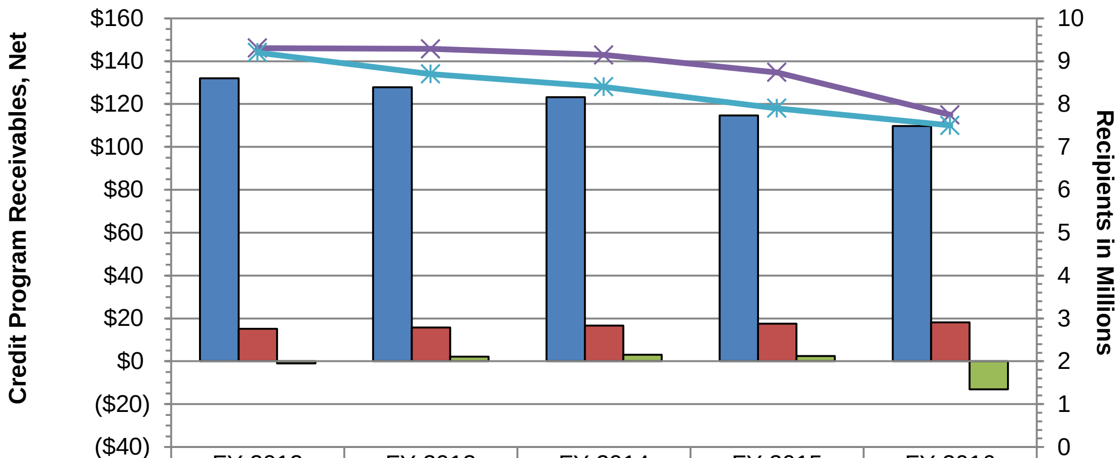
FFEL Credit Program Receivables, Net. FSA's portfolio of FFEL loans includes debt acquired under the Conduit, Loan Participation Purchase, and Loan Purchase Commitment programs established through the 2008 ECASLA authorization and referred to collectively as the FFEL ECASLA Loan Programs. It also includes 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 Chart 8.

Chart 8: Total FFEL Loan Portfolio
Fiscal Years 2012–16
(*Dollars in Billions*)



	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
FFEL, Guaranteed*	$32.3	$37.4	$39.9	$40.5	$32.0
FFEL, ECASLA**	$113.8	$108.4	$103.0	$94.2	$82.9
Total FFEL	$146.1	$145.8	$142.9	$134.7	$114.9

Chart 9: Components of FFEL Receivables, Net
Fiscal Years 2012–16
(*Dollars in Billions*)



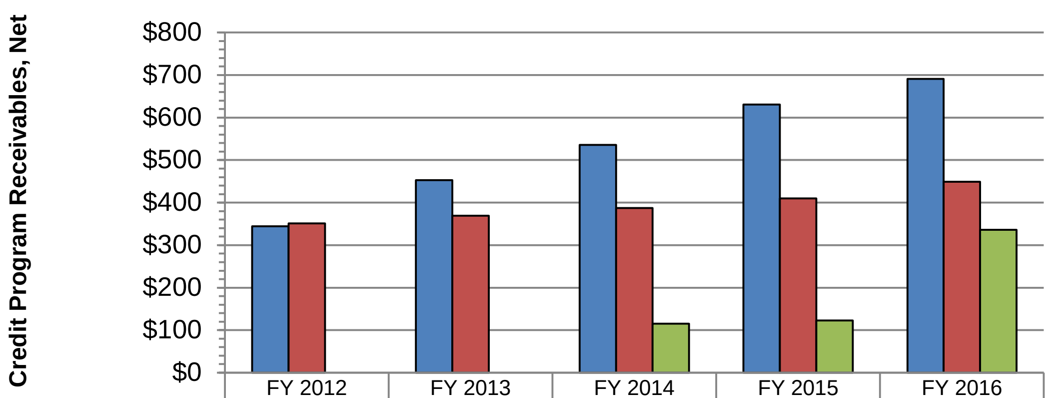
	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Principal	$132.0	$127.8	$123.2	$114.7	$109.8
Accrued Interest	$15.1	$15.8	$16.6	$17.5	$18.2
Subsidy	$(1.0)	$2.1	$3.1	$2.5	$(13.1)
Total Receivable	$146.1	$145.7	$142.9	$134.7	$114.9
Total Recipients	9.2	8.7	8.4	7.9	7.5

Chart 8 illustrates that although it is still the major component of the FFEL portfolio of credit program receivables, net, the ECASLA FFEL portfolio segment has declined throughout the five-year period shown, both in dollar terms (from $113.8 billion to $82.9 billion) and as a percentage of total FFEL (from 77.9 percent to 72.2 percent). This trend was mainly due to reductions in the principal balance outstanding as borrowers consolidated their loans to take advantage of features such as simplified repayment with a single bill to repay monthly, an extended repayment period to reduce monthly payments and access to alternative repayment plans. In addition, revised estimates of increased subsidy costs resulted in a further $6.8 billion reduction in the net credit program receivable balance outstanding. The latter is discussed more fully in the Statement of Next Cost section, and in **Note 5**.

Over the same five year period, the much smaller FFEL Guaranteed portfolio segment first increased by $8.2 billion (25.4 percent) from FY 2012 to FY 2015 and then declined by $8.5 billion in the last twelve months. The initial increase was mainly due to the inclusion in FY 2015 of a $3.4 billion adjustment for negative liability for Loan Guarantee (not included in FY 2012) together with a $2.1 billion increase in interest and fees payable. The subsequent balance reduction was mostly attributable to a $7.5 billion reduction in negative subsidy (as for the ECASLA FEEL portfolio) together with a $1.9 billion increase in principal outstanding. The overall impact of changes in the principal, accrued interest and subsidy components of the FFEL portfolio are shown in Chart 9[12]. The concurrent reduction in FFEL recipients during the period FY 2012–16 also demonstrates the impact of debt consolidations and refinancing on the outstanding portfolio balance.

Other Credit Program Receivables, Net. TEACH Grants, Perkins loans, and HEAL loans make up the third and final segment of Credit Programs Receivable, net that FSA reports on its balance sheet. This segment more than doubled during the past five years but still accounted for only 0.1 percent of FSA's total loan portfolio throughout that period and ended September 2016 with a balance of just $1.5 billion.

Chart 10: Federal Student Aid Other Loan Portfolio
Fiscal Years 2012–16
(*Dollars in Millions*)



	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
TEACH Grant Program	$344	$453	$536	$631	$691
Perkins Loan Program	$351	$369	$387	$410	$449
HEAL	$-	$-	$115	$123	$336

[12]Recipients in Millions for FY 2012–16 are based on data published by the FSA Data Center, at: https://studentaid.ed.gov/sa/about/data-center/student/portfolio.

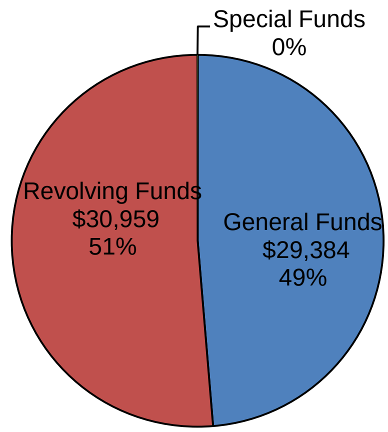
The TEACH program comprised $691 million of the “Other” loan portfolio, representing 46.8 percent of the September 2016 balance and $347 million or 44.4 percent of the increase in the “Other” category over the past five years.

The Perkins program accounted for 30.4 percent of the September 2016 “Other” loan portfolio balance, but only 12.5 percent of the “Other” category increase over the FY 2012–16 period.

The HEAL program, transferred to the Department and FSA from the U.S. Department of Health and Human Services in FY 2014, reported a September 2016 ending balance of $336 million. This represented an increase of $213 million compared to the prior-year, mostly due to elimination of the $193 million Loan Guaranty Liability together with a reduction in the allowance for subsidy ($28 million).

Fund Balance with Treasury. FSA’s Fund Balance with Treasury represents the funds it has available to pay its current liabilities, make purchases and finance authorized loans to borrowers. Treasury processes cash receipts from borrowers and cash disbursements for FSA’s loan and grant programs. As show in Chart 11, as of September 30, 2016, FSA reported a Fund Balance with Treasury amount of $60.4 billion of which about 49 percent or $29.4 billion represented general funds. Revolving funds comprised most of the remaining 51 percent or $31.0 billion, derived from borrowings, as well as collections from the public and other federal agencies. FSA also reported $15 million in Special funds (including fees collected on delinquent or defaulted Perkins loans) that accounted for only 0.2 percent of the total.

Chart 11: Fund Balance with Treasury
Fiscal Year 2016
(Amount in millions and percentage of total)

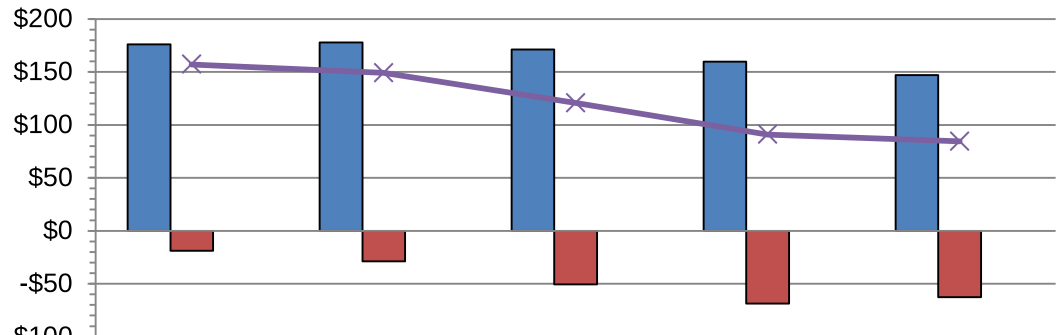


The September 30, 2016 Fund Balance with Treasury amount was 11.2 percent below that at FY 2015 year-end, a $7.6 billion decrease. The decrease was principally attributable to increased activities in the Direct Loan program which decreased the year-end balance by $7.9 billion. Activities included reduced net new borrowings compared to the prior year ($20.4 billion), increased net interest payments to Treasury ($2.9 billion) and increased disbursements to borrowers ($1.3 billion) offset by increased collections ($8.5 billion). The account beginning balance was also higher by $5.7 billion, accounting for most of the remaining year-on-year variation. A further reduction of almost 1.0 billion was attributable to the combined Perkins Loan and Grants Programs due to decreased program funding and reduced collections of defaulted Perkins principal and grant overpayments, net of a decrease in Pell Grant Disbursements and increased collection of miscellaneous receipts during FY 2016. These overall decreases were offset by FFEL-related activity ($1.2 billion increase), as a net result of where collections of principal, interest, and fees ($25.3 billion) and subsidy appropriations and borrowings ($1.6 billion) were offset by default claim payments ($6.8 billion), debt repayments ($8.6 billion), interest payments to Treasury ($5.0 billion), subsidy-related transactions ($2.5 billion) and other activity ($2.9 billion). Please refer to **Note 3** for more details

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, 2016, FSA had total liabilities of $1.1 trillion, an increase of $72.9 billion or 6.8 percent over the September 30, 2015 total, a higher rate of increase than the 4.7 percent growth in FSA's total assets.

Debt. With a September 30, 2016 balance of $1.1 trillion, FSA's debt is the primary component of its liabilities, accounting for 98.9 percent of the total. 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 Charts 12 and 13.

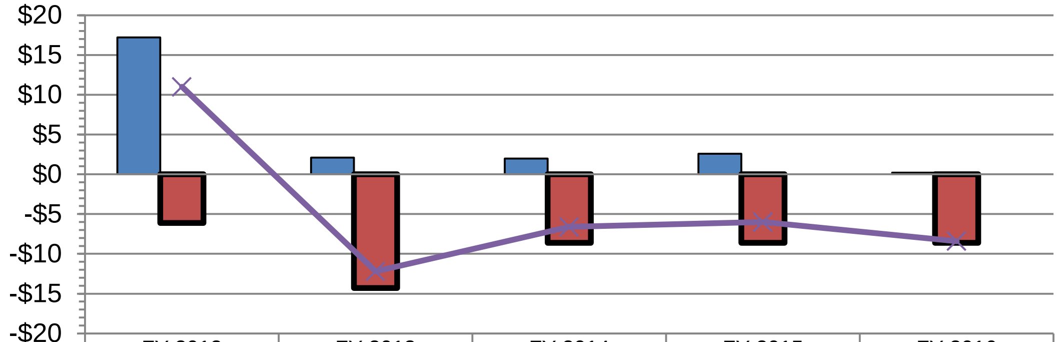
Chart 12: Direct Loan Program Net Financing Activity
Fiscal Years 2012–16
(*Dollars in Billions*)



	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Borrowing	$175.9	$177.7	$171.2	$159.7	$147.0
Repayments	$(18.9)	$(28.7)	$(50.6)	$(68.7)	$(62.6)
Accrued Interest	$-	$-	$-	$-	$-
Net Change	$157.0	$149.0	$120.6	$90.9	$84.4

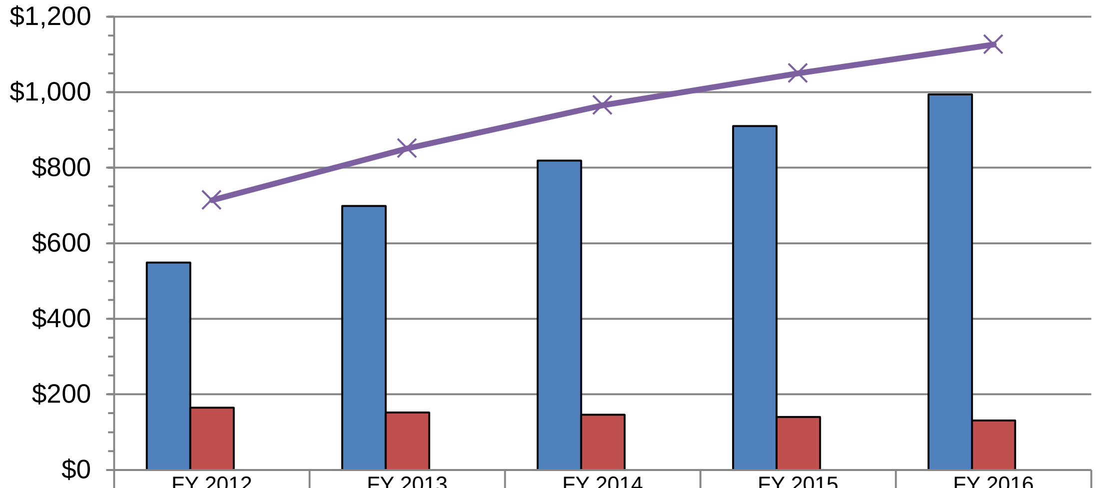
FSA's FY 2016 Debt ending balance was also 7.2 percent above the prior year amount, continuing the trend of increasing debt levels seen over the past five years. The Direct Loan program, as shown in Chart 14, was the principal debt component throughout the FY 2012–16 period, and ended FY 2016 with a $994.3 billion balance, 9.3 percent above the prior year amount, representing 88.3 percent of total debt. Direct Loan net financing activity (Chart 12) 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, FFEL-related debt decreased consistently from FY 2012–16 (Chart 13). 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.

Chart 13: FFEL Loan Program Net Financing Activity
Fiscal Years 2012–16
(Dollars in Billions)



	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Borrowing	$17.2	$2.1	$2.0	$2.6	$0.2
Repayments	$(6.1)	$(14.3)	$(8.6)	$(8.6)	$(8.6)
Accrued Interest	$-	$-	$-	$-	$-
Net Change	$11.0	$(12.2)	$(6.6)	$(6.0)	$(8.4)

Chart 14: Comparison of Federal Student Aid Debt
Fiscal Years 2012–16
(Dollars in Billions)

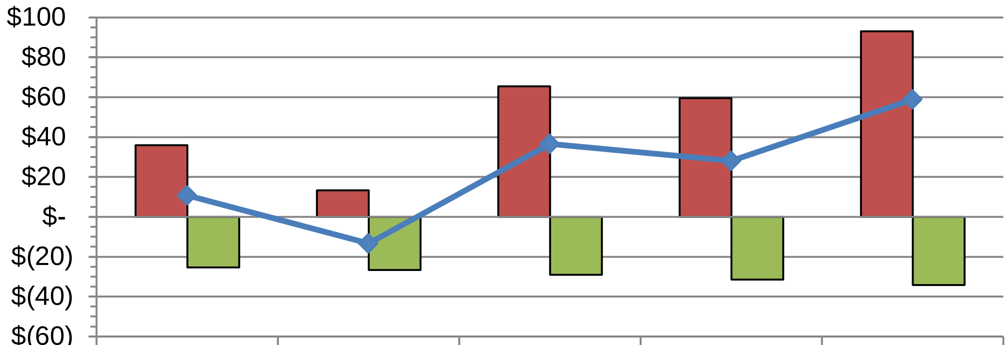


	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
DL Program	$549.3	$698.4	$819.0	$909.9	$994.3
FFEL Program	$164.6	$152.4	$145.8	$139.8	$131.3
Other (TEACH)	$0.4	$0.5	$0.6	$0.6	$0.7
Total Debt	$714.3	$851.3	$965.4	$1,050.3	$1,126.3

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.

Chart 15: Composition of FSA Net Cost
Fiscal Years 2012–16
(*Dollars in Billions*)



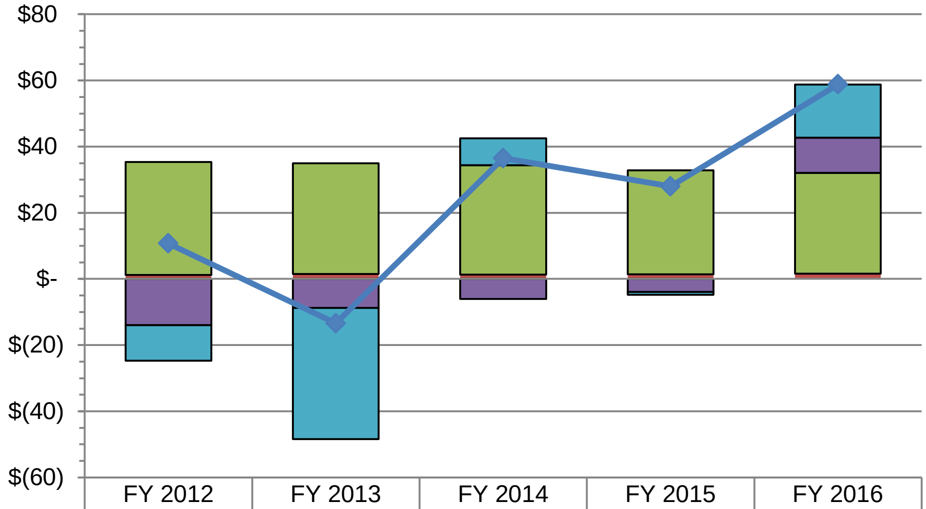
	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Gross Costs	$36.0	$13.3	$65.5	$59.5	$93.0
Earned Revenue	$(25.3)	$(26.7)	$(29.0)	$(31.5)	$(34.2)
Net Costs	$10.7	$(13.4)	$36.5	$28.0	$58.8

As shown in Chart 15, FSA reported net costs for the year ended September 30, FY 2016 of $58.8 billion, compared to $28.0 billion for the twelve months ended September 30, FY 2015. In other words, FSA's total costs exceeded its earned revenues in both years.

The overall FY 2015–16 change in net costs was the result of a $33.5 billion increase in Gross Costs (of which $19.6 billion was attributable to the Direct Loan Program, and $14.4 billion was attributable to the FFEL program) offset by a $2.7 billion increase in Earned Revenue (of which $2.6 billion was attributable to the Direct Loan Program). Therefore the Direct Loan Program, which reported an FY 2016 net cost where Costs exceeded revenues by $16.1 billion, contributed $17.0 billion toward the $30.8 billion overall increase in net costs, while the FFEL program contributed $14.5 billion.

Charts 16–20 demonstrate how different FSA programs have contributed to FSA's total gross costs, earned revenues and net costs over the past five fiscal years. Over this period, grants programs have made the largest program contribution to total net costs annually, but this contribution has declined steadily, from $34.2 billion in FY2012 to only $30.5 billion in the year just ended. This contrasts to the net contribution from the direct loan program, which is highly variable due to the impact of subsidy transactions. Conversely, the contribution from the FFEL program to FSA's overall net cost has trended decreasingly less negative (i.e. net costs have increased) from a negative net cost of $(14.0) billion in FY 2012 to $(3.9) billion in FY 2015 and $10.6 billion in FY 2016. The increase in FY 2016 was primarily due to collection rates on defaulted FFEL loans being lower than anticipated in FY 2016.

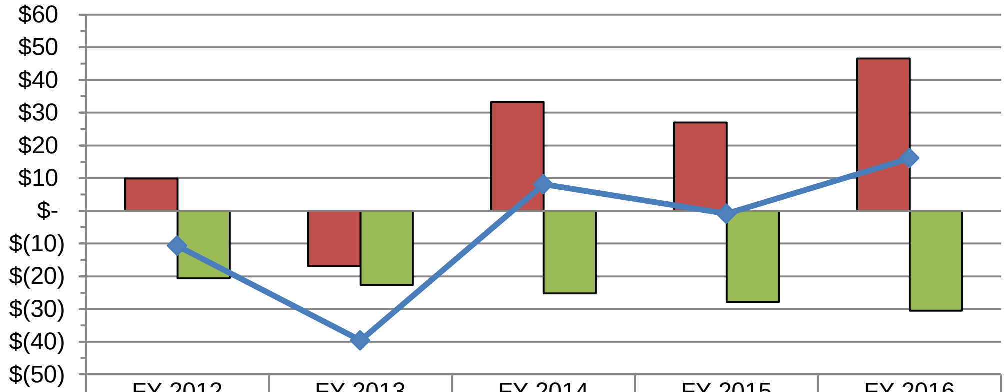
Chart 16: Program Contributions to FSA Net Cost
Fiscal Years 2012–16
(*Dollars in Billions*)



	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
DL Program	$(10.7)	$(39.6)	$8.1	$(0.9)	$16.1
FFEL Program	$(14.0)	$(8.8)	$(6.0)	$(3.9)	$10.6
*Grants Programs	$34.2	$33.5	$33.1	$31.4	$30.5
**Other Programs	$1.2	$1.5	$1.3	$1.4	$1.6
Total FSA Net Cost	$10.7	$(13.4)	$36.5	$28.0	$58.8

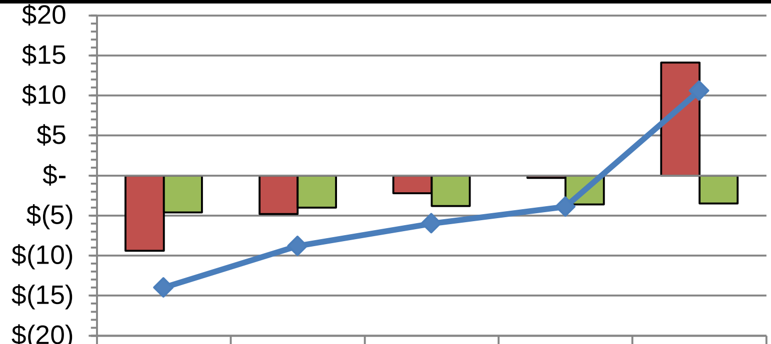
*Grants Programs include Federal Perkins Loan and Grants Programs
***Other Programs Include TEACH, Administrative Programs, Heal (from FY 2014) and Recovery Act (FY2012 only)

Charts 17: Composition of FSA Direct Loan Program Net Costs
Fiscal Years 2012–16
(*Dollars in Billions*)



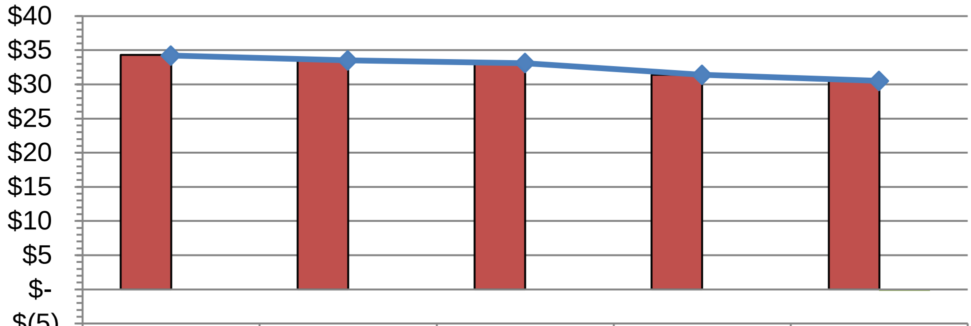
	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Gross Costs	$9.9	$(16.9)	$33.3	$27.0	$46.6
Earned Revenue	$(20.6)	$(22.7)	$(25.2)	$(27.9)	$(30.5)
Net Costs	$(10.7)	$(39.6)	$8.1	$(0.9)	$16.1

Chart 18: Composition of FSA FFEL Loan Program Net Costs
Fiscal Years 2012–16
(*Dollars in Billions*)



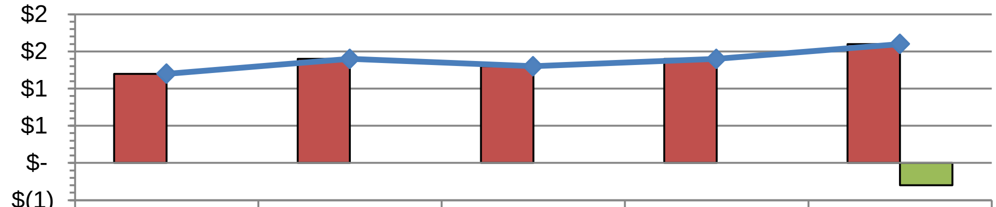
	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Gross Costs	$(9.4)	$(4.8)	$(2.2)	$(0.3)	$14.1
Earned Revenue	$(4.6)	$(4.0)	$(3.8)	$(3.6)	$(3.5)
Net Costs	$(14.0)	$(8.8)	$(6.0)	$(3.9)	$10.6

Chart 19: Composition of FSA Perkins Loan Program and Grants Net Costs
Fiscal Years 2012–16
(*Dollars in Billions*)



	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Gross Costs	$34.3	$33.6	$33.1	$31.4	$30.7
Earned Revenue	$-	$-	$-	$-	$(0.2)
Net Costs	$34.2	$33.5	$33.1	$31.4	$30.5

Chart 20: Composition of FSA Other Program Net Costs
Fiscal Years 2012–16
(*Dollars in Billions*)



	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Gross Costs	$1.2	$1.4	$1.3	$1.4	$1.6
Earned Revenue	$-	$-	$-	$-	$(0.3)
Net Costs	$1.2	$1.4	$1.3	$1.4	$1.6

The overall change in net costs during the five year period illustrated was mainly the result of subsidy related transactions. Both FFEL and Direct Loans 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. A loan subsidy, the portion of cost paid by the federal government, is calculated for groups of loans known as cohorts, based on the fiscal year in which the loan award is made or the funds are committed. Under the *Federal Credit Reform Act of 1990*, this subsidy cost reflects the Department's estimate of the net present value of future cash flows associated with the Direct Loan or FFEL Programs, and must be recalculated for all outstanding loans by cohort group on an annual basis. Program changes, economic conditions and borrower repayment patterns all impact subsidy estimates and re-estimates, but the biggest factor is the changing relationship between the Government's estimated cost of borrowing and the interest rate at which borrowers repay their loans. Updated assumptions in FY 2016 reflect lower collections on defaulted loans than expected and higher costs of collections due to more borrowers than anticipated selecting income-based repayment plans that are more costly to administer in terms of increased loan forgiveness costs. As discussed in **Note 5**, even small changes in economic projections may produce substantial movement, up or down, in the subsidy rate, resulting in an upward or downward re-estimate of the subsidy cost relating to outstanding loans, which will in turn be reflected in an increase or decrease in FSA's gross and net costs.

The net impact of these various factors in FY 2016 on the Direct Loan program was a $21.8 billion upward adjustment of Direct Loan re-estimated subsidy cost compared to a $4.6 billion downward adjustment for the prior year, an overall increase in the Direct Loan Program subsidy cost of $26.5 billion. This year-on-year difference was reduced by a $9.9 billion loan modification cost that occurred in FY2015 only, explaining the overall change in Direct Loan net costs of $17.0. With respect to the FFEL program, the increased net costs relates mainly to a $10.2 billion net upward adjustment to the FFEL guaranteed re-estimated subsidy cost in FY 2016, compared to a $3.9 billion net downward adjustment the prior year. The net upward re-estimate was primarily due to collection rates on defaulted loans being lower than anticipated. Please refer to **Note 5**, for more details.

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, and 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.

FSA's net position as of September 30, 2016 was $1.7 billion negative, a decrease of $22.0 billion, or 108 percent compared to the previous September 30 net position of $20.3 billion. The difference reflects a decrease in the cumulative results of operations by the amount of $20.2 billion, from $(8.0) billion, to $(28.2) billion, of which $(12.6) billion related to the Direct Loan Program and a further $7.5 billion was attributable to the FFEL program. In addition, unexpended appropriations also decreased by 1.8 billion, of which a $1.8 billion decrease was attributable to the combined Perkins Loan and Grants programs.

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, 2016, FSA had $286.4 billion in combined budgetary resources, of which $16.5 billion remained unobligated and not apportioned. This compared to $301.6 billion in budgetary resources twelve months earlier of which $15.5[13] billion were unobligated and not apportioned. The $15.2 billion reduction in budgetary resources represented a 5.0 percent decrease. The Direct Loan Program accounted for $13.3 billion of this reduction, mainly due to a $13.8 billion decrease in appropriation upward subsidy re-estimates and modification. There was also another $1.2 billion reduction attributable to the Perkins Loan and Grants Programs.

FSA's Net Outlays after Distributed Offsetting Receipts as of September 30, 2016 were $114.7 billion, a decrease of $6.8 billion or 5.6 percent compared to the prior September 30 amount of $121.5 billion. The Direct Loan Program accounted for $7.1 billion of this change, with an additional $1.9 billion reduction attributable to the combined Perkins Loan, and Grants Programs. These combined reductions were offset slightly by a $2.1 billion increase attributable to the FFEL Program. Additional information is provided in **Note 12**.

More details on FSA's sources of funds and spending are presented in the **Schedule of Spending** located in the *Other Information* section. This schedule includes the sections, "What Money is Available to Spend" and "How Was the Money Spent"

[13]The *FY 2015 Annual Report* reported $15.9 billion in budgetary resources that were unobligated and not apportioned.

Financial Management Risks

As mentioned previously, FSA must mitigate several financial management risks in order to protect borrower and taxpayer interests. While not directly reflected on the financial statements as detailed, they are overarching risks going forward that cannot be ignored. These risks include:

Administrative Budget. Many of the organization's costs are driven by volume activities, such as grant or loan origination and disbursement, and loan servicing. For example, loan-servicing costs are driven by the number of borrower accounts, the repayment status of a borrower's loan(s), and the timing of the borrowers' loan disbursements. The budgeting formulation process generally sets the initial administrative budget for a fiscal year 18 months before the start of that fiscal year. However, even a small variation in any of FSA's volumes can significantly impact its budget. This places all other expenditures and plans associated with those expenditures at risk. This risk must be managed as long as the federal government pays for mandatory Direct Loan expenditures using discretionary administration funding.

As of the end of this fiscal year, the House and Senate are proposing to fund Student Aid Administration loan-servicing activities at $855 million, $44 million short of the level proposed in the FY 2017 President's Budget. In addition, the anticipated FY 2017 costs of loan servicing have increased by $17 million from the point in time when the FY 2017 President's Budget was established. This is in part because the Department has been more successful than expected at keeping borrowers current on their loans, because under the terms of its servicing contracts, the Department pays higher servicing rates on borrower loans that have a "current" status than if they are in a delinquent or default status. In addition, more loans than originally forecasted moved from an "in school" to an "in grace" status, which also resulted in higher overall costs being incurred. In total, these changes will result in a $61 million loan servicing budget shortfall that must be cut from other operations, given the risky budgeting process. These cuts would have devastating impacts on the operations of Federal Student Aid. A few examples are listed below:

- Increases the likelihood of a data breach or system intrusion, which would place personally identifiable information of over 130 million students and borrowers at risk;
- Increases the risk of school oversight failures and limits the ability to address school oversight challenges for over 6,000 schools;
- Decreases ability to provide loan servicing oversight necessary to protect over 42 million borrowers and limits the ability to address contractor oversight and system implementation issues;
- Increases the risk of a systems infrastructure failure and limits the ability to manage system change, which would jeopardize the delivery of over $125.7 billion of aid annually;
- Decreases transparency to the public and limits the ability to support policy decisions with data;
- Decreases the outreach and awareness efforts to tens of thousands of students that are most in need of assistance; and

- Eliminates plans to address thousands of Office of Inspector General (OIG) fraud referrals. In January 2013, OIG estimated there was $187 million in fraud from student aid fraud rings between Award Years 2009 and 2012.

System/Service Implementations. Recent major system implementation efforts continue to be very successful, including the implementation of the FSA Feedback System, the StudentAid.gov re-competition, and the Title IV Origination and Disbursement system implementation. Over the next few years, FSA will continue to re-compete contracts associated with several of its major business processes, primarily those that focus on application processing, loan servicing, and its technology infrastructure. Managing multiple re-competes and new system implementations at the same time creates a number of risks. To mitigate risks of these large and complex implementations, FSA must be vigilant in many ways, including the following.

- Ensure that knowledgeable staff have sufficient time to work on all of the relevant implementations, given FSA's large and complex operating environment.

- Ensure that FSA's tightly integrated systems that are in the process of changing at the same time do not implement conflicting requirements.

- Ensure that project and portfolio management practices are in place to maintain effective management control over all of the implementations.

Exacerbating this risk associated with contract re-competes are the numerous program changes that FSA has been asked to implement in recent years, and which will continue to be required of FSA into the foreseeable future.

FSA continues to manage the risks associated with system/service implementations through a robust and dynamic investment management process. This includes the use of an active investment review board, the application of a lifecycle management methodology, and at least monthly reviews of the investment portfolio's performance. In addition, FSA continues to expand needed oversight and monitoring capacity throughout its operating environment.

Improper Payments. Based on OMB criteria, programs susceptible to significant improper payments that are administered by FSA include the Direct Loan Program and the Pell Grant Program, both of which were designated as "high priority" by OMB. FY 2016 outlays for these programs were as follows:

- Direct Loan Program: $97.1 billion
- Pell Grant Program: $28.2 billion

In FY 2016, FSA documented and assessed 328 improper payment related controls in its internal control framework and found that the risk of improper payments is effectively mitigated. FSA has implemented a framework of continuous controls monitoring and process evaluation, striving for zero improper payments. While zero percent improper payments is infeasible, that continues to be the goal until the Department, working with OMB, can establish the appropriate risk tolerance threshold.

For more information regarding FSA's assessment of improper payment risk and planned strategies to mitigate this risk, please refer to the Improper Payments Reporting Details narrative in the Other Information section located in the ***U.S. Department of Education FY 2016 Agency Financial Report (AFR).***

Debt Collection. As of September 30, 2016, the Department managed a Net Credit Program Receivable portfolio of approximately $1,075.2 billion, an increase of 5.8 percent from FY 2015. 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 loans, and TEACH Program receivables. As of September 30, 2015, the Department was responsible for administering 83 percent of the net loans receivable for the federal government and that percentage will likely grow from year to year. 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 what can sometimes appear to be opposing outcomes of maximizing collections, while minimizing negative borrower impacts. During FY 2016, FSA saw continued decline in the portfolio's three-year default rate, from 11.8 percent reported in FY 2015 for the FY 2012 three-year cohort default rate to 11.3 percent reported in FY 2016 for the FY 2013 three-year cohort default rate. FSA also increased its collection rate from $51.58 to $53.07. This demonstrates continued progress in default rate reductions, while increasing 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, can be found in the ***Annual Performance Report*** section of this *Annual Report*.

While FSA is proud of these outcomes, the very size of the Federal student loan portfolio presents a significant financial management risk to the Federal government. Therefore, FSA continuously seeks to improve on these results. For example, FSA has been developing new collection cost analysis to break this collection rate metric down by collection channel. This more detailed performance metric will assist FSA, the Department, and the federal government in making more informed debt collection decisions.

Guaranteed Loan Portfolio. As of September 30, 2016, the $259.2 billion guaranteed loan portfolio (non-ECASLA FFEL) included principal balances owned by private lenders and the guaranty agencies, and principal, interest and fees held by FSA (unassigned serviced by guaranty agencies or assigned serviced by FSA). This is an overall decrease of 7.8 percent in the guaranteed FFEL portfolio since the end of last fiscal year. Because the SAFRA Act ended the origination of new FFEL loans, FSA needs to ensure that the infrastructure (i.e., participating organizations processes, controls, and systems) continues to be sufficient to administer federal student loans consistent with relevant laws and regulations.

FSA monitors the balances of Guaranty Agency Operating Funds and federal student loan reserve funds (Federal Funds) to identify risks associated with those funds. Specifically, these funds are monitored to protect federal assets, to ensure timely payment of lender claims, and to ensure that FFEL borrowers receive the service to which they are entitled. While FSA understands the need to remain constantly vigilant, there have been no losses of federal funds; it is not aware of any lender claims being paid untimely; nor is it aware of any instance where an insufficient Operating Fund level has caused a FFEL borrower to not receive the services to which the borrower was entitled.

Analysis of Systems, Controls, and Legal Compliance

FSA management 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, including the use of the entity's resources;
- Reliability of financial reporting, including reports on budget execution, financial statements, and other reports for internal and external use; and
- Compliance with applicable laws and regulations.[14]

FSA management is responsible for establishing and maintaining effective internal control 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 July 15, 2016, OMB updated OMB Circular A-123 to include requirements for Enterprise Risk Management. FSA is coordinating with the Department and internally on plans to execute these requirements in FY 2017. For example, FSA's Chief Risk Officer and Chief Financial Officer are collaborating to leverage the Circular A-213 internal control assessment to identify financial and non-financial risks and to assist with building out the organization's risk profile.

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, for the year ended September 30, 2016, was operating effectively, except where noted in the *Legal Compliance* section of the Department's ***AFR***.

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

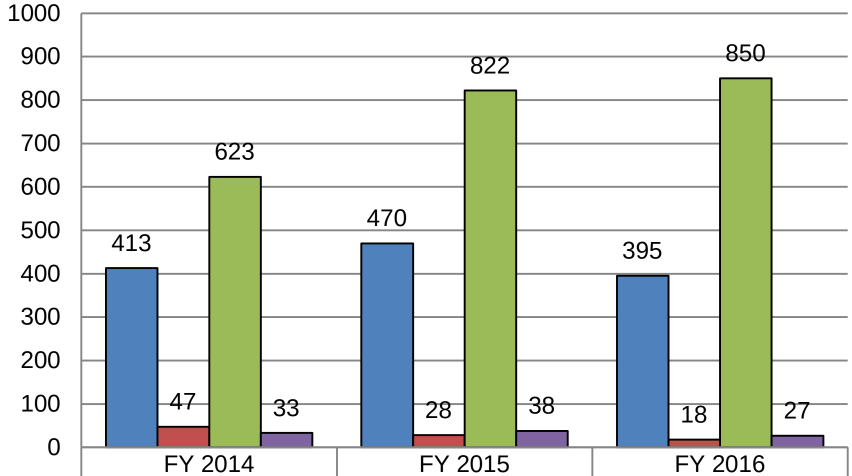
In addition, FSA, working with the Department's management, conducted its current year assessment of the effectiveness of internal control over financial reporting in accordance with the requirements of Appendix A of OMB Circular A-123. The scope of FSA's assessment included, based on a rotation plan, the following processes and select sub-processes (notated in parentheses below), and systems that impact the Department's financial statements:

- Debt Collection*
- Student Eligibility Service Group
- Direct Loan Origination
- Student Eligibility
- Grant Program Operations (Pell Grant and TEACH*)
- Financial Reporting (Analytics, Monthly Reconciliations, Preparation of FSA Annual Report, and Year-End Closing)
- Funds Control Management (Automated Budget Entries, Budget Execution, Budget Formulation, Cross Validation Rules, Summary Templates, and Segment Value Updates)
- Procurement Management (Contract Acquisition, Purchase cards, and Monthly Contract Accruals)
- Human Resource Management (Time and Attendance, Personnel Transactions, and Personnel Security Management)
- Servicing of Direct Loans and ECASLA-acquired FFEL Program Loans by four Title IV Additional Servicers (TIVAS)* and five Not-For-Profits (NFPs)*
- Federal Perkins Loans*
- Servicer Oversight
- Borrower Defense
- Entity-Level Controls
- Information Technology Controls over the following systems: Financial Management System, Debt Management and Collections System*, Access and Identity Management System, Financial Partners Data Mart, Person Authentication Service, Participation Management, Student Aid Internet Gateway, Common Origination Disbursement*, the Virtual Data Center*, four TIVAS Servicing Systems*, five NFP Servicing Systems*, and the Federal Perkins Loan Servicing System*.

In FY 2016, FSA continued to rely significantly on audits of loan servicers conducted by independent public accountants in accordance with Statement on Standards for Attestation Engagements (SSAE) Number 16, Reporting on Controls at a Service Organization. In the list above, an asterisk (*) indicates full or partial reliance on SSAE16 Service Organization Control 1 (SOC1) reports for relevant process and IT controls.

With this reliance on SSAE 16 SOC1s, the number of key process controls assessed in FY 2016 was 1,245 process and entity level controls. As illustrated in Chart 21, the breakdown of this total number of key process controls assessed includes 850 controls covered by SSAE 16 SOC1s and 395 tested by the FSA self-assessment team. FSA utilizes a three-year rotation plan as part of its A-123 framework to identify and test controls. This allows for a focused approach on high-risk areas, while ensuring all controls are covered over a three year period. As such, there was a decrease in the total number of controls assessed for operating effectiveness, and consequently a decrease in identified deficiencies for the associated controls. The table below illustrates the total number of controls assessed and deficiencies identified over a three-year period. The number of deficiencies depicted below for FY 2016 (45) includes deficiencies identified from both SSAE16 SOC1 reports (27) and A-123A testing (18). These deficiencies individually and taken together do not materially affect financial reporting. Corrective actions are in the process of being finalized to prevent reoccurrence and ensure control objectives are achieved.

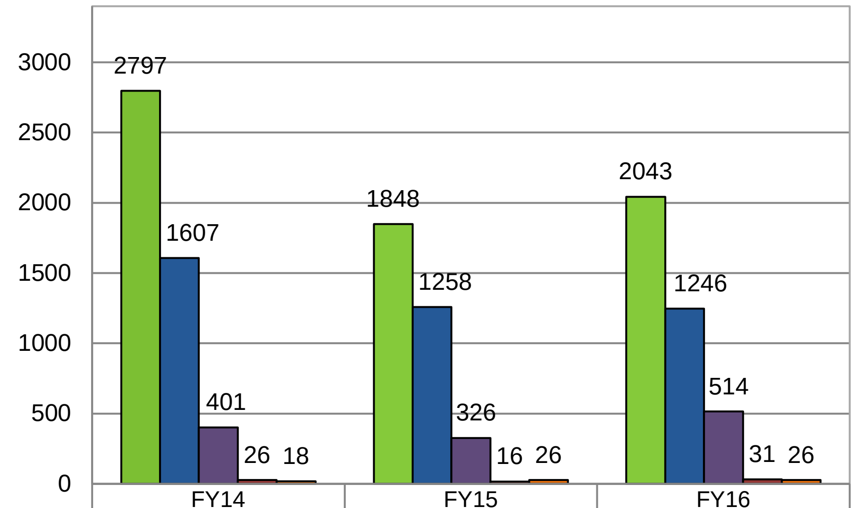
Chart 21: FSA A-123A Process and Entity Level Controls and Deficiencies Analysis Fiscal Years 2014–16



	FY 2014	FY 2015	FY 2016
Controls Tested by A-123A Team	413	470	395
A-123A Deficiencies Identified	47	28	18
Controls Tested by SSAE16 SOC1s	623	822	850
SSAE16 SOC1 Deficiencies	33	38	27

As illustrated in Chart 22, the total number of IT controls subject to assessment increased from FY 2015 to FY 2016. This increase is the result of several additional systems being included in the scope for testing of operating effectiveness for FY 2016. The total number of IT controls assessed was 1,760 and includes 1,246 controls covered by SSAE16 SOC1s and 514 tested by the FSA self-assessment team. The number of deficiencies depicted below for FY 2016 (57) includes deficiencies identified from both SSAE16 SOC1 reports (26) and A-123A testing (31). The number of controls assessed increased, as did the total number of deficiencies identified in FY 2016. These deficiencies individually and taken together do not materially affect financial reporting. Corrective actions are in the process of being finalized to prevent reoccurrence and ensure control objectives are achieved.

Chart 22: FSA A-123A IT Controls and Deficiency Analysis
Fiscal Years 2014–16



	FY14	FY15	FY16
Total IT Controls	2797	1848	2043
SSAE16 Assessed IT Controls	1607	1258	1246
A-123 Tested IT Controls	401	326	514
A-123 Deficiencies Identified	26	16	31
SSAE16 SOC1 Deficiencies Identified	18	26	26

Based on the results of this evaluation, FSA provided reasonable assurance to the Department's management that its internal control over financial reporting as of June 30, 2016 was operating effectively.

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 2016 and FY 2015 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.

Annual Performance Report

Overview of the Annual Performance Report

This section highlights information on the Federal Student Aid's performance, financial statements, systems and controls, compliance with laws and regulations, and actions taken or planned to address select challenges.

The Annual Performance Report of and the FSA Annual Report provides information on FSA's progress in achieving the goals and objectives described in the *Strategic Plan*. It includes sections listed below.

Introduction to the Annual Performance Report

This subsection introduces the readers to the FSA's *Annual Performance Report* and the subsequent performance metrics. It provides a summary of the performance metrics, the targets, and the actual performance results for the fiscal year.

Performance Results by Strategic Goal

This subsection details the results of the 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.

FY 2016 Accomplishments of Federal Student Aid

The subsection describes additional accomplishments that were not measured specifically 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 originated FSA.

Report of the Federal Student Aid Ombudsman

The Report of the Federal Student Aid Ombudsman is a required section that discusses its activities in accomplishing its statutory mission of addressing complaints about the Title IV financial aid programs.

Table 1: Fiscal Year 2016 Performance Highlights of Federal Student Aid

Performance Metrics	FY 2016 Target	FY 2016 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	59.5%–61.5%	57.5%	✗	64
A.2 Persistence among First-Time Filing Aid Recipients	78.5%–80.5%	79.7%	✓	65
A.3 Customer Visits to StudentAid.gov	>=43.4 million	47.2 million	✓	66
A.4 Social Media Channel Subscribership	>454,000	528,251	✓	67
A.5 ACSI Aid Life Cycle Surveys	74	70.4	✗	68
Strategic Goal B: ***Proactively manage the student aid portfolio to mitigate risk.***				
B.1 Improper Payment Rate	N/A	4.85%	N/A	69
B.2 Percent of Borrowers > 90 days Delinquent	9.9%	8.8%	✓	71
Strategic Goal C: ***Improve operational efficiency and flexibility.***				
C.1 Aid Delivery Costs per Application	$13.11	$11.53	✓	72
C.2 Outstanding Direct Loan Portfolio in Current Repayment Status	85.3%	85.4%	✓	73
Strategic Goal D: ***Foster trust and collaboration among stakeholders.***				
D.1 Ease of Doing Business with FSA	74.3–77.3	72.3	✗	75
D.2 Percentage of Contract Dollars Competed by FSA	89.3%–91.3%	92.9%	✓	76
D.3 Collection rate	$51.79	$53.07	✓	77
Strategic Goal E: ***Invest in expanded workforce capability.***				
E.1 Employee Engagement Index	66.9%–68.9%	67.4%	✓	78

Introduction to the Annual Performance Report

To guide FSA towards achieving its vision "To be the most trusted and reliable source of student financial aid, information, and services in the nation," the organization updated its *Five-Year Strategic Plan* to document 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 current strategic plan, *FSA Strategic Plan, FY 2015–19* was implemented at the beginning of FY 2016. This plan builds on the previous strategic plan by clarifying FSA's objectives and updating organizational performance standards to reflect more clearly its progress in meeting the stated objectives. The strategic goals are as follows:

- **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 current 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 on FSA's strategic goals and its performance metrics, click on the following link to go directly to the *FSA Strategic Plan, FY 2015–19.*

StudentAid.gov/strategic-planning-reporting

FSA Strategic Plan, FY 2015–19	
Mission **Funding America's Future, One Student at a Time** **Vision** **To be the most trusted and reliable source of student financial aid, information, and services in the nation**	
Strategic Goals	**Objectives**
Strategic Goal A 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, t4raining and tools to improve institutional performance and help postsecondary institutions understand responsibilities and requirements under the Higher Education Act.
Strategic Goal B 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 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 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 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.

The following table provides a summary of results, by Strategic Goal, as measured by the FY 2016 performance metrics.

Table 2: Summary of Performance Results by Strategic Goal

Strategic Goal	Met	Not met	No target	N/A	Total
Goal A: *Improve quality of service for customers across the entire student aid life cycle.*	3	2	–	–	**5**
Goal B: *Proactively manage the student aid portfolio to mitigate risk.*	1	–	–	1	**2**
Goal C: *Improve operational efficiency and flexibility.*	2	–	–	–	**2**
Goal D: *Foster trust and collaboration among stakeholders.*	2	1	–	–	**3**
Goal E: *Invest in expanded workforce capability*	1	–	–	–	**1**
Total	**9**	**3**	–	**1**	**13**

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 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 (i.e., September 30, 2016) unless otherwise noted. If the required data are not available as of fiscal year-end in sufficient time for inclusion, data as of the most recent reporting period available are presented. Fiscal year-end data may not be available in instances where the required data are obtained from external sources (i.e., state and private nonprofit guaranty agencies, lenders and loan servicers, grant and loan recipients, etc.).

- **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 3: Performance Metric A.1: Percent of First-Time FAFSA Filers among High School Seniors

Fiscal Year	Target	Actual	Target Achieved	Performance Result
FY 2016	59.5%–61.5%	57.5%	✘	Not met
FY 2015	59.1%–61.1%	60.5%	✓	Met
FY 2014	58.8%–60.8%	60.1%	✓	Met
FY 2013	52.0%–54.0%	52.2%	✓	Met
FY 2012	>=52%	54.0%	✓	Met

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.

Analysis of Progress:
FSA did not meet its target for this metric with a result of 57.5 percent.

The primary reason for the decrease is not that the number of high school seniors completing a FAFSA went down (in fact, the number of seniors filing a FAFSA went up by approximately 6,000) but rather that National Center for Education Statistics (NCES) significantly increased the number of high school seniors they projected. Thanks to an unprecedented FSA awareness and outreach campaign and strong partnerships with college access organizations across the nation, instead of seeing the number of high school seniors who filed a FAFSA shrink, which was expected with improving economic conditions and shrinking college enrollment, the number of seniors who filed a FAFSA increased. FSA will continue to analyze the increasing number of graduating high school seniors to determine how it might more effectively target the outreach and awareness efforts to grow the number of first-time FAFSA filers at the same pace as the growing number of high school graduates.

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 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; incoming freshmen, with or without previous college attendance; age 18 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 and Washington, DC.

Table 4: Performance Metric A.2: Persistence among First-Time Filing Aid Recipients				
Fiscal Year	**Target**	**Actual**	**Target Achieved**	**Performance Result**
FY 2016	78.5%–80.5%	79.7%	✓	**Met**
FY 2015	78.6%–80.6%	79.5%	✓	**Met**
FY 2014	77.5%–79.5%	79.6%	✓	**Met**
FY 2013	**Performance metric established in FY 2014 Prior-year data not available**			**N/A**
FY 2012				**N/A**

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 first-time adult learners, 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. The metric provides FSA with a key contribution to the President's 2020 Goal attainment progress and calculation methodology.

Analysis of Progress:
FSA met its target for this metric with a result of 79.7 percent.

FSA has continued the expansion of outreach initiatives to improve persistence levels among aid filers. The increased efforts related to outreach and digital engagement campaigns have resulted in FSA exceeding its target for a third consecutive year.

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 2014–15 return applicants (by September 30 of the first year of the application cycle) that were identified in the denominator.

Table 5: Performance Metric A.3: Customer Visits to StudentAid.gov				
Fiscal Year	**Target**	**Actual**	**Target Achieved**	**Performance Result**
FY 2016	>=43.4 million	47.2 million	✓	**Met**
FY 2015	>=32.7 million	43.3 million	✓	**Met**
FY 2014	>=30.7 million	32.7 million	✓	**Met**
FY 2013	**Performance metric established in FY 2014 Prior-year data not available**			**N/A**
FY 2012				**N/A**

Target Context:
By focusing on overall customer visits to FSA's premier site, 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 with a result of 47.2 million.

FSA continued to exceed its target on this metric again in FY 2016 with a result of 47.2 million customer visits. This represents a more than 9 percent increase in visits over the prior year.

FSA's performance on this metric is a testament to the success of its effort to consolidate disparate sites and systems into a single integrated student experience. Since its launch in 2012, **Studentaid.gov** has evolved into FSA's premier information interface for 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 6: Performance Metric A.4: Social Media Channel Subscribership				
Fiscal Year	**Target**	**Actual**	**Target Achieved**	**Performance Result**
FY 2016	>=454,000	528,251	✓	**Met**
FY 2015	>=368,000	454,066	✓	**Met**
FY 2014	>=296,000	368,042	✓	**Met**
FY 2013	**Performance metric established in FY 2014 Prior-year data not available**			**N/A**
FY 2012				**N/A**

Target Context:
By focusing on overall 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 student aid information across the organization's digitally engaged customer base.

Analysis of Progress:
FSA met its target with a result of 528,251.

FSA greatly exceeded its target on this metric for the third year in a row, with over 528 thousand subscribers to Facebook, Twitter, and YouTube social media channels. FY 2016 results show a 16 percent increase from FY 2015.

In today's information age, digital media techniques are becoming increasingly critical for effective customer engagement. Over 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. This metric helps track FSA's progress in this domain.

Data Quality and Limitations:
This metric is calculated as the aggregate sum of likes, followers, and subscribers across Facebook, Twitter, and YouTube.

Table 7: Performance Metric A.5: ASCI Aid Life Cycle Surveys				
Fiscal Year	Target	Actual	Target Achieved	Performance Result
FY 2016	74	70.4	✘	Not met
FY 2015	77.4–79.4	77.2	✘	Not met
FY 2014	77.4–79.4	78.4	✓	Met
FY 2013	78.0	78.4	✓	Met
FY 2012	>=78	78	✓	Met

Target Context:
To measure the overall customer satisfaction level throughout the student aid lifecycle, FSA calculates a weighted score for the American Customer Satisfaction Index surveys for applicants, students in school, and borrowers in repayment. This performance metric measures how FSA is improving in terms of streamlined processes for customer interaction and the accessibility of information FSA provides to customers.

Analysis of Progress:
FSA did not meet its target for this metric with a result of 70.4.

FSA has seen a shift in scores following last year's changes to the method used to conduct customer satisfaction surveys. The change from live interviewers to an online survey has produced lower satisfaction levels than past years. This is in line with longstanding findings in survey research regarding "social desirability bias"—the tendency of respondents to want to give live interviewers answers that are less conflictual, more like the ones they are "supposed" to give, in order to seem appealing to the interviewer. In the context of satisfaction research, this typically means that respondents will give higher ratings to live interviewers than they will on online forms. In FSA's experience with the methodology used, scores tend to run 3–5 points lower on the 0 to 100 point scale that FSA uses though in some cases the effect is more extreme (e.g., 10-point declines or more). FSA is working to recalibrate its approach to ensure that this target can be met and exceeded in the future."

Data Quality and Limitations:
The American Customer Satisfaction Index (ACSI) survey is conducted annually on 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 8: Performance Metric B.1: Improper Payment Rate				
Fiscal Year	**Target**	**Actual**	**Target Achieved**	**Performance Result**
FY 2016	N/A	4.85%	**N/A**	**N/A**
FY 2015	1.65%[1]	2.38%[15]	✗	**Not Met**
FY 2014	**Performance metric revised in FY 2015 Prior-year data not available under revised method.**			**N/A**
FY 2013				**N/A**
FY 2012				**N/A**

Target Context:
FSA develops and reports annually in the ***AFR*** improper payment estimates for programs determined to be susceptible to significant improper payments. The Improper Payment Rate metric is a single 'blended' rate that divides aggregated estimated improper payments for all programs identified as risk-susceptible for that year by aggregated estimated program outlays. In FY 2015 and 2016, FSA identified the Pell Grant and Direct Loan programs as risk-susceptible.

FSA convened a working group in 2016 with OIG and OMB participating in an advisory capacity to identify, evaluate, and implement improvements to the baseline estimation methodology to address improper payment risks not previously incorporated. At the time 2016 targets were set, it was known that the estimation methodology would change, but not the impact. Accordingly, no target was set for this measure for 2016.

Analysis of Progress:
As noted above and below, the underlying improper payment estimates were calculated using an alternative methodology that was modified from the prior year to include new risks and data sources.

The increase in the improper payment rate over the prior year can be attributed to changes to and the imprecision of the alternative methodology, as opposed to a control failure or increase in actual improper payments in the underlying programs. Nevertheless, FSA continues to enhance its internal control framework to prevent and detect improper payments. For more information on FSA's improper payment program, including improper payment related internal controls for the Pell and Direct Loan programs please see the *Other Information* section of the Department's ***AFR***.

[15]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 OMB-approved FY 2016 improper payment estimation methodology is an alternative, as opposed to statistical methodology. Accordingly, these estimates may lack the precision of other estimates developed using random, statistical methodologies. The alternative methodology is based on an analysis of data obtained from program reviews conducted at schools identified through a risk-based (i.e., non-random) selection process.

The FY 2016 alternative methodology includes improvements over the prior year incorporating risks and sources previously not incorporated. These changes help improve the accuracy and completeness of the estimates.

Table 9: Performance Metric B.2: Percent of Borrowers >90 Days Delinquent				
Fiscal Year	**Target**	**Actual**	**Target Achieved**	**Performance Result**
FY 2016	9.9%	8.8%	✓	**Met**
FY 2015	10.4%	9.8%	✓	**Met**
FY 2014	**Performance metric revised in FY 2015 Prior-year data not available under revised method.**			**N/A**
FY 2013				**N/A**
FY 2012				**N/A**

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 with a result of 8.8 percent.

Reducing the percent of borrowers with loans in a delinquent status has been a major goal of FSA, and success in this metric reflects FSA's accomplishments in this area. Increased utilization of income-based repayment plans and borrower awareness campaigns have helped FSA build on the improvements in FY 2015 and continue to reduce delinquency. The number of accounts between 90 and 270 days delinquent was 10 percent lower than anticipated, while the number of accounts in repayment was about 1 percent higher than expected.

Data Quality and Limitations:
Borrower-based data are collected from TIVAS and NFP invoices. FSA calculates the average number of borrowers serviced by TIVAS and NFPs who are between 91 and 270 days delinquent in the year ending June 30 each year and divides this number by the average number of borrowers in active repayment for the year.

This calculation was adjusted in FY 2015 to better measure all pre-default accounts over 90 days delinquent relative to all accounts where payments are anticipated. The previous FY 2014 target and result were both 8.1 percent.

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

Table 10: Performance Metric C.1: Aid Delivery Costs per Application

Fiscal Year	Target	Actual	Target Achieved	Performance Result
FY 2016	$13.11	$11.53	✓	Met
FY 2015	$12.28	$10.73	✓	Met
FY 2014	$11.94	$11.43	✓	Met
FY 2013	$11.23	$11.16	✓	Met
FY 2012	$10.90	$10.85	✓	Met

Target Context:
FSA has developed two measures to gauge the efficiency of aid delivery. The first unit cost measure is the aid delivery cost per application. This unit cost tracks the direct cost to process FAFSAs and originate aid in the 12–month period, divided by the number of original FAFSAs processed in the period. The fiscal time period measured is July through June. Following the trends of prior fiscal years, the FY 2016 target expected FY 2016 costs to be somewhat higher than previous years. This rise is attributed to the Base Fixed Cost portion of the originations contract, which contains a 4–8 percent annual increase built into the multi-year contract

Analysis of Progress:
FSA met its target with a result of $11.53.

Actual costs were 11 percent lower than projected due to a delay in incurring costs associated with newly negotiated call center services. The number of applications was essentially the same as forecasted.

It is anticipated that the FY 2017 results will be significantly higher due to complexities with the new call center contracts.

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 11: Performance Metric C.2: Outstanding Direct Loan Portfolio in Current Repayment Status				
Fiscal Year	**Target**	**Actual**	**Target Achieved**	**Performance Result**
FY 2016	85.3%	85.4%	✓	**Met**
FY 2015	**Performance metric revised in FY 2016 Prior-year data not available under revised method**			**N/A**
FY 2014				**N/A**
FY 2013				**N/A**
FY 2012				**N/A**

Target Context:
For FY 2016, FSA made the decision to establish a new metric to demonstrate efforts at efficient and effective Direct Loan servicing. The former C2 metric "Loan servicing cost per borrower" relied on an inverse relationship between cost and borrower status. Servicing costs are higher for current borrowers than those in delinquency. Due to this inverse relationship, FSA cost "exceeding" established goals for loan cost per borrower was actually a sign of success in increasing the percentage of portfolio dollars in a current repayment status. A new metric was needed that could more easily demonstrate an increase or decrease in the percentage of FSA loan portfolio dollars in a current status.

FSA created the C2 metric and established the corresponding target in the second quarter of FY 2016. The metric determines the percentage of Direct Loan principal and Interest identified as being in an "active repayment" status that is considered "current". For the purpose of the 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 TPD disability). Direct Loans are further categorized as being "current" if it is no more than 30 days have passed since the next payment date.

Using the average percentage change (0.35 percent) in the four-quarter moving averages from the preceding eight quarters, an FY 2016 fourth quarter target was set at 85.3 percent. To meet the target would require a continued 0.35 percent increase in portfolio dollars current through the third and fourth quarters of FY 2016.

Analysis of Progress:
FSA met its target for this metric with a result of 85.4 percent.

The continued improvement in portfolio dollars current is a direct result of an increased effort to enroll borrowers in income-based repayment and the expanded efforts to provide information on repayment options. Greater resources for borrowers help mitigate the risk of delinquency and default as is evidenced by the results shown this year.

Data Quality and Limitations:

The new C2 metric is calculated using the Direct Loan Portfolio by Delinquency Status Report published by the 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 Active Repayment Status at the non-default servicers. The metric result is computed 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. However, since Data Center report for FY 2016 Quarter 4 was not available as of the date of this report, portfolio values were estimated from alternative sources

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

Table 12: Performance Metric D.1: Ease of Doing Business with FSA

Fiscal Year	Target	Actual	Target Achieved	Performance Result
FY 2016	74.3–77.3	72.3	✗	**Not met**
FY 2015	75.9–77.9	75.8	✗	**Not met**
FY 2014	73–75	77	✓	**Met**
FY 2013	74	74	✓	**Met**
FY 2012	>=72	74	✓	**Met**

Target Context:
FSA works closely with postsecondary institutions to provide millions of 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 every quarter to gauge the "ease of doing business with FSA." The first year for the survey was FY 2011.

Analysis of Progress:
FSA did not meet its target with a result of 72.3.

The lower score for this metric is the result of a number of high profile changes to FSA programs and regulations in FY 2016. The implementation of gainful employment reporting regulations has required a significant effort and coordination between multiple agencies. FSA has also been implementing both prior-prior tax year and early filing pertaining to the FAFSA. These changes will greatly benefit borrowers but also are a massive shift in the traditional student loan landscape, which requires changes in the way postsecondary institutions typically plan. The implementation of these new regulations and programmatic changes will have long-term impacts on borrowers and the organization will see a notable increase in partner experience into FY 2017.

Data Quality and Limitations:
A survey of 10–12 questions, regarding the ease of doing business with FSA, is sent to schools quarterly. The questions focus on the ease of use of FSA's major delivery and information systems.

Table 13: Performance Metric D.2: Percentage of Contract Dollars Competed by FSA				
Fiscal Year	**Target**	**Actual**	**Target Achieved**	**Performance Result**
FY 2016	89.3%–91.3%	92.9%	✓	**Met**
FY 2015	87.7%–89.7%	90.3%	✓	**Met**
FY 2014	85.3%–87.3%	88.7%	✓	**Met**
FY 2013	**Performance metric established in FY 2014 Prior-year data not available**			**N/A**
FY 2012				**N/A**

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 exceeded this metric with a final score of 92.9 percent.

FSA has continued improving the percent of contract dollars competed in each fiscal year and continues to develop and maintain the highest quality standards among enterprise contractors

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 14: Performance Metric D.3: Collection Rate				
Fiscal Year	Target	Actual	Target Achieved	Performance Result
FY 2016	$51.79	$53.07	✓	Met
FY 2015	$36.56	$51.58	✓	Met
FY 2014	$45.65	$35.90	✗	Not met
FY 2013	$34.31	$41.57	✓	Met
FY 2012	Set baseline	$31.90	✓	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 to gauge the efficiency of its back-end systems and processes.

Analysis of Progress:
FSA met its target for this metric with a result of $53.07.

The actual result exceeded the forecast due to lower costs from the implementation of a flat fee for rehabilitations. Contract collection costs were approximately $74 million (or 8 percent) less than anticipated, while loan servicing costs and total collections were at anticipated levels.

If fully implemented, FSA roughly estimates that the changes associated with this guidance may significantly increase the annual cost of loan servicing in FY 2018. The current loan servicing procurement effort will inform the FY 2018 estimate by early 2017. This would more than halve the FY 2018 Collection Rate target to approximately $24.11, if all other costs are held constant. The Department believes that the anticipated improvements to the borrower experience for the 29 million borrowers currently in the portfolio justify the significant expected increase in cost.

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 Private Collection Agency spending. A program from the general ledger captured the amount of collections and repayment.

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

Table 15: Performance Metric E.1: Employee Engagement Index

Fiscal Year	Target	Actual	Target Achieved	Performance Result
FY 2016	66.9%– 68.9%	67.4%	✓	Met
FY 2015	66.7%–68.7%	67.9%	✓	Met
FY 2014	>=64.2%	67.7%	✓	Met
FY 2013	Performance metric established in FY 2014 Prior-year data not available			N/A
FY 2012				N/A

Target Context:
Beginning in FY 2014, FSA has measured its progress on Strategic Goal E via the Employee Engagement Index, based on a subset of questions from the government-wide Federal Employee Viewpoint Survey (FEVS). The Employee Engagement Index is a government-wide standard subset of questions 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 with a result of 67.4 percent.

The FY 2016 target for FSA's Employee Engagement Index was 66.9–68.9 percent. This target provided a 1 percent plus or minus variance from the actual percentage (67.9 percent) achieved in FY 2015. FSA was able to exceed its target for the third consecutive year and saw positive gains in the employee engagement elements "Leaders Lead" and "Supervisors". FSA also saw a 5.5 percent increase in the EVS response rate, which builds on FY 2015 improvements and the overall 16.2 percent increase from FY 2014. More information about the FEVS and the questions included on the survey can be located **Fedview.opm.gov**.

Data Quality and Limitations:
The Employee Engagement Index is calculated as the average of positive response percentages to a predetermined set of questions in the annual FEVS: 3, 4, 6, 11, 12, 47, 48, 49, 51, 52, 53, 54, 56, 60, and 61. These questions can be found on the FY 2016 FEVS located at **Fedview.opm.gov**.

FY 2016 Accomplishments of Federal Student Aid

During FY 2016, FSA realized additional accomplishments that were not measured specifically by the performance metrics implemented to measure performance against FSA's *Strategic Plan, FY 2015-19*. Although not measured by FSA performance metrics, these accomplishments were the result of initiatives FSA undertook to support the implementation of this *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.*

- In FY 2016, FSA successfully launched the FSA Feedback System, a major element of the President's Student Aid Bill of Rights. The feedback system unifies FSA's tracking and reporting of complaints about all phases of the student aid life cycle in one system used by business units across FSA. Feedback is directed automatically to FSA support contractors to execute research and resolution activities, delivering more timely resolution of complaints to customers.

- The second project, announced by President Obama in Fall 2015, is implementing the 2017–18 FAFSA early—on October 1—and the use of tax information from the "prior-prior" year on the FAFSA. The early FAFSA and the use of "prior-prior", which greatly simplifies applying for aid for families, are two of the most significant changes in federal aid in the last 20 years; these changes help families better align applying for aid with their college decision timeframe.

- To increase income-driven repayment (IDR) plan enrollment, FSA emailed 3.2 million borrowers expressing interest in IDR and borrowers struggling to make their payments. FSA emailed 100 percent of borrowers about to enter repayment (1.3 million) to make them aware of their repayment options, including IDR and Public Service Loan Forgiveness (PSLF), which should lead to more borrowers being in current repayment status. In the second quarter of FY 2016, the number of current borrowers had increased 12.5 percent over the second quarter of FY 2015.

- Protecting disabled borrowers was also a key element of the Student Aid Bill of Rights. In FY 2016, the Department and the Social Security Administration (SSA) began working together to ensure that disability insurance recipients who are eligible for a loan discharge can avoid having their Social Security disability payments offset to repay defaulted loans. The two agencies are proactively identifying borrowers who may be eligible for loan discharge in order to protect their Social Security benefits from offset and ensure they are able to access the benefits to which they are entitled. At the direction of the President through the Student Aid Bill of Rights, SSA and the Department have established a new process that allows the Department to more easily identify borrowers who are eligible for a disability-related discharge and reach out to those borrowers to help them apply for and receive the benefit. The new process greatly simplifies the steps needed to obtain a disability discharge.

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

- FSA oversaw the creation and implementation of its Student Aid Enforcement Office. The Enforcement Office, which consists of four units (Investigations, Borrower Defense, Administrative Actions and Appeals, and Clery), will enhance FSA's ability to enforce the laws and regulations governing Title IV. The Borrower Defense unit has been actively processing claims as indicated in its periodic reports. It also recently posted a universal borrower defense application form for public comment to compliment other improved outreach efforts to affected borrowers.

- FSA developed a segmentation strategy to inform decision making on the nature and aggressiveness of oversight activities of large corporate schools. This effort produced a consolidated risk assessment for each school group that gives FSA a critical tool to proactively manage large schools based on the risk factors associated with each unique school group. FSA's segmentation strategy will impact all students and borrowers at these schools by ensuring increased compliance and targeted oversight.

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

- Policies and practices for the FSA ID were improved for customer-facing websites, providing greater access and identity management for 36 million students and borrowers using stronger encryption. More than 36 million FSA IDs have been created, and FSA IDs were used to log in to FSA websites more than 210 million times. These efforts have played an integral role in safeguarding the personally identifiable information of millions of students and borrowers within the vast array of FSA systems.

- FSA continued enhancement of the Enterprise Data Warehouse and Analytics (EDWA). EDWA serves as a single repository containing data from source systems within the FSA universe. By bringing data under one system, FSA is able to streamline the process of leveraging that data for reporting and analytical purposes, as well as work to relieve the burden on operational systems. The EDWA expansion in FY 2016 included additional servicing and collections data as well as the retirement of the Aid Datamart, which will culminate in FY 2017. Data from the FSA Feedback System is also being transmitted to the EDWA to allow FSA to identify areas for operational improvement based on customer feedback.

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

- To improve transparency of information about the student loan portfolio for taxpayers, researchers, and the public, FSA published 15 new releases of data points and other reports in FY 2016. These releases have been added to the FSA Data Center and included: Location of FFEL Program Loans, Annual FAFSA Demographics Reports, ED-held FFEL Portfolio by Repayment Plan, FAFSA Completion by School District, Top Audit and Program Review Findings, and many other valuable resources for information on FSA operations and outcomes.

- FSA conducted more than 280 outreach events and made a conscious decision to hold 40 via webinar to increase the reach of the information; webinars are recorded and posted on StudentAid.gov to increase accessibility. FSA also distributed more than 6.8 million publications, fact sheets, and forms in conjunction with the production of more than 16 new publications in English and 6 in Spanish to provide even greater resources to customers and stakeholders. These efforts provided critical information on aid availability, repayment options, and other useful information on the student aid universe. Ensuring that customers and stakeholders are as informed as possible helps to facilitate the most effective use of resources.

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

- Equity Management Workshop (EMW) for all FSA supervisors was a key addition this year that explored managing equitably in the workplace, while emphasizing the potential impact of fairness on employees' motivation and performance. EMW reinforces balance in employees' perceived input/output ratios and presents relevant topics, including Adam's Equity Theory, Merit System Principles, and Prohibited Personnel Practices. More than 160 people participated in the workshop, including 100 percent of senior leadership. EMW efforts align closely with FSA's leadership in the Department's Diversity and Inclusion program, where FSA's senior leadership is represented on the Department's council as well as providing a co-chair for the Diversity and Inclusion Change Agent's Program.

- In FY 2016, FSA expanded participation in the Cornerstones of Supervision program. The Cornerstones of Supervision program is a frontline supervisory skills program that every FSA employee holding first-time supervisory responsibilities is required to complete. The training is designed to give employees insight into different facets of their own management style, as well as tools and techniques for expanding their repertoire. Increased awareness campaigns and outreach efforts resulted in high utilization of this critical employee development tool.

- FSA began an advanced effort to increase employee engagement by defining a specific mission and vision to help achieve this goal; this initiative provided an opportunity to include FSA employees in describing critical FEVS elements, such as "who we are, what we do, and how we do it," and providing a look at "where we are going." Employee Engagement staff expanded opportunities for FSA employees to become more involved in the organization through increased charitable and community outreach activities.

Legislative and Regulatory Recommendations

One of FSA's mission responsibilities under the law is to provide input on legislative proposals (both 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 the following issues: transition to the "Early FAFSA" and the use of "prior-prior" year FAFSA information; developing the expansion of the Experimental Sites Initiative to address the Administration's higher education priorities; developing policies relating to the regulations for the eligibility of gainful employment programs at institutions of higher education; participating in the development of the Department's recent Cash Management and Borrower Defense regulations; and developing and implementing policies to address the expiration of the Federal Perkins Loan Program.

Annual Bonus Awards

As required by the 1998 Amendments to the Higher Education Act of 1965, this 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 2016. However, because FY 2016 performance results were not finalized at the time this report was prepared, the section also discusses FY 2015 performance results.

At the end of FY 2016, there were 50 FSA senior managers and 9 Senior Executive Service members. Twelve of the 50 senior managers and 2 of the 9 Senior Executive Service staff served on the FSA Operating Committee and reported directly to the COO. The remaining 38 senior managers and 7 Senior Executive Service staff served in a variety of senior positions and capacities within FSA.

The following section discusses FY 2015 performance results.

For performance year 2015, the composition of ratings for the 33 senior managers who did not serve on the Operating Committee last year were as follows: 14 achieved a performance rating of Exceptional Results, 14 achieved a performance rating of High Results and 3 achieved a performance rating of Results Achieved, and 2 were not eligible for a rating.

Award amounts for those senior managers achieving an Exceptional Results rating ranged from a low of $5,204 to a high of $28,800 with a median award of $8,440. Award amounts for those achieving a High Results rating ranged from a low of $1,315 to a high of $16,308 with a median award of $4,854.

There were also 2015 performance ratings and awards for 9 senior manager members of the Operating Committee. The composition of those rated includes: 6 achieved a performance rating of Exceptional Results; 3 achieved a performance rating of High Results. 2 of the 9 Senior Executive Service members are on the Operating Committee and achieved a performance rating of Exceptional Results. The composition of ratings for the remaining 7 Senior Executive Service members not on the Operating Committee were as follows: 2 achieved a performance rating of Exceptional, 3 achieved a performance rating of High Results, and 2 achieved a performance rating of Results Achieved.

Award amounts for the Operating Committee ranged from approximately $10,405 to $32,994, 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 17th year of service to federal student aid recipients in FY 2016. Established by the 1998 amendments to the HEA, the Ombudsman began operations on September 30, 1999.

Consistent with its statutory mission, the Ombudsman Group uses informal dispute resolution processes to address complaints about the Title IV financial aid programs. The Ombudsman Group employs a collaborative approach in working with institutions of higher education, lenders, guaranty agencies, loan servicers, and other participants in student aid programs. Ombudsman Group staff conduct fact-finding, review student loan data and records, and facilitate contacts between borrowers and their loan servicers to promote mutually agreeable resolution of issues.

Information about customer inquiries is compiled into the Ombudsman Case Tracking System. The data are analyzed, and the findings are included in internal and external reports for FSA and the industry in general, to identify systemic issues affecting Title IV programs. Implementation of systemic solutions can at times prevent problems, an approach preferable to resolving individual complaints as received.

Since 1999, the Ombudsman has received 395,925 customer contacts, including 29,068 in FY 2016. In most of its years of operation, the Ombudsman Group has received a greater number of customer contacts than in the previous year, reaching a peak in FY 2014. This is the second consecutive year that the number of contacts has declined.

A factor in the reduction of overall Ombudsman Group case volume is the establishment in FY 2016 of the FSA Feedback System, which will be discussed later in this report. The Feedback System provides a portal for federal student loan borrowers to submit complaints and issues relating to their student loans. The anticipation is that in the future customers will now use the Feedback System, which became operational late in FY 2016, to submit their complaint.

Table 16: Total Volume of Contacts

FY	New Customer Contacts	Percentage Change from Previous Fiscal Year
2016	29,068	-14.5%
2015	34,008	-12.0%
2014	38,665	+14.0%
2013	33,916	-2.8%

The Ombudsman Group classifies customer contacts as one of two types: General Assistance (GenAssist) cases, which typically are resolved almost immediately through the provision of information or referral to the appropriate entity within the student loan community; and Research cases, which present a more complex problem requiring the engagement of multiple parties and a series of contacts. Research cases are assigned to a research specialist to address, and may take several months to close. Historically, Research cases have represented an increasing percentage of total contacts to the Ombudsman, but, as Table 17 demonstrates, this trend reversed in FY 2013 and continues.

Table 17: Research Contacts Received

FY	Research Cases	Percentage Change in Research Cases from Previous Fiscal Year	Research Cases as Percentage of Total Customer Contacts
2016	3,758	-37.8%	12.9%
2015	6,046	-22.7%	17.8%
2014	7,819	-16.9%	20.2%
2013	9,414	-18.6%	27.8%

Borrowers contacting the Ombudsman Group who have not exhausted the problem resolution options available through their loan servicer are referred specifically to an escalated issues team at the loan servicer, and counseled to re-contact the Ombudsman Group if resolution is not achieved or is unsatisfactory. To the extent that the servicer is able to resolve the borrower's issue there can be a corresponding reduction in demands on the time and resources of the Ombudsman Group.

Issues Reported to the Ombudsman Group

The Ombudsman Group uses issue categories and issue sub-categories to classify the nature of the question, issue, or observation brought to it by customers. The Table 18 shows the total volume of customer contacts by each of the 16 major issues categories along with a brief description of the category.

Table 18: Fiscal Year 2016 Customer Contacts by Original Issue

Issue Category Name	Description	FY 2016 Volume	
		Research	General Assistance
Account Balance	Questions/disagreement about the balance being collected, balance dispute, school refund, disbursement	839	4,647
Bankruptcy	Bankruptcy related issues from a bankruptcy court filing	26	76
Closed School	Issues related to a post-secondary school's closure	59	762
Collection Practices	Actions taken by collectors deemed excessive, abusive, unreasonable, or illegal by borrower	48	520
Consolidation	Question/complaint about terms and processes for consolidating FFEL, Federal Direct Loan, Perkins, or HEAL Loans	266	955
Credit Reporting	A report detailing all outstanding consumer-related debt, including bad student loan debt	243	1,253
Default	Assertion that the default status is wrong, or is asking for options for default removal	305	2,146
Deferment/Forbearance	Deferment, Deferment Rejected, Forbearance, Forbearance Granted	107	940
FSA Assistance	General Information Request, Pell Grant, Not a Loan Question, Other, Other Aid Issue	105	3,056

Issue Category Name	Description	FY 2016 Volume	
		Research	General Assistance
Loan Cancellation/Discharge	Loan Cancellation, Disability Discharge, Discharge – Death, Discharge Denied, Loan Discharge, False Certification, ID Theft	666	3,616
NSLDS	NSLDS is incorrect	57	222
Repayment Plans/Amounts	Customer wants to establish, revise, or comment on available repayment plans/amounts	547	2,688
Service Quality	Complaints about loan servicing, service quality, due diligence, quality of education	257	1,875
Student Eligibility	Borrower cannot receive Title IV funds because of regulatory or school imposed policy/procedures	52	1,413
Tax Refund/(Federal) Offset	Borrower wants to avoid tax or other Federal offset	104	689
Wage Garnishment	Borrower objects to administrative wage garnishment, wants to avoid it, reduce amount, or complain about how the agency implements administrative wage garnishment.	75	452
Issue Not Yet Classified		2	0

Case Volume – Research
As noted above, Research contacts or "cases"—those requiring more intensive effort to resolve—are a subset of the total volume received. In keeping with its role as a neutral, the Ombudsman Group typically declines to characterize every contact it receives as a "complaint." But, it is fair to say that Research cases most often result from a customer's dissatisfaction with previous efforts to resolve an issue. As such, we share in this section more information about the cause and types of issues identified as Research cases.

In FY 2016, the top five issues for Research cases mirrored the previous year. Account Balance, Loan Cancellation/Discharge, Repayment Plans/Amounts, and Default occupied the top four positions. Consolidation, which returned as a top five issue in FY 2015, replacing Credit Reporting, remained in the number five position.

Table 19: Top Five Research Case Issues

FY 2016 Rank	Issue Category	FY 2015 Rank	FY 2014 Rank	FY 2013 Rank
1	Account Balance	1	1	1
2	Loan Cancellation/Discharge	2	2	2
3	Repayment Plans/Amounts	3	3	3
4	Credit Reporting	4	5	5
5	Consolidation	5	n/a	n/a

Analysis of Outcomes
Resolutions of the problems customers present are rarely binary, in other words, the customer receives or does not receive the outcome sought. Customers sometimes seek outcomes which statute and regulation do not authorize, *e.g.*, discharge of a loan because of economic

hardship—or for which they are not eligible due to their circumstances. Customers are often unaware of the option or options that provide the best way to manage their student loan debt, and the best service that can be provided by the Ombudsman Group is to create awareness of the options, and assist the customer in making a selection.

The Ombudsman Group has identified five broad categories that capture the range of customer outcomes:

- **Action:** Ombudsman Group activity results in a change to the customer's account.
- **Confirmation:** No change occurred on the customer's account and research confirms the current status.
- **Information:** The customer was provided with information or guidance on the available options for managing their student loan account and empowered to take the next steps, *e.g.*, loan servicer identified, PSLF or Income Based Repayment (IBR) explained, contact information provided, etc.
- **Referral:** Customer is provided guidance on available options and referred to appropriate party for resolution, *e.g.*, loan servicer, guaranty agency, or other FSA office.
- **Other:** Customer has to submit information or contact us again in order for further Ombudsman Group research to continue.

Analysis of these data, in the context of the outcome definitions, increases understanding of the nature of the issues customers present, point out areas where service quality can be improved, and identify systemic issues that lead to customer complaints.

Outcomes vary significantly between Research and GenAssist cases. The former are assigned to a specialist for research and are more likely to result in an outcome of Action or Confirmation. GenAssist cases are most commonly referred to an escalated issues team at a loan servicer or other resource for resolution because, as discussed earlier, customers are encouraged to resolve their issues at the lowest possible level before seeking Ombudsman Group assistance.

Table 20: Outcomes for Research and GenAssist Cases Closed in Fiscal Year 2016

Case Type	Action	Confirmation	Information	Referral	Other	Total Cases
Research	29.1%	32.9%	26.0%	7.1%	4.8%	5,370
General Assistance	0.8%	1.1%	4.5%	79.5%	14.1%	26,605

Outcomes for Research Cases Closed in FY 2016 by Original Issue Category

Since Research contacts are more complex and time consuming, there are many different paths to resolving the customer's issue. The Ombudsman Group leverages its role as a neutral third party to review the matter and facilitate a resolution that is mutually agreeable to all parties, and is consistent with applicable law and regulation. In FY 2016, for about 32.9 percent of Research cases, Confirmation was the result. With less frequency, the Ombudsman Group's engagement results in an Action—29.1 percent of Research cases.

Table 21: Fiscal Year 2016 Research Case Outcome Category by Issue Category

Original Issue Category	Action	Confirmation	Information	Referral	Other	Total Closed
Account Balance	22.6%	50.5%	15.2%	6.5%	5.3%	100.0%
Bankruptcy	27.3%	45.5%	13.6%	6.8%	6.8%	100.0%
Closed School	14.8%	39.5%	25.9%	13.6%	6.2%	100.0%
Collection Practices	14.9%	31.3%	35.8%	10.4%	7.5%	100.0%
Consolidation	28.1%	30.8%	33.1%	5.3%	2.8%	100.0%
Credit Reporting	17.5%	33.8%	43.3%	2.0%	3.4%	100.0%
Default	22.1%	27.8%	37.9%	8.2%	4.0%	100.0%
Deferment/Forbearance	35.3%	28.7%	22.8%	7.4%	5.9%	100.0%
FSA Assistance	29.8%	12.6%	21.2%	21.2%	15.2%	100.0%
Loan Cancellation/Discharge	40.8%	25.1%	22.6%	7.1%	4.3%	100.0%
NSLDS	73.3%	12.0%	6.7%	5.3%	2.7%	100.0%
Repayment Plans/Amounts	35.2%	24.7%	31.1%	5.1%	3.8%	100.0%
Service Quality	31.1%	36.5%	16.3%	9.8%	6.3%	100.0%
Student Eligibility	30.1%	21.7%	22.9%	20.5%	4.8%	100.0%
Tax Refund/Offset	15.7%	10.4%	68.7%	3.0%	2.2%	100.0%
Wage Garnishment	35.3%	23.3%	29.3%	6.9%	5.2%	100.0%

As the Table 21 demonstrates, an “Action” or change in the customer’s student loan situation because of their contact to the Ombudsman Group does not always occur. Even more clearly, certain issue categories result in Actions more frequently than others. To illustrate the variety of outcomes that can be achieved on complaints that come to the Ombudsman Group, the following discusses cases received during FY 2016 and are representative of the most common types of Research cases worked by the Ombudsman Group.

Account Balance: Account Balance is the most frequent category of Research case. Account Balance cases typically involve a dispute about the validity of a debt, or the accuracy of the total balance requested to be repaid. Account balance also includes those customers who request a reapplication of payments or believe the interest is calculated or capitalized incorrectly. Interest capitalization persists as a common basis for customer complaints to the Ombudsman Group. Many who contact the office are dismayed to learn that prior deferment or forbearance time lead to interest capitalization and an increase in the total amount to be repaid.

> Caller says they contacted [servicer] last year to find out how to pay the loan in full. They were referred to [servicer website] and pay the payoff amount, which they did in the amount of $44,842.99. ... On July they got a statement from [servicer] saying they had an outstanding balance of $1,271.15.

This variety of root causes for Account Balance complaints means it can be challenging to achieve an outcome most favorable to an individual borrower. In the case cited, the Ombudsman Group worked with the servicer and two offices within FSA and determined that a loan disbursement was reported after the borrower paid the balance due. Although the outcome was that the borrower owed the additional disbursed amount, FSA agreed to waive all accrued interest associated with that disbursement, and the borrower repaid the remaining amount.

Loan Cancellation Discharge: Customers assert their loans should be cancelled or discharged because of existing conditions or services performed.

Historically, discharge for total and permanent disability (TPD) has been the primary subcategory of discharge contacts to the Ombudsman Group. Beginning in 2009, changes to statute and regulations coupled with significant improvements in servicing have resulted in a noticeable reduction in TPD cases. Most recently, additional statutory changes created an expedited path to discharge for disabled veterans and for some recipients of Social Security disability benefits. Simplification of the application process and a TPD servicer placing a greater emphasis on customer service reduced the burdens for disabled borrowers seeking discharge. But, qualifying for TPD can still be a challenge for many borrowers who apply.

> "In 2013 I received a … Total and Permanent Disability Discharge … Every month I [have] a reduction in my Disability check. Can you please help me with this? I need some additional health care and the monthly deduction from my disability check has kept me from getting it."

Customer contacts in FY 2016 concerning disability discharge more often dealt with difficulties associated with getting necessary documentation from other federal agencies. For example, borrowers who receive disability benefits through the SSA can make expedited applications for TPD by providing documentation from SSA that they are reviewed for eligibility for continued benefits on a five to seven year cycle. Borrowers who experience difficulty in securing the necessary documentation from SSA will contact the Ombudsman Group for assistance. In response to this problem, in FY 2016, the Department conducted a data match with SSA to identify individuals in the five to seven year review cycle and match it with the database of student loan borrowers. Student loan borrowers in the eligible SSA category who had not applied for TPD received communication from the Department informing them of their eligibility for loan discharge and providing direction on the steps they would need to take.

In the case above, the borrower applied for TPD several years ago during the tenure of the Department's previous TPD servicer, and before ED began a single application submission process for TPD applicants. The result was that not all of her loans were included in the original discharge. Those loans defaulted, resulting in the offset of her disability benefits. Working with the customer and the TPD servicer, the Ombudsman Group research specialist was able to identify the customer's outstanding loans and have them recalled to the TPD servicer. Her outstanding loans were discharged effective on the date of the original approval, the offset of her disability benefits ended, and the customer received a refund of over $7,500.

Repayment Plans/Amounts: Customer requests for assistance concern the desire to establish, revise, or complain about their repayment plans. This category has been in the top five during the entire history of the Ombudsman Group. The array of repayment plan options has expanded significantly in recent years, in some ways, taxing customer and servicer abilities to comprehend the perceived advantages and benefits of each. Certainly, the 10-year standard repayment plan is no longer the optimal plan for many borrowers as they enter repayment. Helping individual borrowers select the best alternative to the 10-year plan involves not only the advising them on how to submit the appropriate application and documents, but also helping them determine whether the plan is best for them in the short or long term.

> "I applied to re-certify my IBR plan … On November 4, 2015, I received an email letter … that showed my monthly payment had been recalculated from $38/month to $2,055/month. … they told me my original loan application had never been processed because a formal application had not been received."

For some borrowers, selecting the ideal repayment plan may be the easiest part of the process. Submitting a properly completed application and the correct income documentation can present challenges that lead to an undesirable outcome from the borrower's perspective. In the case quoted above, the borrower had faxed documents to renew his IDR plan. However, his submission did not include the required application form to renew IDR. The borrower was returned to IDR upon submission of the required application, but, because of the lapse in his income driven repayment plan, nearly $33,000 of accrued interest was capitalized and added to the outstanding principal balance of his loans. Because the removal from IDR was consistent with applicable regulations and procedures, the Ombudsman Group was not able to reverse the servicer's decision. Our engagement on this particular case confirmed the loan servicer took the correct processing steps in response to the documents the customer submitted.

Default: Customers assert the default status of their loans is wrong, or customers are asking for options for resolving the defaulted status of their loans. Most customers in this category have interacted with the entity performing collection activities on the debt, but have not been satisfied with the outcome of the interactions, or are seeking an alternative to the options offered. The most common outcome for Research cases involving default is information—the customer is provided with the options available to resolve the default status of their loans. The role of the Ombudsman is frequently one of facilitating the customer's interaction with the loan holder or collection agency. Depending on the customer's circumstances, the resolution may be assisting the customer with entering into a mutually agreeable repayment plan for the purpose of loan rehabilitation.

The highlighted case is an example of the approximately 22 percent of the time when the Ombudsman Group is able to provide an outcome that results in a change in the customer's loan status. The customer had two groups of loans with the servicer, subsidized and unsubsidized loans for undergraduate education and PLUS loans for graduate school. The first group of loans was in good standing, but the Grad PLUS loans were in default.

"Today I received 4 letters saying that I am in default with my student loans. I called [servicer] and they had no record of any forbearance being filed with them …"

Research by the Ombudsman Group showed that, after the customer graduated, the servicer placed the customer's Grad PLUS loans into repayment 30 days before it put the other loans into repayment. When the research specialist pointed out that this action violated the servicer's policies and procedures for due date alignment, which requires setting a common repayment date for all of a customer's loans, the servicer agreed to reverse the default and correct the repayment dates.

Consolidation: After an absence of several years, Consolidation returned as a top five Research issue in FY 2015. Customers contact the Ombudsman seeking information about options for consolidation of their student loans or to seek assistance when they believe there are errors in their consolidation loan. The increase in consolidation cases is driven by the emergence of third party firms that contact student loan borrowers with promises of debt relief. These firms typically charge an upfront fee and a monthly charge to consolidate the borrower's loans and promise to enroll the borrower in a loan forgiveness or income-driven repayment program, services available at no charge from loan servicers. In 2016 the Department sent cease and desist orders to third party marketing firms that were illegally using the Department's seal in their communication.

"A scandalous and fraudulent organization forwarded my loan to the Dept. of Education using false information including the wrong telephone and a phony signature. This group … also scammed me out of $500.00 and made promises to consolidation and lower my monthly payment. Well the loan was consolidated however, the payments were definitely not lowered… the DOE sent me a bill for over 1,000.00 dollars, which I cannot afford. My loan is for $160000. I can only afford to pay about $300.00 monthly..."

In the cited example, the third party marketer made promises to the customer that included a lower payment plan. In working with the loan servicer, the Ombudsman Group helped support the customer's statements and the consolidation was reversed.

Joint (or "spousal") consolidation loans remain among the most troubling due to the legal inability to provide relief to the customer. During FY 2016, the Ombudsman Group received 59 contacts concerning joint consolidation loans, nearly one-quarter of the total in this category. For a period of time, married couples who both had federal student loans were able to combine their individual loans into a single consolidation loan. Under the provisions of these loans, both parties to it are "jointly and severally" responsible for the debt, meaning that if one spouse fails to make payments, the other spouse is responsible for the entire debt. Subsequent statutory changes eliminated authorization to make new joint consolidation loans, but did not address existing joint consolidation loans by allowing for dissolution of a loan, under certain circumstances, and the assignment of the remaining balance on a proportional basis to the original borrowers.

The lack of a dissolution option has downstream implications. Changes to the terms of a loan, *e.g.*, a new repayment plan, require the concurrence of both parties. If a co-borrower refuses to collaborate with the other borrower on making payments, establishing an affordable repayment plan (including for loan rehabilitation), or documenting eligibility for other loan benefits, the other borrower can be placed in a precarious financial position. The Ombudsman Group looks forward to action that could provide relief to this small population of borrowers.

Other FY 2016 Highlights

Customer Satisfaction Survey
On a weekly basis, a survey is sent by email to all customers whose cases were closed during the previous time period. Participation in the survey is voluntary, and respondents are assured confidentiality, so that they can provide candid feedback without fear of consequences. Responses to a standardized questionnaire are converted to a score on a 0 to 100 scale, and reported using the metrics of the ACSI.

The overall ACSI score for the Ombudsman Group for FY 2016 is 38. While not as high as desired, analysis of the numbers reveals unusual aspects that may reflect the nature of the Ombudsman's work. Large data sets, when graphically displayed, typically present in the classic Bell Curve—lowest on the scale at the respective tails and highest in the middle. The Ombudsman Group's ACSI scores present as an inverted Bell Curve—highest at the tails and lowest in the middle.

The ACSI score for survey respondents with a Research request is 42, and 36 for general assistance in FY 2016. Additionally, customers with Research Cases are nearly twice as likely to respond to the customer satisfaction survey as customers with GenAssist Cases. This is not surprising, as the Ombudsman Group staff work with the Research customer more extensively and have frequent interaction, as their issues are more complex. With GenAssist customers, most are referred to the appropriate external entity, as Ombudsman Group does not perform loan servicing actions such as processing deferments/forbearances/repayment plans, granting student loan discharges, etc. Some survey respondents provide scores for the Ombudsman Group based on the customer service of the external, non-Ombudsman entity.

The Ombudsman functions as a neutral party in attempting to resolve disputes. Customers sometimes express dissatisfaction because they expect the Ombudsman to be an advocate for their position and as a result give low customer satisfaction scores. For example, this comment from a customer—"*You did nothing for me but take my complaint. You didn't fight for me in any way, shape or form."*—was received from a customer who gave the Ombudsman Group an overall ACSI score of zero.

In other cases, the customer accepts the necessary neutrality of the Ombudsman Group and rates the office on the quality of information or service provided. A customer who gave the Ombudsman Group a score of 82 also left the following comment: *"I wasn't sure what the role of the Ombudsman Group was before I made the initial contact. I had assumed it was an advocacy group. Even though the person who assisted me remained neutral concerning my issue she provided me with excellent information and helped me understand what options I had…"*

It is believed that the Ombudsman Group's inability to provide customers with outcomes that are outside of law and regulation contribute to the ACSI scores they assign to the Ombudsman Group's work. Customers generally contact the Ombudsman Group because of a perceived problem with their student loan account and often have a desired outcome in mind. If the customer's account has been administered in a manner consistent with applicable procedures, the Ombudsman cannot provide an outcome that is inconsistent with current statutory and regulatory requirements. The data suggest that customers may be, in effect, rating the Ombudsman Group based on the outcome of their case instead of the quality of service provided. Note this sample comment: "*The representative of the Ombudsman Group worked hard and attempted to help my situation! However the Ombudsman Group appears to have little or no authority when helping victims of Student loan fraud!"* This customer provided an overall ACSI score of seven.

Conversely, the data suggests customers rate the work of the Ombudsman Group more highly when an action or change occurs because of the Ombudsman Group's review and engagement on the customer's issue. The following customer gave the Ombudsman Group an overall ACSI score of 100. *"The representatives were very helpful, professional and understanding. I'm so grateful for their assistance. Thank you."*

As noted above, the Ombudsman Group is the service of last resort. If the customer has not exhausted all of the opportunities for resolution with their current loan holder, the Ombudsman Group treats their situation as a GenAssist case and refers them to an escalated level of assistance at the current loan holder. Analysis of the data shows that 72.7 percent of the customers who gave the Ombudsman Group an ACSI score of zero had GenAssist cases. When the scores of zero are removed from the total, the Ombudsman Group receives an average ACSI score of 60.

Nonetheless, the Ombudsman Group is unsatisfied with its current ACSI scores and committed to improving them, continuing to dissect and review the survey data with the goal of identifying improvements to processes that could enhance customer satisfaction. For example, analysis revealed that customer satisfaction scores declined as GenAssist cases aged. The more time that elapsed before the Ombudsman Group put the customer in touch with the entity able to resolve their issue, the lower the ACSI score they gave. As a result, changes were made in FY 2016 to the process for referring customers to their loan holder. Steps were implemented to speed up the referral. The Ombudsman Group communicates the customer's issues and information directly to an escalated issues team at the loan holder; clearly communicates the referral information to the customer; advises the customer of a timeframe in which to expect to hear from the loan holder; and invites the customer to re-contact the Ombudsman Group if expectations are not met.

FSA Feedback System

In March 2015, President Obama proposed a Student and Borrower Bill of Rights. A part of the proposal was the development of "a state-of-the-art—and simple—process for borrowers to file complaints involving their federal student aid."

Leadership within FSA took up the challenge and working with its business units, including the Ombudsman Group, developed an online portal (**www.studentaid.gov/feedback**) where postsecondary students and federal aid recipients can submit a complaint about their experience with the student aid process. The system began online operation in a pilot phase in April 2016. It began full operations on July 1, 2016.

Customer complaints are routed to the FSA business unit best situated to respond to the borrower's issue. Complaints are also routed to loan servicers and collection agencies under contract to the Department.

Consumer Financial Protection Bureau
The Ombudsman Group continued its collaboration with the Consumer Financial Protection Bureau (CFPB) Private Student Loan Ombudsman. The FSA Ombudsman Group's statutory authority limits its jurisdiction to the federal student loan program, so a major part of this collaboration is a mutual referral process that ensures that borrowers with private loan issues receive assistance from the CFPB. Borrowers who contact the Ombudsman Group with private student loan problems are provided with contact information and referred to CFPB. Conversely, borrowers with federal student loans who contact CFPB are referred to the FSA Ombudsman Group. In FY 2016, 1,014 of the new customers reported they were referred by CFPB. During FY 2016, the Ombudsman Group referred 773 customers to CFPB. Beginning in FY 2017, complaints received through the FSA Feedback System will be automatically uploaded to the Federal Trade Commission Consumer Sentinel database. CFPB and other federal agencies have access to the Consumer Sentinel system.

Student Loan Borrower Interest Groups Roundtable
Beginning in FY 2013, the Ombudsman Group initiated a program of outreach to organizations that have an interest in issues relating to student loans. Through periodic conference calls, the Ombudsman Group provides a forum for these organizations to share concerns regarding the servicing of federal student loans and to engage in dialogue with Ombudsman Group staff and representatives of other business units within FSA. The goal is to enhance communication with the advocacy groups and allow discussion of observed servicing issues and changes in servicing operations. The Ombudsman Group facilitates this discussion and expands FSA's ability to anticipate the customer experience and communicate with stakeholders.

Conference calls this year covered topics including the rollout of the Revised Pay As You Earn repayment plan offering; updates concerning the FSA Feedback System implementation; and an overview of activities executed by FSA staff in connection with school closures. In addition, the Ombudsman Group facilitated the participation by representatives of group in providing helpful, constructive input in the development and implementation of the FSA Feedback System.

Student Loan Ombudsman Caucus
The Ombudsman Group hosted the annual meeting of the Student Loan Ombudsman Caucus in May 2016. The Caucus, under the aegis of 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.

This year, during the annual meeting, attendees reviewed case studies in connection with training on engaging with difficult, challenging complainants; heard presentations on recent and upcoming regulatory changes, including the FY 2017–18 FAFSA implementation, and on the new FSA Enforcement Unit; and engaged with a representative from the CFPB on credit reporting and the effect of credit repair/debt relief marketers.

Financial Section

- Overview of the Financial Section
- Message from the Chief Financial Officer
- Financial Statements
- Notes to the Financial Statements
- Required Supplementary Stewardship Information
- Required Supplementary Information
- Independent Auditors' Report

Overview of the Financial Section

This section provides a detailed view of FSA's stewardship and accountability for its resources. The Message from the Chief Financial Officer begins the section and is followed by the audited financial statements, the accompanying notes to the financial statements, required supplementary Information, and the Independent Auditors' Report.

Message from the Chief Financial Officer

The Message from the Chief Financial Officer discusses the financial accomplishments, as well as the challenges that FSA has encountered during the performance of its mission.

Financial Statements

The Financial Statements subsection contains 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

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

Required Supplementary Information

The Required Supplementary Stewardship 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.

Message from the Chief Financial Officer

Federal Student Aid's (FSA's) mission statement is Funding America's Future, One Student at a Time. This mission supports the Federal government's goal of increasing access to postsecondary education, ultimately leading to a better-educated citizenry and a higher standard of living for all Americans. My colleagues and I at FSA are driven to achieve this mission while protecting taxpayers' interests and minimizing costs.

John W. Hurt, III
Chief Financial Officer

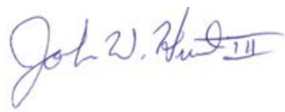
In fiscal year (FY) 2016, FSA spent $1.6 billion to deliver $125.7 billion of federal aid to more than 13.2 million postsecondary students and their families as well as to oversee a loan portfolio of 42 million borrowers with $1.3 trillion in federal student loan debt. This is an enormous financial responsibility to students seeking financial assistance, borrowers who are paying off their student loans, and taxpayers who expect fiscal prudence and stewardship. Thanks to the dedicated and talented staff at the United States Department of Education (the Department) and FSA, we met the unprecedented challenges presented by this financial responsibility and continued to maintain our high standards of financial management and fiscal reporting. To manage the largest student aid operation in the world, FSA utilizes an effective investment management process and an internal control framework.

The $1.6 billion administrative budget is managed largely through FSA's investment management process. FSA uses this process to manage all major aspects (i.e., scope, schedule, and cost) of the investments in order to deliver our promised performance levels. This past year, we successfully implemented an upgrade of FSA's Financial Management System to Oracle Federal Financials Release R12, the FSA Feedback System, and an Early Free Application for Federal Student Aid using "prior-prior" tax year information, along with numerous other operational changes from new policy direction. These changes were implemented on-time and within budget, improving the customer experience for millions of Americans. According to a 2015 Standish Group report, an average 16.2 percent of U.S. corporate and government software projects are completed on-time and on-budget. When compared to the average, we believe that the staff of FSA far exceeds expectations.

As part of the internal control framework, FSA documented and tested 1,245 key process controls (including 1,002 business process and 243 entity level controls) and 1,760 Information Technology (IT) system internal controls across 38 business processes (and sub-processes) and 20 integrated IT systems, respectively. In FY 2016, we assessed that 97 percent of the controls tested are designed and operating effectively. The other 3 percent are immaterial deficiencies for which we have established or are establishing corrective actions. We will continue to repeat this assessment process on a regular basis, constantly looking for opportunities to improve our operations. This strong underlying internal control framework helps FSA leverage its small number of staff to manage loan and grant operations that impact a relatively large percentage of the U.S. population.

I am honored to be working with a group of professionals throughout the Department who so enthusiastically meet our financial management challenges and achieve such distinguished results.

Sincerely,



John W. Hurt, III
Chief Financial Officer
November 14, 2016

Financial Statements

United States Department of Education
Federal Student Aid
Consolidated Balance Sheet
As of September 30, 2016 and 2015
(Dollars in Millions)

	FY 2016	FY 2015
Assets:		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$ 60,358	$ 67,985
Other Intragovernmental Assets (Note 4)	8	-
Total Intragovernmental	60,366	67,985
Credit Program Receivables, Net (Note 5)		
Direct Loan Program	958,881	880,557
FFEL Program	114,870	134,704
Other Credit Programs for Higher Education	1,476	1,164
Other Assets (Note 4)	1,326	1,648
Total Assets (Note 2)	**$ 1,136,919**	**$ 1,086,058**
Liabilities:		
Intragovernmental:		
Debt (Note 7)		
Direct Loan Program	$ 994,285	$ 909,927
FFEL Program	131,347	139,771
Other Credit Programs for Higher Education	713	646
Subsidy Due to Treasury General Fund (Note 8)	2,642	8,237
Other Intragovernmental Liabilities (Note 9)	1,721	2,009
Total Intragovernmental	**1,130,708**	**1,060,590**
Other Liabilities (Note 9)	7,893	5,160
Total Liabilities (Note 6)	**$ 1,138,601**	**$ 1,065,750**
Commitments and Contingencies (Note 14)		
Net Position:		
Unexpended Appropriations	$ 26,531	$ 28,325
Cumulative Results of Operations	(28,213)	(8,017)
Total Net Position	**$ (1,682)**	**$ 20,308**
Total Liabilities and Net Position	**$ 1,136,919**	**$ 1,086,058**

The accompanying notes are an integral part of these statements.

United States Department of Education
Federal Student Aid
Consolidated Statement of Net Cost
For the Years Ended September 30, 2016 and 2015
(Dollars in Millions)

	FY 2016	FY 2015
Program Costs:		
Increase College Access, Quality, and Completion		
Gross Costs	$ 93,032	$ 59,500
Earned Revenue	(34,260)	(31,547)
Net Program Costs	$ 58,772	$ 27,953
Net Cost of Operations (Notes 10 & 13)	**$ 58,772**	**$ 27,953**

The accompanying notes are an integral part of these statements.

United States Department of Education
Federal Student Aid
Consolidated Statement of Changes in Net Position
For the Years Ended September 30, 2016 and 2015
(Dollars in Millions)

	FY 2016 Cumulative Results of Operations	FY 2016 Unexpended Appropriations	FY 2015 Cumulative Results of Operations	FY 2015 Unexpended Appropriations
Beginning Balances:				
Beginning Balances	$ (8,017)	$ 28,325	$ (23,815)	$ 30,485
Budgetary Financing Sources:				
Appropriations Received	$ -	$ 41,985	$ -	$ 55,792
Appropriations Transferred – In/Out	-	-	-	(13)
Other Adjustments (Rescissions, etc.)	-	(180)	-	(47)
Appropriations Used	43,599	(43,599)	57,892	(57,892)
Nonexchange Revenue	9	-	8	-
Other Financing Sources:				
Imputed Financing from Costs Absorbed by Others	26	-	10	-
Negative Subsidy Transfers, Downward Subsidy Re-Estimates, and Other	(5,058)	-	(14,159)	-
Total Financing Sources	**$ 38,576**	**$ (1,794)**	**$ 43,751**	**$ (2,160)**
Net Cost of Operations:	**$ (58,772)**	**$ -**	**$ (27,953)**	**$ -**
Net Change:	**$ (20,196)**	**$ (1,794)**	**$ 15,798**	**$ (2,160)**
Net Position	**$ (28,213)**	**$ 26,531**	**$ (8,017)**	**$ 28,325**

The accompanying notes are an integral part of these statements.

United States Department of Education
Federal Student Aid
Combined Statement of Budgetary Resources
For the Years Ended September 30, 2016 and 2015
(Dollars in Millions)

	FY 2016 Budgetary	FY 2016 Non-Budgetary Credit Reform Financing Accounts	FY 2015 Budgetary	FY 2015 Non-Budgetary Credit Reform Financing Accounts
Budgetary Resources:				
Unobligated Balance, Brought Forward, October 1	$ 12,719	$ 14,236	$ 12,642	$ 9,857
Recoveries of Prior Year Unpaid Obligations	188	21,047	921	20,727
Other Changes in Unobligated Balance (+ or -)	(374)	(24,687)	(194)	(23,978)
Unobligated Balance from Prior Year Budget Authority, Net	$ 12,533	$ 10,596	$ 13,369	$ 6,606
Appropriations (Discretionary and Mandatory)	41,948	24	55,798	904
Borrowing Authority (Discretionary and Mandatory) (Note 12)	-	167,272	-	171,624
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	470	53,563	502	52,823
Total Budgetary Resources (Note 12)	**$ 54,951**	**$ 231,455**	**$ 69,669**	**$ 231,957**
Status of Budgetary Resources:				
New Obligations Incurred and Upward Adjustments (Total) (Note 12)	$ 44,567	$ 216,152	$ 56,950	$ 217,721
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	8,782	-	10,473	550
Unapportioned, Unexpired Accounts	1,212	15,303	1,771	13,686
Unexpired Unobligated Balance, End of year	$ 9,994	15,303	$ 12,244	14,236
Expired Unobligated Balance, End of Year	390	-	475	-
Unobligated Balance, End of Year (Total)	$ 10,384	$ 15,303	$ 12,719	$ 14,236
Total Status of Budgetary Resources (Note 12)	**$ 54,951**	**$ 231,455**	**$ 69,669**	**$ 231,957**
Change in Obligated Balance:				
Unpaid Obligations:				
Unpaid Obligations, Brought Forward, October 1	$ 19,286	$ 77,880	$ 21,466	$ 80,104
New Obligations and Upward Adjustments	44,567	216,152	56,950	217,721
Outlays (Gross) (-)	(43,449)	(196,596)	(58,209)	(199,218)
Recoveries of Prior Year Unpaid Obligations (-)	(188)	(21,047)	(921)	(20,727)
Unpaid Obligations, End of Year	$ 20,216	$ 76,389	$ 19,286	$ 77,880
Uncollected Payments:				
Uncollected Payments, Federal Sources, Brought Forward, October 1 (-)	$ -	$ (4)	$ -	$ (4)
Change in Uncollected Payments, Federal Sources (+ or -)	-	-	-	-
Uncollected Payments, Federal Sources, End of Year (-)	$ -	$ (4)	$ -	$ (4)
Memorandum (Non-add) Entries:				
Obligated Balance, Start of Year (+ or -)	**$ 19,286**	**$ 77,876**	**$ 21,466**	**$ 80,100**
Obligated Balance, End of Year (+ or -)	**$ 20,216**	**$ 76,385**	**$ 19,286**	**$ 77,876**
Budget Authority and Outlays, Net:				
Budget Authority, Gross (Discretionary and Mandatory)	$ 42,418	$ 220,859	$ 56,300	$ 225,351
Actual Offsetting Collections (Discretionary and Mandatory) (-)	(653)	(113,986)	(647)	(122,283)
Recoveries of Prior Year Paid Obligations (Discretionary and Mandatory) (+ or -)	(1)	(516)	(2)	(542)
Budget Authority, Net (Discretionary and Mandatory)	**$ 41,764**	**$ 106,357**	**$ 55,651**	**$ 102,526**
Outlays, Gross (Discretionary and Mandatory)	$ 43,449	$ 196,596	$ 58,209	$ 199,218
Actual Offsetting Collections (Discretionary and Mandatory) (-)	(653)	(113,986)	(647)	(122,283)
Outlays, Net (Discretionary and Mandatory)	42,796	82,610	57,562	76,935
Distributed Offsetting Receipts (-) (Note 16)	(10,684)	-	(12,957)	-
Agency Outlays, Net (Discretionary and Mandatory) (Note 12)	**$ 32,112**	**$ 82,610**	**$ 44,605**	**$ 76,935**

The accompanying notes are an integral part of these statements.

Notes to the Financial Statements for the Periods Ended September 30, 2016 and 2015

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 *SAFRA Act*, 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.

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 Supplemental Educational Opportunity Grants (FSEOG), Teacher Education Assistance for College and Higher Education (TEACH) Grants, and Iraq and Afghanistan Service Grants.

Basis of Accounting and Presentation

These financial statements have been prepared to report the financial position, net cost of operations, changes in net position, and budgetary resources of the FSA reporting group, 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.

The Department and FSA's financial activities are interlinked and dependent upon the financial activities of the centralized management functions of the federal government. Due to financial regulation and management control by OMB and the U.S. Department of Treasury (Treasury), operations may not be conducted and financial positions may not be reported as they would if FSA were a separate, unrelated entity.

Accounting for Federal Credit Programs

The purpose of the *Federal Credit Reform Act of 1990* (FCRA) is to record the lifetime subsidy cost of direct loans and loan guarantees at the time the loan is disbursed. 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 the Department on its borrowings from Treasury and interest rates charged to particular borrowers is also subsidized (or may provide an offset to subsidy if the Department's rate is less).

Under the FCRA, subsidy cost is estimated using the net present value of future cash flows to and from the Department. 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 of subsidy is interest expense on debt with Treasury minus interest income from borrowers and interest on uninvested fund balance with Treasury. It is calculated as the difference between interest revenue and interest expense. 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.

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 statement 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 existing loans.

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; recoveries of prior-year obligations; 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 1 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 canceled 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 shall 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 12)

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. The Department'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 Department administrative overhead costs; allowance for subsidy for direct, defaulted guaranteed and acquired loans; the liability for loan guarantees; the amount payable or receivable from annual credit program re-estimates and modifications of subsidy cost (general program administration cost); and grant liability and advance accruals. (See Notes 4, 5, 9, and 10)

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 sheet and discloses its non-entity assets in the notes. (See Note 2)

Fund Balance with Treasury

The Fund Balance with Treasury includes four types of funds in the FSA and the Department's accounts with Treasury available to pay current liabilities and finance authorized purchases, as well as funds restricted until future appropriations are received: (1) general funds which consist of expenditure accounts used to record financial transactions funded by congressional appropriations (which include amounts appropriated to fund subsidy and administrative costs of loan programs); (2) revolving funds which manage the activity of self-funding programs whether through fees, sales or other income (which include financing accounts for loan programs); (3) special funds which collect funds from sources that are authorized by law for a specific purpose—these receipts are available for expenditure for special programs; and (4) other funds include deposit funds, agency receipt funds, and clearing accounts. Treasury processes cash receipts and cash disbursements for the Department and FSA. The Department's and FSA's records are reconciled with Treasury's. (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 the Department and 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 27 guaranty agencies based on the Guaranty Agency Financial Reports that each agency submits annually to the Department. Although FSA and the guaranty agencies operate on different fiscal years, all guaranty agencies are subject to an annual audit based on form of organization. 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 the Department'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 credited to the Department's Fund Balance with Treasury account. (See Notes 2, 4, and 9)

Credit Program Receivables, Net and Liabilities for Loan Guarantees

The financial statements reflect the Department and 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. FSA also values all pre-1992 loans, loan guarantees, and direct loans at their net present values. If the liability for loan guarantees is positive, the amount is reported as a component of credit program receivables, net.

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 and reported in the financial statements under credit reform rules, similar to direct loans, although they are legally not direct student loans. Negative balances are reported as a component of credit program receivables, net. 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 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. (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. However, no liabilities can be paid by FSA or the Department without budget authority. Liabilities for which an appropriation has not been enacted are classified as liabilities not covered by budgetary resources, and there is no certainty that an appropriation will be enacted. The government, acting in its sovereign capacity, can abrogate liabilities that arise from activities other than contracts. FFEL program and Direct Loan program liabilities are entitlements covered by permanent indefinite budget authority. (See Note 6)

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)

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 at September 30. (See Note 7)

Net Cost

Net cost consists of gross costs and earned revenue. Gross costs and earned revenue are classified as intragovernmental (exchange transactions between FSA and other entities within the federal government) or with the public (exchange transactions between FSA and nonfederal entities).

Net program costs are gross costs less any revenue earned from activities. FSA determines gross cost and earned revenue by tracing amounts back to the specific program office.

Administrative overhead costs of funds unassigned are allocated based on full-time employee equivalents of each program. (See Note 10)

Credit Program Interest Expense and Interest Revenue

FSA accrues interest receivable and records interest revenue on performing direct loans and FFEL loans purchased by FSA. FSA recognizes interest income when interest is accrued on loans to the public for the Direct Loan, FFEL, and other loan programs. Interest accrual under the FFEL Financing and Liquidating Accounts is recognized in allowance for subsidy. Interest receivables are established upon accrual and satisfied upon the collection or capitalization of interest. Interest accruals are calculated by the loan servicers and the debt collection management system at least monthly. Federal interest revenue is recognized on fund balance with Treasury for the Direct Loan FFEL, and other loan programs.

Federal interest expense is recognized on the outstanding borrowing from Treasury (debt) used to finance loans. The interest rate for federal interest expense is the same as the rate used for federal interest revenue.

Interest expense and interest revenue are equal for all credit programs due to subsidy amortization. Subsidy amortization is required by the FCRA and accounts for the difference between interest accruals and interest 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 11)

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.

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.

Federal Employees' Compensation Act. The *Federal Employees' Compensation Act* (FECA) provides income and medical cost protection to covered federal civilian employees injured on the job, employees who have incurred work-related occupational diseases, and beneficiaries of employees whose deaths are attributable to job-related injuries or occupational diseases. The FECA Program is administered by the U.S. 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 components. The first component is based on actual claims paid and recognized by the Department as a liability. Generally, the Department reimburses DOL within two to three years once funds are appropriated. The second component is the estimated liability for future benefit payments based on unforeseen events, such as death, disability, medical, and miscellaneous costs as determined by DOL annually. (See Note 11)

Reclassifications

Certain reclassifications were made to the prior year financial statements and notes to conform to the current year presentation. These changes had no effect on total assets, liabilities and net position, net cost of operations, or budgetary resources. Changes made to the balance sheet provide additional information related to credit program receivables and related liability balances, and immaterial balances were aggregated and consolidated into other lines. Components of the prior year Direct Loan subsidy transfers were reclassified in Note 5 to better reflect the fiscal year of underlying loan disbursement versus actual subsidy disbursement - the total FY 2015 Direct Loan subsidy transfers was not affected. Additionally, changes were made to the Statement of Budgetary Resources presentation in accordance with OMB Circular A-136, Financial Reporting Guidance, to disaggregate end of year expired unobligated balances and recoveries of prior year unpaid obligations.

Note 2. Non-Entity Assets

As of September 30, 2016 and 2015, non-entity assets consisted of the following:

Non-Entity Assets

(Dollars in Millions)

	2016		2015	
Non-Entity Assets	**Intragovern-mental**	**With the Public**	**Intragovern-mental**	**With the Public**
Fund Balance with Treasury	$ -	$ -	$ -	$ -
Credit Program Receivables, Net	-	449	-	410
Other Assets				
Guaranty Agencies' Federal Funds	-	1,197	-	1,561
Accounts Receivable, Net	-	32	-	31
Total Non-Entity Assets	**-**	**1,678**	**-**	**2,002**
Entity Assets	60,366	1,074,875	67,985	1,016,071
Total Assets	**$ 60,366**	**$ 1,076,553**	**$ 67,985**	**$ 1,018,073**

FSA's FY 2016 assets are predominantly entity assets (99.9 percent), leaving the small portion of assets remaining as non-entity assets. Non-entity assets with the public primarily consist of guaranty agency reserves (71.3 percent), reported as Guaranty Agencies' Federal Funds, and related Federal Perkins Loan program loan receivables (26.8 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 Agency Federal Funds due to Treasury, and other liabilities. (See Note 9)

Note 3. Fund Balance with Treasury

Fund Balance with Treasury by status of funds and fund type, as of September 30, 2016 and 2015, consisted of the following:

Fund Balance with Treasury

(Dollars in Millions)

2016	General Funds	Revolving Funds	Special Funds	Total
Status of Funds				
Unobligated Balance				
Available	$ 8,782	$ -	$ -	$ 8,782
Unavailable	391	15,304	13	15,708
Obligated Balance, not Disbursed	20,211	15,655	2	35,868
Total Fund Balance with Treasury	**$ 29,384**	**$ 30,959**	**$ 15**	**$ 60,358**

2015	General Funds	Revolving Funds	Special Funds	Total
Status of Funds				
Unobligated Balance				
Available	$ 10,473	$ 550	$ -	$ 11,023
Unavailable	671	13,686	14	14,371
Obligated Balance, not Disbursed	19,283	23,307	1	42,591
Total Fund Balance with Treasury	**$ 30,427**	**$ 37,543**	**$ 15**	**$ 67,985**

Composition of Funds

A portion of the general funds is provided in advance by multiyear appropriations for obligations anticipated during the current and future fiscal years. Revolving funds are derived from borrowings, as well as collections from the public and other federal agencies. Special funds include fees collected on delinquent or defaulted Perkins loans that have reverted to FSA and the Department from the initial lenders.

Status of Funds

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 ($15,708 million) differs from unapportioned and expired amounts on the SBR ($16,905 million) due to the Guaranty Agencies' Federal Funds ($1,197 million).

Note 4. Other Assets

Other assets, as of September 30, 2016 and 2015, were comprised of the following:

Other Assets
(Dollars in Millions)

	2016		2015	
	Intragovern-mental	With the Public	Intragovern-mental	With the Public
Guaranty Agencies' Federal Funds	$ -	$ 1,197	$ -	$ 1,561
Accounts Receivable, Net	-	100	-	65
Advances	8	3	-	2
Property and Equipment, Net	-	24	-	16
Other	-	2	-	4
Total Other Assets	**$ 8**	**$ 1,326**	**$ -**	**$ 1,648**

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

FSA and the Department currently operate two major student loan programs: Direct Loan and FFEL. The Direct Loan program offers four types of loans: Stafford, Unsubsidized Stafford, 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.

FSA holds $1,075.2 billion in outstanding credit program net receivables. This outstanding balance is comprised primarily of direct loans, FFEL, and loans purchased using authority provided in the *Ensuring Continued Access to Student Loans Act of 2008* (ECASLA), but there are several other loan programs that the Department and FSA administer – including the Federal Perkins Loan Program, TEACH Grant Program, and the HEAL Program.

Credit Program Receivables, as of September 30, 2016 and 2015, consisted of the following:

Credit Program Receivables, Net
(Dollars in Millions)

	2016			
	Principal	Accrued Interest	Allowance for Subsidy	Net
Direct Loan Program	$ 902,754	$ 50,835	$ 5,292	$ 958,881
FFEL Program	109,804	18,191	(13,125)	114,870
Other Credit Programs for Higher Education	1,488	374	(386)	1,476
Total Credit Receivables	**$ 1,014,046**	**$ 69,400**	**$ (8,219)**	**$ 1,075,227**
	2015			
	Principal	**Accrued Interest**	**Allowance for Subsidy***	**Net**
Direct Loan Program	$ 800,811	$ 44,250	$ 35,496	$ 880,557
FFEL Program	114,704	17,529	2,471	134,704
Other Credit Programs for Higher Education	1,413	347	(596)	1,164
Total Credit Receivables	**$ 916,928**	**$ 62,126**	**$ 37,371**	**$ 1,016,425**

* Includes allowance for subsidy and liability for loan guarantees

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 a comprehensive description of the student loan programs at the Department, including summary financial data and subsidy rates.

William D. Ford Federal 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.

The Department records an estimated obligation each year for direct loan awards to be made in a fiscal year based on estimates of schools' receipt of aid applications. 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. The Department's estimate may also not reflect the actual amount of awards made. Based on historical averages, the Department expects approximately 6.2 percent of the amount obligated for new loan awards will not be disbursed.

Direct Loan program loan receivables includes defaulted and nondefaulted loans owned and held by the Department. Of the $953.6 billion in gross receivables, as of September 30, 2016, $57.3 billion (6.0 percent) in loan principal was in default and had been transferred to the Department's defaulted loan servicer, compared to $44.1 billion (5.2 percent) as of September 30, 2015.

The allowance for subsidy represents the estimated cost (to taxpayers) of financing the entire loan program for all loans outstanding. The subsidy cost figures are estimated using OMB-reviewed financial modeling methodologies which are subject to the FCRA. The allowance is the aggregate of all positive and negative subsidies as well as modification adjustments, at a point in time, for the current fiscal year and all those prior.

Positive subsidies, which are resources provided by Treasury to the Department for continuing loan origination and servicing activities, are required when estimated program cash outflows are expected to exceed inflows. Alternatively, when the estimated cash inflows are expected to exceed outflows, the Department transfers excess subsidy funds back to the Treasury (negative subsidy transfers). Positive subsidy increases aggregate program costs and negative subsidy decreases aggregate program costs to taxpayers.

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 internal and 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, such as growing efforts to increase borrower enrollment in income-driven repayment (IDR) plans, 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 increasing enrollment of borrowers in the 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 which displays the interrelated risks facing the Direct Loan program.

The following schedule provides a reconciliation between the beginning and ending balances of the allowance for subsidy for the Direct Loan program:

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

	2016	2015
Beginning Balance, Allowance for Subsidy	**$ (35,496)**	**$ (47,358)**
Activity		
Fee Collections	1,685	1,618
Loan Cancellations	(5,065)	(4,777)
Subsidy Allowance Amortization	17,815	16,373
Other	(350)	(460)
Total Activity	**14,085**	**12,754**
Subsidy Expense for Direct Loans Disbursed in the Current Year by Component		
Interest Rate Differential	(15,463)	(15,555)
Defaults, Net of Recoveries	(127)	217
Fees	(1,993)	(1,678)
Other	11,887	10,830
Total of the Above Subsidy Expense Components	**(5,696)**	**(6,186)**
Loan Modification	**-**	**9,936**
Components of Subsidy Re-estimates		
Interest Rate Re-estimates	(1,536)	1,506
Technical and Default Re-estimates	23,351	(6,148)
Upward/(Downward) Subsidy Re-estimates	**21,815**	**(4,642)**
Ending Balance, Allowance for Subsidy	**$ (5,292)**	**$ (35,496)**

Loan cancellations include 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 remaining components of subsidy expense for direct loans disbursed in the current year consist of contract collection costs, program review collections, fees, loan forgiveness under PAYE and other accruals. Components of the FY 2015 subsidy expense for direct loans disbursed in the current year were reclassified to better reflect the fiscal year of underlying loan disbursement versus actual subsidy disbursement. Due to the interaction of the timing of disbursements by loan type and other underlying subsidy rates, the bulk of these expenses for both the 2015 cohort and 2016 cohort were recorded in FY 2016.

The following schedule summarizes the Direct Loan interest expense and interest revenue for the years ended September 30, 2016 and 2015:

Direct Loan Program Interest Expense and Revenue

(Dollars in Millions)

	2016	2015
Interest Expense on Treasury Borrowing	$ 30,503	$ 27,593
Total Interest Expense	**$ 30,503**	**$ 27,593**
Interest Revenue from the Public	$ 44,375	$ 39,760
Amortization of Subsidy	(17,815)	(16,373)
Interest Revenue on Uninvested Funds	3,943	4,206
Total Interest Revenue	**$ 30,503**	**$ 27,593**

The following schedule summarizes the Direct Loan subsidy expense for the years ended September 30, 2016 and 2015:

Direct Loan Program Subsidy Expense

(Dollars in Millions)

	2016	2015
Subsidy Expense for New Direct Loans Disbursed		
Interest Rate Differential	$ (15,463)	$ (15,555)
Defaults, Net of Recoveries	(127)	217
Fees	(1,993)	(1,678)
Other	11,887	10,830
Total Subsidy Expense for New Direct Loans Disbursed	**(5,696)**	**(6,186)**
Loan Modification	-	9,936
Upward/(Downward) Subsidy Re-estimates	21,815	(4,642)
Direct Loan Subsidy Expense	**$ 16,119**	**$ (892)**

Direct Loan program re-estimated subsidy cost was adjusted upward by $21.8 billion in FY 2016. The re-estimates reflect several updated assumptions: however, in this case, the size of the net upward re-estimate was due largely to collection rates on defaulted loans and repayment plan selection. Actual collections on defaults since FY 2011 were lower than anticipated, which reduced estimated lifetime rates and increased the cost to the Department by $10.1 billion. For repayment plan selection, a greater percentage of borrowers chose costlier plans than had been estimated and increased the cost to the Department by $8.1 billion. The percentage of borrowers choosing an income-driven repayment plan was the primary cost driver for that assumption.

Subsidy rates are sensitive to the difference between the borrowers rates and the rate the Department is charged by Treasury on the debt to fund the loans; for example, a 1 percent increase in projected borrower interest rates would reduce projected direct loan subsidy cost by $4.8 billion. Re-estimated costs only include cohorts that are 90 percent disbursed; cohort years 1994–2015. With the increase in income-driven repayment participation the Department also conducted sensitivities on incomes for students in IDR and Public Service Loan Forgiveness (PSLF) plans. A 10 percent upward increase in borrower incomes decreases costs almost $8.7 billion for cohorts 1994-2015. A 10 percent increase in PSLF plan participation would increase costs $6.3 billion for cohorts 1994-2015.

Direct Loan program re-estimated subsidy cost was adjusted downward by $4.6 billion in FY 2015. Updated discount rates for the 2014 and 2013 cohorts decreased cost by $6.2 billion. Higher participation in income dependent repayment plans increased cost by $15 billion. The introduction of a new model for estimating income-driven repayment plan costs resulted in a decrease in subsidy costs by $5.8 billion. Costs increased $1.8 billion due to increases in default rates. Changes in prepayment rates reflect larger than expected prepayment activity, leading to decreased interest earnings resulting in $3.5 billion in upward subsidy cost. Costs decreased $5.7 billion due to higher forbearance rates. Interest accrues during forbearance and that interest is eventually paid to the Department. Other assumption updates produced offsetting costs, with the remainder attributable to interest on the re-estimate.

FY 2015 Modification. Recorded subsidy cost of a loan is based on a set of assumed future cash flows. Government actions that change these assumed future cash flows change subsidy cost and are recorded as loan modifications. Loan modifications are recognized under the same accounting principle as subsidy re-estimates. Modification adjustment transfers are required to adjust for the difference between the discount rate used to calculate the cost of the modification and the interest rate at which the cohort pays or earns interest.

The Department modified direct loans in FY 2015. Borrowers formerly ineligible for a more generous PAYE repayment plan became eligible for a modified version of PAYE leading to increased costs resulting in a $9.3 billion upward modification of subsidy cost and a $629 million net upward modification adjustment transfer. In FY 2015, the Department forgave $2.1 billion in interest for borrowers participating in the PAYE/income-based repayment (IBR) plans, which provide that, if the borrower’s monthly payment amount is not sufficient to pay the accrued interest on the borrower’s direct subsidized loan or the subsidized portion of a direct consolidation loan, the Secretary does not charge the borrower the remaining accrued interest for a period not to exceed three consecutive years from the established repayment period start date on that loan under the PAYE/IBR plan.

The subsidy rates applicable to the 2016 loan cohort year follow:

Direct Loan Subsidy Rates—Cohort 2016

	Interest Differential	Defaults	Fees	Other	Total
Stafford	6.82%	1.56%	(1.68)%	4.98%	11.68%
Unsubsidized Stafford	(8.34)%	1.06%	(1.68)%	6.24%	(2.72)%
PLUS	(22.04)%	0.78%	(4.27)%	5.38%	(20.15)%
Consolidation	3.32%	(0.50)%	0.00%	10.68%	13.50%
Total	(4.40)%	0.65%	(1.58)%	7.18%	1.85%

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 expense for new direct loans reported in the current year relates to disbursements of loans from both current and prior years’ cohorts. Subsidy expense is recognized when the Department disburses direct loans. The subsidy expense reported in the current year may include re-estimates. The subsidy rates shown above, which reflect aggregate positive subsidy in the FY 2016 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 2018 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.

The following schedule summarizes the Direct Loan program loan disbursements by loan type for the years ended September 30, 2016 and 2015:

Direct Loan Program Loan Disbursements by Loan Type

(Dollars in Millions)

	2016	2015
Stafford	$ (23,752)	$ (23,953)
Unsubsidized Stafford	(52,254)	(52,698)
PLUS	(19,001)	(19,163)
Consolidation	(45,518)	(46,434)
Total Expenditures	**$ (140,525)**	**$ (142,248)**

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 $46 billion during both FY 2016 and FY 2015. 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 of the past cohort year in which the loans were originated.

Federal Family Education 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 the Department through an ECASLA program, consolidated into a direct loan, or otherwise satisfied, discharged, or cancelled. As of September 30, 2016 and 2015, total principal balances outstanding of guaranteed loans held by lenders were approximately $197 billion and $220 billion, respectively. As of September 30, 2016 and 2015, the estimated maximum government exposure on outstanding guaranteed loans held by lenders was approximately $193 billion and $215 billion, respectively. Of the insured amount, the Department would pay a smaller amount to the guaranty agencies. The rates range from 75 to 100 percent of the loan value depending on when the loan was made and the guaranty agency's claim experience.

FFEL Program Loan Receivables

(Dollars in Millions)

	2016				
	Principal	**Accrued Interest**	**Allowance for Subsidy**	**Loan Guarantee Liability**	**Net**
FFEL GSL Program (Pre-1992)	$ 4,087	$ 5,674	$ (7,622)	$ -	$ 2,139
FFEL GSL Program (Post-1991)	35,645	6,562	(12,398)	-	29,809
Loan Purchase Commitment	23,867	2,090	2,922	-	28,879
Loan Participation Purchase	44,434	3,600	4,347	-	52,381
ABCP Conduit	1,771	265	(374)	-	1,662
FFEL Program Loan Receivables	**$ 109,804**	**$ 18,191**	**$ (13,125)**	**$ -**	**$ 114,870**

	2015				
	Principal	**Accrued Interest**	**Allowance for Subsidy**	**Loan Guarantee Liability**	**Net**
FFEL GSL Program (Pre-1992)	$ 4,388	$ 6,149	$ (8,162)	$ (10)	$ 2,365
FFEL GSL Program (Post-1991)	33,415	5,756	(4,389)	3,398	38,180
Loan Purchase Commitment	26,474	1,981	4,410	-	32,865
Loan Participation Purchase	48,540	3,403	7,573	-	59,516
ABCP Conduit	1,887	240	(349)	-	1,778
FFEL Program Loan Receivables	**$ 114,704**	**$ 17,529**	**$ (917)**	**$ 3,388**	**$ 134,704**

ECASLA gave the Department temporary authority to purchase FFEL loans and participation interests in those loans. The Department 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.

The FFEL guaranteed student loan financing account had a negative estimated liability for loan guarantees of $3.4 billion as of September 30, 2015. This indicated that expected collections on anticipated future defaulted loans was in excess of default disbursements, calculated on a net present value basis. Under GAAP, the negative estimated liability as of September 30, 2015, was classified as a component of credit program receivables on the consolidated balance sheet.

The following schedule provides a reconciliation between the beginning and ending balances of the liability for loan guarantees for the insurance portion of the FFEL program:

FFEL Program Reconciliation of Liabilities for Loan Guarantees

(Dollars in Millions)

	2016	2015
Beginning Balance, FFEL Financing Account Liability for Loan Guarantees	**$ (3,398)**	**$ (4,218)**
Activity		
Interest Supplement Payments	(830)	(896)
Claim Payments	(6,678)	(6,917)
Fee Collections	1,731	1,926
Interest on Liability Balance	(1,766)	(1,826)
Other	5,648	12,797
Total Activity	**(1,895)**	**5,084**
Components of Loan Modification		
Loan Modification Costs	151	-
Modification Adjustment Transfers	24	-
Loan Modification	**175**	**-**
Upward/(Downward) Subsidy Re-estimates	**6,535**	**(4,264)**
Ending Balance, FFEL Financing Account Liability for Loan Guarantees	**1,417**	**(3,398)**
FFEL Liquidating Account Liability for Loan Guarantees	12	10
FFEL Liabilities for Loan Guarantees	**$ 1,429**	**$ (3,388)**

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

The following schedules provide reconciliations between the beginning and ending balances of the allowance for subsidy for the loan purchase commitment component and the loan participation purchase component of the FFEL program. Loans in these programs are loans acquired by the Department. Acquired loans are reported at their net present value of future cash flows.

Loan Purchase Commitment Reconciliation of Allowance for Subsidy

(Dollars in Millions)

	2016	2015
Beginning Balance, Allowance for Subsidy	**$ (4,410)**	**$ (5,228)**
Activity		
Subsidy Allowance Amortization	644	724
Loan Cancellations	(193)	(274)
Contract Collection Cost and Other	(40)	(40)
Total Activity	**411**	**410**
Upward/(Downward) Subsidy Re-estimates	1,077	408
Ending Balance, Allowance for Subsidy	**$ (2,922)**	**$ (4,410)**

Loan Participation Purchase Reconciliation Allowance for Subsidy

(Dollars in Millions)

	2016	2015
Beginning Balance, Allowance for Subsidy	**$ (7,573)**	**$ (8,373)**
Activity		
Subsidy Allowance Amortization	1,208	1,362
Loan Cancellations	(355)	(518)
Direct Asset Activities	(74)	(44)
Total Activity	**779**	**800**
Upward/(Downward) Subsidy Re-estimates	2,447	-
Ending Balance, Allowance for Subsidy	**$ (4,347)**	**$ (7,573)**

The following schedule provides FFEL program subsidy expense for the years ended September 30, 2016 and 2015, respectively:

FFEL Program Subsidy Expense

(Dollars in Millions)

	2016	2015
FFEL Loan Guarantee Program Subsidy Re-estimates	$ 6,535	$ (4,264)
Loan Purchase Commitment Subsidy Re-estimates	1,077	408
Loan Participation Purchase Subsidy Re-estimates	2,447	-
FFEL Program Upward/(Downward) Subsidy Re-estimates	**10,059**	**(3,856)**
FFEL Guaranteed Loan Program Modification Costs	175	-
FFEL Program Subsidy Expense	**$ 10,234**	**$ (3,856)**

FFEL guaranteed re-estimated subsidy cost was adjusted upward by $10.2 billion in FY 2016. The net upward re-estimates in these programs were due primarily to collection rates on defaulted loans which were lower than anticipated.

Subsidy rates are sensitive to interest rate fluctuations; for example, a 1 percent increase in borrower interest rates and the guaranteed yield for lenders would increase projected FFEL subsidy costs by $16.6 billion.

FFEL guaranteed re-estimated subsidy cost was adjusted downward by $3.9 billion in FY 2015. Subsidy costs decreased $2.1 billion due to updated economic assumptions, including probabilistic deterministic rates, which reflected historically low commercial paper rates, resulting in substantially higher negative special allowance payments. Subsidy costs decreased $706 million due to lower deferment rates on consolidated loans that have subsidized components of outstanding debt. The Department pays interest benefits when loans are in deferment, so lower deferment rates mean less interest benefits when loans are in deferment, so lower deferment rates mean less interest benefit payments to lenders. Other assumption updates produced offsetting subsidy costs, with the remainder attributable to interest on the re-estimate.

FY 2016 Modification. In the FFEL program, private lenders provided loan capital, backed by a federal guarantee on the loans. The federal government provided interest subsidies to lenders and reimbursement to guaranty agencies for most of the costs associated with loan defaults and other loan cancellations. The Consolidated Appropriations Act, 2016, increased the guaranty agencies' maximum reinsurance percentage on default claims from 95 percent to 100 percent. State and private nonprofit guaranty agencies provide services that include: insurance payments to lenders for defaults, collection of some defaulted loans, default avoidance activities, and counseling to schools, students, and lenders.

Other Credit Programs for Higher Education

Other Credit Programs for Higher Education

(Dollars in Millions)

	2016				
	Principal	Accrued Interest	Allowance for Subsidy	Loan Guarantee Liability	Net
Federal Perkins Loans	$ 385	$ 242	$ (178)	$ -	$ 449
TEACH Program Loans	698	101	(109)	-	690
HEAL Program Loans	405	31	(99)	-	337
Total	**$ 1,488**	**$ 374**	**$ (386)**	**$ -**	**$ 1,476**

	2015				
	Principal	Accrued Interest	Allowance for Subsidy	Loan Guarantee Liability	Net
Federal Perkins Loans	$ 356	$ 222	$ (168)	$ -	$ 410
TEACH Program Loans	642	97	(108)	-	631
HEAL Program Loans	415	28	(127)	(193)	123
Total	**$ 1,413**	**$ 347**	**$ (403)**	**$ (193)**	**$ 1,164**

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 the Department, collections of principal, interest, and fees, net of amounts paid by the Department to cover contract collection costs, are transferred to Treasury annually.

TEACH Grant Program. The Department 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. Since grants can be converted to direct loans, for budget and accounting purposes, the program is operated as a loan program under the FCRA.

The subsidy rates applicable to the 2016 loan cohort year follow:

TEACH Subsidy Rates—Cohort 2016

	Interest Differential	Defaults	Fees	Other	Total
Subsidy Rates	6.23%	0.21%	0.00%	6.61%	13.05%

HEAL Program. The Department 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.

Administrative Expenses

Administrative expenses, for the years ended September 30, 2016 and 2015, consisted of the following:

Administrative Expenses

(Dollars in Millions)

	2016		2015	
	Direct Loan Program	FFEL Program	Direct Loan Program	FFEL Program
Operating Expense	$ 721	$ 465	$ 653	$ 442
Other Expense	50	33	28	18
Total	**$ 771**	**$ 498**	**$ 681**	**$ 460**

Note 6. Liabilities Not Covered by Budgetary Resources

Liabilities not covered by budgetary resources include liabilities for which congressional action is needed before budgetary resources can be provided. Although future appropriations to fund these liabilities are likely, it is not certain that appropriations will be enacted to fund these liabilities.

Liabilities Not Covered by Budgetary Resources

(Dollars in Millions)

	2016		2015	
	Intragovern-mental	With the Public	Intragovern-mental	With the Public
Liabilities Not Covered by Budgetary Resources				
Subsidy Due to Treasury General Fund	$ 2,429	$ -	$ 2,790	$ -
Other Liabilities				
Federal Perkins Loan Program	437	-	395	-
Accrued Unfunded Annual leave	-	12	-	12
FECA Liabilities	2	-	1	2
Total Liabilities Not Covered by Budgetary Resources	**$ 2,868**	**$ 12**	**$ 3,186**	**$ 14**
Total Liabilities Covered by Budgetary Resources	1,127,840	7,881	1,057,404	5,146
Total Liabilities	**$ 1,130,708**	**$ 7,893**	**$ 1,060,590**	**$ 5,160**

Note 7. Debt

Debt, as of September 30, 2016 and 2015, consisted of the following:

Debt
(Dollars in Millions)

	2016			
	Beginning Balance	**Borrowing**	**Repayments**	**Ending Balance**
Direct Loan Program	$ 909,927	$ 146,993	$ (62,635)	$ 994,285
FFEL Program	139,771	160	(8,584)	131,347
Other Credit Programs for Higher Education	646	94	(27)	713
Total	**$ 1,050,344**	**$ 147,247**	**$ (71,246)**	**$ 1,126,345**

	2015			
	Beginning Balance	**Borrowing**	**Repayments**	**Ending Balance**
Direct Loan Program	$ 819,007	$ 159,667	$ (68,747)	$ 909,927
FFEL Program	145,800	2,557	(8,586)	139,771
Other Credit Programs for Higher Education	555	108	(17)	646
Total	**$ 965,362**	**$ 162,332**	**$ (77,350)**	**$ 1,050,344**

FSA borrows from Treasury to fund the disbursement of new loans and the payment of credit program outlays and related costs. During FY 2016, debt increased 7 percent from $1,050 billion in the prior year to $1,126 billion. The Department 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 88 percent of FSA’s debt, as of September 30, 2016, 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 2016, TEACH net borrowing of $67 million was used for the advance of new grants and repayments of principal made to Treasury.

Note 8. Subsidy Due to Treasury General Fund

Subsidy Due to Treasury General Fund

(Dollars in Millions)

	2016	2015
Credit Program Downward Subsidy Re-estimates		
Direct Loan Program	$ -	$ 1,474
FFEL Program	213	3,977
Total Credit Program Downward Subsidy Re-estimates	**213**	**5,451**
Future Liquidating Account Collections		
FFEL Program	2,253	2,603
Other Credit Programs for Higher Education	176	183
Total Future Liquidating Account Collections	**2,429**	**2,786**
Total Subsidy Due to Treasury General Fund	**$ 2,642**	**$ 8,237**

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 the Department's pre-1992 FFEL and HEAL loan programs. When collected, these liquidating account excess collections will also be returned to the Treasury General Fund.

Note 9. Other Liabilities

Other liabilities, as of September 30, 2016 and 2015, consisted of the following:

Other Liabilities

(Dollars in Millions)

	2016		2015	
	Intragovern-mental	With the Public	Intragovern-mental	With the Public
Accounts Payable	$ 1	$ 3,827	$ 1	$ 3,552
Accrued Grant Liability	-	2,403	-	1,571
Guaranty Agencies' Funds Due to Treasury	1,197	-	1,561	-
Loan Guarantee Liability	-	1,633	-	-
Federal Perkins Loan Program	437	-	395	-
Miscellaneous Receipt, Deposit Funds and Clearing Accounts	44	-	50	-
Advances from Others and Deferred Credits	-	12	-	18
Accrued Unfunded Annual Leave	-	12	-	12
FECA Liabilities	2	-	1	2
Accrued Payroll and Benefits	-	6	-	5
Employer Contributions and Payroll Taxes	40	-	1	-
Total Other Liabilities	**$ 1,721**	**$ 7,893**	**$ 2,009**	**$ 5,160**

Note 10. Intragovernmental Cost and Exchange Revenue by Program

As required by the *GPRA Modernization Act of 2010*, FSA's reporting groups and major program offices have been aligned with the goals presented in the Department's *Strategic Plan 2014–2018*. *Strategic* Goal 1, increase college access, affordability, quality, and completion by improving higher education and lifelong learning opportunities for youth and adults, is a sharply defined directive that guides divisions to carry out the vision and programmatic mission of FSA.

Gross costs and earned revenue are classified as intragovernmental (exchange transactions between FSA and other entities within the federal government) or with the public (exchange transactions between FSA and non-federal entities). The following table presents FSA's gross cost and exchange revenue by program for FY 2016 and FY 2015.

Gross Cost and Exchange Revenue by Program

(Dollars in Millions)

	2016	2015
Increase College Access, Quality, and Completion		
Gross Cost		
Intragovernmental	$ 36,325	$ 33,873
With the Public	56,707	25,627
Total Gross Program Costs	**93,032**	**59,500**
Earned Revenue		
Intragovernmental	(4,744)	(5,134)
With the Public	(29,516)	(26,413)
Total Program Earned Revenue	**(34,260)**	**(31,547)**
Net Cost of Operations	**$ 58,772**	**$ 27,953**

Note 11. Credit Program Interest Expense and Interest Revenue

For FY 2016 and FY 2015, interest expense and interest revenue for credit programs consisted of the following:

Credit Program Interest Expense and Interest Revenue

(Dollars in Millions)

	2016						
	Gross Interest Expense	Subsidy Amorti-zation	Net Expense	Gross Interest Revenue		Subsidy Amorti-zation	Net Revenue
	Federal	Non-federal		Federal	Non-federal	Non-federal	
Direct Loan Program	$ 30,503	$ -	$ 30,503	$ 3,943	$ 44,375	$ (17,815)	$ 30,503
FFEL Program	4,980	(1,766)	3,214	516	4,600	(1,902)	3,214
Other Credit Programs for Higher Education	22	-	22	4	42	(24)	22
Total	**$ 35,505**	**$ (1,766)**	**$ 33,739**	**$ 4,463**	**$ 49,017**	**$ (19,741)**	**$ 33,739**

	2015						
	Gross Interest Expense	Subsidy Amorti-zation	Net Expense	Gross Interest Revenue		Subsidy Amorti-zation	Net Revenue
	Federal	Non-federal		Federal	Non-federal	Non-federal	
Direct Loan Program	$ 27,593	$ -	$ 27,593	$ 4,206	$ 39,760	$ (16,373)	$ 27,593
FFEL Program	5,252	(1,826)	3,426	454	5,110	(2,138)	3,426
Other Credit Programs for Higher Education	20	-	20	4	40	(24)	20
Total	**$ 32,865**	**$ (1,826)**	**$ 31,039**	**$ 4,664**	**$ 44,910**	**$ (18,535)**	**$ 31,039**

Federal interest expense is recognized on FSA's outstanding borrowing from Treasury (debt). The Direct Loan and FFEL programs have $994 billion and $131 billion in debt, respectively, as of September 30, 2016. Federal interest revenue is earned on Fund Balance with Treasury for the Direct Loan and FFEL programs. The interest rate set by OMB is the same for interest expense and interest revenue.

Nonfederal interest expense results from the amortization of loan subsidy. Nonfederal interest revenue is interest earned from the public on credit program receivables held by FSA. The credit program receivable net balances for the Direct Loan and FFEL programs are $959 billion and $115 billion, respectively, as of September 30, 2016. FSA holds $1,075.2 billion in outstanding credit program net receivables.

Note 12. Statement of Budgetary Resources

The SBR compares budgetary resources with the status of those resources. As of September 30, 2016, budgetary resources were $286 billion and net agency outlays were $115 billion. As of September 30, 2015, budgetary resources were $302 billion and net agency outlays were $122 billion.

New Obligations and Upward Adjustments by Apportionment Type and Category

New obligations and upward adjustments by apportionment type and category, as of September 30, 2016 and 2015, consisted of the following:

New Obligations and Upward Adjustments by Apportionment Type and Category

(Dollars in Millions)

	2016	2015
Direct:		
Category A	$ 1,573	$ 1,467
Category B	258,509	273,102
Exempt from Apportionment	637	102
New Obligations and Upward Adjustments	**$ 260,719**	**$ 274,671**

The apportionment categories are determined in accordance with the guidance provided in OMB regulations. Category A apportionments are those resources that can be obligated in the current fiscal year without restriction on the purpose of the obligation, other than to be in compliance with legislation underlying programs for which the resources were made available. Category B apportionments are restricted by purpose for which obligations can be incurred. In addition, some resources are available without apportionment by OMB.

Unused Borrowing Authority

Unused borrowing authority and related changes in available borrowing authority, as of September 30, 2016 and 2015, consisted of the following:

Unused Borrowing Authority

(Dollars in Millions)

	2016	2015
Beginning Balance, Unused Borrowing Authority	**$ 54,567**	**$ 61,089**
Current Year Borrowing Authority	167,272	171,624
Funds Drawn from Treasury	(147,247)	(162,332)
Borrowing Authority Withdrawn	(13,862)	(15,814)
Ending Balance, Unused Borrowing Authority	**$ 60,730**	**$ 54,567**

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

Undelivered orders, as of September 30, 2016 and 2015, consisted of the following:

Undelivered Orders
(Dollars in Millions)

	2016	2015
Budgetary	$ 17,499	$ 17,443
Non-Budgetary	73,131	74,828
Undelivered Orders (Unpaid)	**$ 90,630**	**$ 92,271**

Budgetary undelivered orders represent the amount of goods and/or services ordered which have not been actually or constructively received. This amount includes any orders which may have been prepaid or advanced but for which delivery or performance has not yet occurred. Non-budgetary undelivered orders primarily represent undisbursed loan awards and related negative subsidy.

Distributed Offsetting Receipts

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. Distributed offsetting receipts, for the years ended September 30, 2016 and 2015, consisted of the following:

Distributed Offsetting Receipts
(Dollars in Millions)

	2016	2015
Negative Subsidies and Downward Re-estimates of Subsidies:		
FFEL	$ 2,550	$ 4,658
Direct Loan	7,881	8,211
TEACH	5	31
HEAL	-	19
Total	10,436	12,919
Other	248	38
Distributed Offsetting Receipts	**$ 10,684**	**$ 12,957**

Explanation of Differences Between the Statement 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 the Department'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 FY 2016 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 13. Reconciliation of Net Cost of Operations to Budget

The reconciliation of net cost of operations to budget reconciles the resources used to finance activities, both those received through budgetary resources and those received through other means, with the net cost of operations on the statement of net cost. This reconciliation provides an explanation of the differences between budgetary and financial (proprietary) accounting, as required by FASAB Standard No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*.

Resources used to finance activities (section one) are reconciled with the net cost of operations by: (a) excluding resources used or generated for items not part of the net cost of operations (section two), and (b) including components of the net cost of operations that will not require or generate resources in the current period (section three). The primary resources used to finance activities that do not fund the net cost of operations include the acquisition of net credit program assets, the liquidation of liabilities for loan guarantees, and subsidy re-estimates accrued in the prior period. Significant components of the net cost of operations that will not generate or use resources in the current period include subsidy amortization, interest on the liability for loan guarantees, and increases in exchange revenue receivable from the public.

The reconciliation of net cost of operations to budget, as of September 30, 2016 and 2015, are presented below:

Reconciliation of Net Cost Operations to Budget

(Dollars in Millions)

	2016	2015
Resources Used to Finance Activities:		
New Obligations and Upward Adjustments	$ 260,719	$ 274,671
Spending Authority from Offsetting Collections & Recoveries	(135,356)	(144,579)
Offsetting Receipts	(10,684)	(12,957)
Net Budgetary Resources Obligated	**114,679**	**117,135**
Imputed Financing from Costs Absorbed by Others	26	10
Other Financing Sources	(5,058)	(14,159)
Net Other Resources	**(5,032)**	**(14,149)**
Net Resources Used to Finance Activities	**109,647**	**102,986**
Resources Used or Generated for Items Not Part of the Net Cost of Operations:		
(Increase)/Decrease in Budgetary Resources Obligated but Not Yet Provided	1,936	3,998
Resources that Fund Subsidy Re-estimates Accrued in Prior Period	(2,598)	(20,131)
Credit Program Collections	91,974	102,102
Acquisition of Fixed Assets	(11)	(10)
Acquisition of Net Credit Program Assets or Liquidation of Liabilities for Loan Guarantees	(161,676)	(165,607)
Resources from Non-Entity Activity	5,087	14,788
Net Resources that Do Not Finance the Net Cost of Operations	**(65,288)**	**(64,860)**
Net Resources Used to Finance the Net Cost of Operations	**44,359**	**38,126**
Components of the Net Cost of Operations that Will Not Require or Generate Resources in the Current Period:		
Change in Depreciation	-	1
Subsidy Amortization and Interest on the Liability for Loan Guarantees	17,972	16,709
Other	21	(1)
Total Components Not Requiring or Generating Resources	**17,993**	**16,709**
Accrued Re-estimates of Credit Subsidy Expense	28,006	2,598
Increase in Exchange Revenue Receivable from the Public	(31,613)	(29,484)
Other	27	4
Total Components Requiring or Generating Resources in Future Periods	**(3,580)**	**(26,882)**
Total Components that Will Not Require or Generate Resources in the Current Period	**14,413**	**(10,173)**
Net Cost of Operations	**$ 58,772**	**$ 27,953**

Note 14. 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.

Guaranty Agencies

FSA may assist guaranty agencies experiencing financial difficulties. FSA has not done so in fiscal years 2016 or 2015 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 provides financial assistance to eligible postsecondary school students. In FY 2016, the Department 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 latest academic year that ended June 30, 2016, approximately 421 thousand loans were made totaling $1.0 billion at 1,378 institutions, making an average of $2,480 per loan. The Department's equity interest was approximately $6.5 billion as of June 30, 2016.

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 the Department had put in place, and establishes new eligibility requirements for undergraduate and graduate students to receive 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 the recent proprietary school closures reflected in the accompanying financial statements is limited to claims received through September 30. On November 1, 2016, the Department issued certain regulations that may affect the amount to ultimately be paid related to these claims. The final disposition of claims filed and those yet to be filed from schools closed before September 30 is not expected to have a material impact to 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

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, 2016 and the preceding four fiscal year ends:

Summary of Human Capital Expenses

(Dollars in Millions)

	2016	2015	2014	2013	2012
Federal Student Aid Expense					
Direct Loan Subsidy	$ 16,119	$ (892)	$ 8,126	$ (39,557)	$ (10,720)
FFEL Program Subsidy	10,235	(3,856)	(6,585)	(8,753)	(14,381)
Perkins Loans, Pell and Other Grant	30,671	31,400	33,098	33,542	34,310
Recovery Act	0	0	0	0	23
Salaries and Administrative	308	242	206	222	192
Total	**$ 57,333**	**$ 26,894**	**$ 34,845**	**$ (14,546)**	**$ 9,424**

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 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 interest supplements on outstanding loans 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. The President’s Budget proposes to overhaul the TEACH Grant program, and replacing it with a new, targeted teacher recruitment and retention program called the Presidential Teaching

Fellows. This new program would provide grants to states that meet certain conditions to supply scholarships of up to $10,000 to talented individuals attending the most effective programs in the state. These individuals would commit to teaching for at least three years in a high need school and subject. To be eligible for funds, states would measure the effectiveness of their teacher preparation programs based on the student achievement data of their graduates among other measures; hold teacher preparation programs accountable for results; and upgrade licensure and certification standards.

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

United States Department of Education
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For the Period Ended September 30, 2016

(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, Brought Forward, October 1	$ 12,719	$ 14,236	$ 8	$ 53
Recoveries of Prior Year Unpaid Obligations	188	21,047	-	-
Other Changes in Unobligated Balance (+ or -)	(374)	(24,687)	(8)	-
Unobligated Balance from Prior Year Budget Authority, Net	$ 12,533	$ 10,596	$ -	$ 53
Appropriations (Discretionary and Mandatory)	41,948	24	-	-
Borrowing Authority (Discretionary and Mandatory) (Note 12)	-	167,272	-	-
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	470	53,563	7	9
Total Budgetary Resources	**$ 54,951**	**$ 231,455**	**$ 7**	**$ 62**
Status of Budgetary Resources:				
New Obligations Incurred and Upward Adjustments (Total) (Note 12)	$ 44,567	$ 216,152	$ 1	$ 24
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	8,782	-	-	-
Unapportioned, Unexpired Accounts	1,212	15,303	6	38
Unexpired Unobligated Balance, End of year	**$ 9,994**	**15,303**	**$ 6**	**38**
Expired Unobligated Balance, End of Year	390	-	-	-
Unobligated Balance, End of Year (Total)	**$ 10,384**	**$ 15,303**	**$ 6**	**$ 38**
Total Status of Budgetary Resources	**$ 54,951**	**$ 231,455**	**$ 7**	**$ 62**
Change in Obligated Balance:				
Unpaid Obligations:				
Unpaid Obligations, Brought Forward, October 1	$ 19,286	$ 77,880	$ -	$ -
New Obligations and Upward Adjustments	44,567	216,152	1	24
Outlays (Gross) (-)	(43,449)	(196,596)	(1)	(24)
Recoveries of Prior Year Unpaid Obligations (-)	(188)	(21,047)	-	-
Unpaid Obligations, End of Year	**$ 20,216**	**$ 76,389**	**$ -**	**$ -**
Uncollected Payments:				
Uncollected Payments, Federal Sources, Brought Forward, October 1 (-)	$ -	$ (4)	$ -	$ -
Change in Uncollected Payments, Federal Sources (+ or -)	-	-	-	-
Uncollected Payments, Federal Sources, End of Year (-)	$ -	$ (4)	$ -	$ -
Memorandum (Non-add) Entries:				
Obligated Balance, Start of Year (+ or -)	**$ 19,286**	**$ 77,876**	**$ -**	**$ -**
Obligated Balance, End of Year (+ or -)	**$ 20,216**	**$ 76,385**	**$ -**	**$ -**
Budget Authority and Outlays, Net:				
Budget Authority, Gross (Discretionary and Mandatory)	$ 42,418	$ 220,859	$ 7	$ 9
Actual Offsetting Collections (Discretionary and Mandatory) (-)	(653)	(113,986)	(7)	(9)
Change in Uncollected Customer Payments from Federal Sources (Discretionary and Mandatory) (+ or -)	-	-	-	-
Recoveries of Prior Year Paid Obligations (Discretionary and Mandatory) (+ or -)	(1)	(516)	-	-
Budget Authority, Net (Discretionary and Mandatory)	**$ 41,764**	**$ 106,357**	**$ -**	**$ -**
Outlays, Gross (Discretionary and Mandatory)	$ 43,449	$ 196,596	$ 1	$ 24
Actual Offsetting Collections (Discretionary and Mandatory) (-)	(653)	(113,986)	(7)	(9)
Outlays, Net (Discretionary and Mandatory)	42,796	82,610	(6)	15
Distributed Offsetting Receipts (-) (Note 16)	(10,684)	-	**-**	-
Agency Outlays, Net (Discretionary and Mandatory) (Note 12)	**$ 32,112**	**$ 82,610**	**$ (6)**	**$ 15**

United States Department of Education
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(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, Brought Forward, October 1	$ -	$ 5,481	$ 6	$ 2
Recoveries of Prior Year Unpaid Obligations	-	20,150	1	7
Other Changes in Unobligated Balance (+ or -)	-	(24,261)	(3)	(9)
Unobligated Balance from Prior Year Budget Authority, Net	$ -	$ 1,370	$ 4	$ 0
Appropriations (Discretionary and Mandatory)	9,878	-	17	-
Borrowing Authority (Discretionary and Mandatory) (Note 12)	-	167,012	-	100
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	-	34,765	-	35
Total Budgetary Resources	**$ 9,878**	**$ 203,147**	**$ 21**	**$ 135**
Status of Budgetary Resources:				
New Obligations Incurred and Upward Adjustments (Total) (Note 12)	$ 9,878	$ 198,148	$ 17	$ 133
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	-	-	-	-
Unapportioned, Unexpired Accounts	-	4,999	-	2
Unexpired Unobligated Balance, End of year	**$ -**	**$ 4,999**	**$ -**	**$ 2**
Expired Unobligated Balance, End of Year		-	4	-
Unobligated Balance, End of Year (Total)	**$ -**	**$ 4,999**	**$ 4**	**$ 2**
Total Status of Budgetary Resources	**$ 9,878**	**$ 203,147**	**$ 21**	**$ 135**
Change in Obligated Balance:				
Unpaid Obligations:				
Unpaid Obligations, Brought Forward, October 1	$ -	$ 75,628	$ 6	$ 60
New Obligations and Upward Adjustments	9,878	198,148	17	133
Outlays (Gross) (-)	(9,878)	(179,209)	(16)	(118)
Recoveries of Prior Year Unpaid Obligations (-)	-	(20,150)	(1)	(7)
Unpaid Obligations, End of Year	**$ -**	**$ 74,417**	**$ 6**	**$ 68**
Uncollected Payments:				
Uncollected Payments, Federal Sources, Brought Forward, October 1 (-)	$ -	$ -	$ -	$ (4)
Change in Uncollected Payments, Federal Sources (+ or -)	-	-	-	-
Uncollected Payments, Federal Sources, End of Year (-)	$ -	$ -	$ -	$ (4)
Memorandum (Non-add) Entries:				
Obligated Balance, Start of Year (+ or -)	**$ -**	**$ 75,628**	**$ 6**	**$ 56**
Obligated Balance, End of Year (+ or -)	**$ -**	**$ 74,417**	**$ 6**	**$ 64**
Budget Authority and Outlays, Net:				
Budget Authority, Gross (Discretionary and Mandatory)	$ 9,878	$ 201,777	$ 17	$ 135
Actual Offsetting Collections (Discretionary and Mandatory) (-)	-	(86,997)	-	(58)
Change in Uncollected Customer Payments from Federal Sources (Discretionary and Mandatory) (+ or -)	-	-	-	-
Recoveries of Prior Year Paid Obligations (Discretionary and Mandatory) (+ or -)	-	(3)	-	-
Budget Authority, Net (Discretionary and Mandatory)	**$ 9,878**	**$ 114,777**	**$ 17**	**$ 77**
Outlays, Gross (Discretionary and Mandatory)	$ 9,878	$ 179,209	$ 16	$ 118
Actual Offsetting Collections (Discretionary and Mandatory) (-)	-	(86,997)	-	(58)
Outlays, Net (Discretionary and Mandatory)	9,878	92,212	16	60
Distributed Offsetting Receipts (-) (Note 12)	(7,881)	-	(5)	-
Agency Outlays, Net (Discretionary and Mandatory) (Note 12)	**$ 1,997**	**$ 92,212**	**$ 11**	**$ 60**

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(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, Brought Forward, October 1	$ 1,786	$ 8,700	$ 10,847	$ 72
Recoveries of Prior Year Unpaid Obligations	5	890	154	28
Other Changes in Unobligated Balance (+ or -)	(224)	(417)	(128)	(11)
Unobligated Balance from Prior Year Budget Authority, Net	$ 1,567	$ 9,173	$ 10,873	$ 89
Appropriations (Discretionary and Mandatory)	1,447	24	29,048	1,558
Borrowing Authority (Discretionary and Mandatory) (Note 12)	-	160	-	-
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	464	18,754	(1)	-
Total Budgetary Resources	**$ 3,478**	**$ 28,111**	**$ 39,920**	**$ 1,647**
Status of Budgetary Resources:				
New Obligations Incurred and Upward Adjustments (Total) (Note 12)	$ 2,179	$ 17,847	$ 30,919	$ 1,573
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	106	-	8,669	7
Unapportioned, Unexpired Accounts	1,193	10,264	13	-
Unexpired Unobligated Balance, End of year	**$ 1,299**	**$ 10,264**	**$ 8,682**	**$ 7**
Expired Unobligated Balance, End of Year	-	-	319	67
Unobligated Balance, End of Year (Total)	**$ 1,299**	**$ 10,264**	**$ 9,001**	**$ 74**
Total Status of Budgetary Resources	**$ 3,478**	**$ 28,111**	**$ 39,920**	**$ 1,647**
Change in Obligated Balance:				
Unpaid Obligations:				
Unpaid Obligations, Brought Forward, October 1	$ 13	$ 2,192	$ 18,569	$ 698
New Obligations and Upward Adjustments	2,179	17,847	30,919	1,573
Outlays (Gross) (-)	(2,160)	(17,245)	(29,883)	(1,511)
Recoveries of Prior Year Unpaid Obligations (-)	(5)	(890)	(154)	(28)
Unpaid Obligations, End of Year	**$ 27**	**$ 1,904**	**$ 19,451**	**$ 732**
Uncollected Payments:				
Uncollected Payments, Federal Sources, Brought Forward, October 1 (-)	$ -	$ -	$ -	$ -
Change in Uncollected Payments, Federal Sources (+ or -)	-	-	-	-
Uncollected Payments, Federal Sources, End of Year (-)	$ -	$ -	$ -	$ -
Memorandum (Non-add) Entries:				
Obligated Balance, Start of Year (+ or -)	**$ 13**	**$ 2,192**	**$ 18,569**	**$ 698**
Obligated Balance, End of Year (+ or -)	**$ 27**	**$ 1,904**	**$ 19,451**	**$ 732**
Budget Authority and Outlays, Net:				
Budget Authority, Gross (Discretionary and Mandatory)	$ 1,911	$ 18,938	$ 29,047	$ 1,558
Actual Offsetting Collections (Discretionary and Mandatory) (-)	(646)	(26,922)	-	-
Change in Uncollected Customer Payments from Federal Sources (Discretionary and Mandatory) (+ or -)	-	-	-	-
Recoveries of Prior Year Paid Obligations (Discretionary and Mandatory) (+ or -)	(1)	(513)	-	-
Budget Authority, Net (Discretionary and Mandatory)	**$ 1,264**	**$ (8,497)**	**$ 29,047**	**$ 1,558**
Outlays, Gross (Discretionary and Mandatory)	$ 2,160	$ 17,245	$ 29,883	$ 1,511
Actual Offsetting Collections (Discretionary and Mandatory) (-)	(646)	(26,922)	-	-
Outlays, Net (Discretionary and Mandatory)	1,514	(9,677)	29,883	1,511
Distributed Offsetting Receipts (-) (Note 12)	(2,550)	-	(248)	-
Agency Outlays, Net (Discretionary and Mandatory) (Note 12)	**$ (1,036)**	**$ (9,677)**	**$ 29,635**	**1,511**

United States Department of Education
Federal Student Aid
Combining Statement of Budgetary Resources
For the Period Ended September 30, 2015

(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, Brought Forward, October 1	$ 12,642	$ 9,857	$ 9	$ 68
Recoveries of Prior Year Unpaid Obligations	921	20,727	-	-
Other Changes in Unobligated Balance (+ or -)	(194)	(23,978)	(8)	-
Unobligated Balance from Prior Year Budget Authority, Net	$ 13,369	$ 6,606	$ 1	$ 68
Appropriations (Discretionary and Mandatory)	55,798	904	-	-
Borrowing Authority (Discretionary and Mandatory) (Note 12)	-	171,624	-	-
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	502	52,823	9	10
Total Budgetary Resources	**$ 69,669**	**$ 231,957**	**$ 10**	**$ 78**
Status of Budgetary Resources:				
New Obligations Incurred and Upward Adjustments (Total) (Note 12)	$ 56,950	$ 217,721	$ 2	$ 25
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	10,473	550	1	-
Unapportioned, Unexpired Accounts	1,771	13,686	7	53
Unexpired Unobligated Balance, End of year	**$ 12,244**	**14,236**	**$ 8**	**53**
Expired Unobligated Balance, End of Year	475	-	-	-
Unobligated Balance, End of Year (Total)	**$ 12,719**	**$ 14,236**	**$ 8**	**$ 53**
Total Status of Budgetary Resources	**$ 69,669**	**$ 231,957**	**$ 10**	**$ 78**
Change in Obligated Balance:				
Unpaid Obligations:				
Unpaid Obligations, Brought Forward, October 1	$ 21,466	$ 80,104	$ -	$ -
New Obligations and Upward Adjustments	56,950	217,721	2	25
Outlays (Gross) (-)	(58,209)	(199,218)	(2)	(25)
Recoveries of Prior Year Unpaid Obligations (-)	(921)	(20,727)	-	-
Unpaid Obligations, End of Year	**$ 19,286**	**$ 77,880**	**$ -**	**$ -**
Uncollected Payments:				
Uncollected Payments, Federal Sources, Brought Forward, October 1 (-)	$ -	$ (4)	$ -	$ -
Change in Uncollected Payments, Federal Sources (+ or -)	-	-	-	-
Uncollected Payments, Federal Sources, End of Year (-)	$ -	$ (4)	$ -	$ -
Memorandum (Non-add) Entries:				
Obligated Balance, Start of Year (+ or -)	**$ 21,466**	**$ 80,100**	**$ -**	**$ -**
Obligated Balance, End of Year (+ or -)	**$ 19,286**	**$ 77,876**	**$ -**	**$ -**
Budget Authority and Outlays, Net:				
Budget Authority, Gross (Discretionary and Mandatory)	$ 56,300	$ 225,351	$ 9	$ 10
Actual Offsetting Collections (Discretionary and Mandatory) (-)	(647)	(122,283)	(9)	(10)
Change in Uncollected Customer Payments from Federal Sources (Discretionary and Mandatory) (+ or -)	-	-	-	-
Recoveries of Prior Year Paid Obligations (Discretionary and Mandatory) (+ or -)	(2)	(542)	-	-
Budget Authority, Net (Discretionary and Mandatory)	**$ 55,651**	**$ 102,526**	**$ -**	**$ -**
Outlays, Gross (Discretionary and Mandatory)	$ 58,209	$ 199,218	$ 2	$ 25
Actual Offsetting Collections (Discretionary and Mandatory) (-)	(647)	(122,283)	(9)	(10)
Outlays, Net (Discretionary and Mandatory)	57,562	76,935	(7)	15
Distributed Offsetting Receipts (-) (Note 16)	(12,957)	-	(19)	-
Agency Outlays, Net (Discretionary and Mandatory) (Note 12)	**$ 44,605**	**$ 76,935**	**$ (26)**	**$ 15**

United States Department of Education
Federal Student Aid
Combining Statement of Budgetary Resources
For the Period Ended September 30, 2015

(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, Brought Forward, October 1	$ -	$ 4,622	$ 5	$ 1
Recoveries of Prior Year Unpaid Obligations	-	20,079	1	10
Other Changes in Unobligated Balance (+ or -)	-	(23,704)	-	(11)
Unobligated Balance from Prior Year Budget Authority, Net	$ -	$ 997	$ 6	$ -
Appropriations (Discretionary and Mandatory)	23,661	904	16	-
Borrowing Authority (Discretionary and Mandatory) (Note 12)	-	168,953	-	115
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	-	31,810	-	35
Total Budgetary Resources	**$ 23,661**	**$ 202,664**	**$ 22**	**$ 150**
Status of Budgetary Resources:				
New Obligations Incurred and Upward Adjustments (Total) (Note 12)	$ 23,661	$ 197,183	$ 16	$ 148
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	-	-	-	-
Unapportioned, Unexpired Accounts	-	5,481	-	2
Unexpired Unobligated Balance, End of year	**$ -**	**$ 5,481**	**$ -**	**$ 2**
Expired Unobligated Balance, End of Year		-	6	-
Unobligated Balance, End of Year (Total)	**$ -**	**$ 5,481**	**$ 6**	**$ 2**
Total Status of Budgetary Resources	**$ 23,661**	**$ 202,664**	**$ 22**	**$ 150**
Change in Obligated Balance:				
Unpaid Obligations:				
Unpaid Obligations, Brought Forward, October 1	$ -	$ 77,328	$ 5	$ 64
New Obligations and Upward Adjustments	23,661	197,183	16	148
Outlays (Gross) (-)	(23,661)	(178,804)	(14)	(142)
Recoveries of Prior Year Unpaid Obligations (-)	-	(20,079)	(1)	(10)
Unpaid Obligations, End of Year	**$ -**	**$ 75,628**	**$ 6**	**$ 60**
Uncollected Payments:				
Uncollected Payments, Federal Sources, Brought Forward, October 1 (-)	$ -	$ -	$ -	$ (4)
Change in Uncollected Payments, Federal Sources (+ or -)	-	-	-	-
Uncollected Payments, Federal Sources, End of Year (-)	$ -	$ -	$ -	$ (4)
Memorandum (Non-add) Entries:				
Obligated Balance, Start of Year (+ or -)	**$ -**	**$ 77,328**	**$ 5**	**$ 60**
Obligated Balance, End of Year (+ or -)	**$ -**	**$ 75,628**	**$ 6**	**$ 56**
Budget Authority and Outlays, Net:				
Budget Authority, Gross (Discretionary and Mandatory)	$ 23,661	$ 201,667	$ 16	$ 150
Actual Offsetting Collections (Discretionary and Mandatory) (-)	-	(92,936)	-	(47)
Change in Uncollected Customer Payments from Federal Sources (Discretionary and Mandatory) (+ or -)	-	-	-	-
Recoveries of Prior Year Paid Obligations (Discretionary and Mandatory) (+ or -)	-	-	-	-
Budget Authority, Net (Discretionary and Mandatory)	**$ 23,661**	**$ 108,731**	**$ 16**	**$ 103**
Outlays, Gross (Discretionary and Mandatory)	$ 23,661	$ 178,804	$ 14	$ 142
Actual Offsetting Collections (Discretionary and Mandatory) (-)	-	(92,936)	-	(47)
Outlays, Net (Discretionary and Mandatory)	23,661	85,868	14	95
Distributed Offsetting Receipts (-) (Note 12)	(8,211)	-	(31)	-
Agency Outlays, Net (Discretionary and Mandatory) (Note 12)	**$ 15,450**	**$ 85,868**	**$ (17)**	**$ 95**

United States Department of Education
Federal Student Aid
Combining Statement of Budgetary Resources
For the Period Ended September 30, 2015
(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, Brought Forward, October 1	$ 1,581	$ 5,166	$ 10,921	$ 126
Recoveries of Prior Year Unpaid Obligations	28	638	865	27
Other Changes in Unobligated Balance (+ or -)	(136)	(263)	(42)	(8)
Unobligated Balance from Prior Year Budget Authority, Net	$ 1,473	$ 5,541	$ 11,744	$ 145
Appropriations (Discretionary and Mandatory)	1,363	-	29,361	1,397
Borrowing Authority (Discretionary and Mandatory) (Note 12)	-	2,556	-	-
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	505	20,968	(9)	(3)
Total Budgetary Resources	**$ 3,341**	**$ 29,065**	**$ 41,096**	**$ 1,539**
Status of Budgetary Resources:				
New Obligations Incurred and Upward Adjustments (Total) (Note 12)	$ 1,555	$ 20,365	$ 30,249	$ 1,467
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	37	550	10,432	3
Unapportioned, Unexpired Accounts	1,749	8,150	15	-
Unexpired Unobligated Balance, End of year	**$ 1,786**	**$ 8,700**	**$ 10,447**	**$ 3**
Expired Unobligated Balance, End of Year	-	-	400	69
Unobligated Balance, End of Year (Total)	**$ 1,786**	**$ 8,700**	**$ 10,847**	**$ 72**
Total Status of Budgetary Resources	**$ 3,341**	**$ 29,065**	**$ 41,096**	**$ 1,539**
Change in Obligated Balance:				
Unpaid Obligations:				
Unpaid Obligations, Brought Forward, October 1	$ 39	$ 2,712	$ 20,777	$ 645
New Obligations and Upward Adjustments	1,555	20,365	30,249	1,467
Outlays (Gross) (-)	(1,553)	(20,247)	(31,592)	(1,387)
Recoveries of Prior Year Unpaid Obligations (-)	(28)	(638)	(865)	(27)
Unpaid Obligations, End of Year	**$ 13**	**$ 2,192**	**$ 18,569**	**$ 698**
Uncollected Payments:				
Uncollected Payments, Federal Sources, Brought Forward, October 1 (-)	$ -	$ -	$ -	$ -
Change in Uncollected Payments, Federal Sources (+ or -)	-	-	-	-
Uncollected Payments, Federal Sources, End of Year (-)	$ -	$ -	$ -	$ -
Memorandum (Non-add) Entries:				
Obligated Balance, Start of Year (+ or -)	**$ 39**	**$ 2,712**	**$ 20,777**	**$ 645**
Obligated Balance, End of Year (+ or -)	**$ 13**	**$ 2,192**	**$ 18,569**	**$ 698**
Budget Authority and Outlays, Net:				
Budget Authority, Gross (Discretionary and Mandatory)	$ 1,868	$ 23,524	$ 29,352	$ 1,394
Actual Offsetting Collections (Discretionary and Mandatory) (-)	(638)	(29,290)	-	-
Change in Uncollected Customer Payments from Federal Sources (Discretionary and Mandatory) (+ or -)	-	-	-	-
Recoveries of Prior Year Paid Obligations (Discretionary and Mandatory) (+ or -)	(2)	(542)	-	-
Budget Authority, Net (Discretionary and Mandatory)	**$ 1,228**	**$ (6,308)**	**$ 29,352**	**$ 1,394**
Outlays, Gross (Discretionary and Mandatory)	$ 1,553	$ 20,247	$ 31,592	$ 1,387
Actual Offsetting Collections (Discretionary and Mandatory) (-)	(638)	(29,290)	-	-
Outlays, Net (Discretionary and Mandatory)	915	(9,043)	31,592	1,387
Distributed Offsetting Receipts (-) (Note 12)	(4,658)	-	(38)	-
Agency Outlays, Net (Discretionary and Mandatory) (Note 12)	**$ (3,743)**	**$ (9,043)**	**$ 31,554**	**1,387**

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Independent Auditors’ Report

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UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

THE INSPECTOR GENERAL

November 14, 2016

James W. Runcie
Chief Operating Officer
Federal Student Aid
Washington, D.C. 20202

Dear Mr. Runcie:

The enclosed report presents the results of the audit of Federal Student Aid's (FSA) financial statements for fiscal years 2016 and 2015 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 of CliftonLarsonAllen, LLP (CliftonLarsonAllen) to audit the financial statements of FSA as of September 30, 2016 and 2015, 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

CliftonLarsonAllen found:

- The fiscal years 2016 and 2015 financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America;
- Two significant deficiencies in internal control over financial reporting:
    - Controls over Modeling Activities Need Improvement, and
    - Federal Student Aid Management Needs to Mitigate Persistent Information Technology Control Deficiencies; and
- One instance of reportable noncompliance with Federal law related to referring delinquent student loan debts to Treasury.

Evaluation and Monitoring of Audit Performance

The Inspector General Act of 1978 requires that the Inspector General take appropriate steps to assure that any work performed by non-Federal auditors complies with the audit standards established by the Comptroller General. In that regard, we evaluated the independence,

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Promoting the efficiency, effectiveness, and integrity of the Department's programs and operations.

Page 2 – James W. Runcie

objectivity, and qualifications of the auditors and specialists; reviewed the plan and approach of the audit; monitored the performance of the audit; reviewed CliftonLarsonAllen's reports and related audit documentation; and inquired of its representatives.

Our review was not intended to enable us to express, and we do not express, an opinion on FSA's financial statements, or conclusions about the effectiveness of internal control or on compliance with certain provisions of laws, regulations, contracts, and grant agreements.

CliftonLarsonAllen is responsible for the enclosed independent auditors' report and the conclusions expressed on internal control and compliance. Our review disclosed no instances where CliftonLarsonAllen did not comply, in all material respects, with U.S. generally accepted government auditing standards.

We appreciate the cooperation given CliftonLarsonAllen 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 Patrick J. Howard, Assistant Inspector General for Audit, at (202) 245-6949 or through e-mail at Pat.Howard@ed.gov.

Sincerely,

Kathleen S. Tighe
Inspector General

Enclosure

CliftonLarsonAllen

CliftonLarsonAllen LLP

www.cliftonlarsonallen.com

INDEPENDENT AUDITORS' REPORT

Inspector General
United States Department of Education

Chief Operating Officer
Federal Student Aid

Report on the Financial Statements

We have audited the accompanying financial statements of Federal Student Aid (FSA), a component of the United States Department of Education (Department), which comprise the consolidated balance sheet as of September 30, 2016 and 2015, and the related consolidated statements of net cost and changes in net position, and the combined statement of budgetary resources for the years then ended, and the related notes to the financial statements (financial statements).

Management's Responsibility for the Financial Statements

FSA's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America (U.S.); this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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 financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the U.S.; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 15-02*, Audit Requirements for Federal Financial Statements* (OMB Bulletin 15-02). Those standards and OMB Bulletin 15-02 require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the 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 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

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INDEPENDENT AUDITORS’ REPORT (Continued)

significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the Financial Statements

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Federal Student Aid as of September 30, 2016 and 2015, and its net costs, changes in net position, and budgetary resources for the years then ended, in accordance with accounting principles generally accepted in the U.S.

Other Matters

Required Supplementary Information
Accounting principles generally accepted in the U.S. require that the Management Discussion and Analysis (MD&A), other Required Supplementary Information (RSI), and Required Supplementary Stewardship Information (RSSI) included in Federal Student Aid’s Annual Report FY 2016, be presented to supplement the financial statements. Such information, although not a part of the 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 financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the MD&A, other RSI, and RSSI in accordance with auditing standards generally accepted in the U.S., 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 financial statements, and other knowledge we obtained during our audits of the financial statements. We do not express an opinion or provide any assurance on this 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 financial statements as a whole. The Introduction, the Letter from the Chief Operating Officer of Federal Student Aid, the Annual Performance Report section, the Overview of the Financial Section, the Message from the Chief Financial Officer, the Appendices, and Other Information in Federal Student Aid’s Annual Report FY 2016, are presented for purposes of additional analysis and are not a required part of the financial statements or RSI. This information has not been subjected to the auditing procedures applied in the audits of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

INDEPENDENT AUDITORS' REPORT (Continued)

Report on Internal Control over Financial Reporting and Report on Compliance Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered 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 financial statements, but not for the purpose of expressing an opinion on the effectiveness of FSA's internal control or on management's assertion on internal control included in the MD&A. Accordingly, we do not express an opinion on the effectiveness of FSA's internal control or on management's assertion on internal control included in the MD&A.

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 FSA's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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 were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described below and in more detail in Exhibit A, which we consider to be significant deficiencies.

Controls over Modeling Activities Need Improvement

The Department maintains various models that apply mathematical techniques or statistical methods to historical student loan event data to estimate future loan performance and calculate the value of the various student loan programs on a present value basis. We identified deficiencies in the controls over the Department's processes for model design and development, risk assessment, model operation and validation, and Department and FSA oversight. The Department and FSA do not have a comprehensive framework for risk management and fully developed internal controls for modeling activities, which could impact the reliability of FSA's estimates used for financial reporting, budgetary formulation and management analysis.

Federal Student Aid Management Needs to Mitigate Persistent Information Technology Control Deficiencies

The Department and FSA oversee a large portfolio of government and contractor-owned business systems and applications that requires an effective and comprehensive information system security program. Prior audits have identified

INDEPENDENT AUDITORS' REPORT (Continued)

> numerous control deficiencies at the Department, FSA, and application level. While the Department and FSA have made progress in some areas to address these issues in recent years, we continued to identify control deficiencies in the Department's information security program relating to policies and procedures, compliance monitoring, personnel management, and security incident response and FSA's management of various application level security, configuration and access controls. These deficiencies increase the risk of unauthorized access to FSA's systems used to capture, process, and report financial transactions and balances, affecting the reliability and security of its data and information.

Report on Compliance

As part of obtaining reasonable assurance about whether FSA's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements consistent with our professional responsibilities discussed below.

The results of our tests disclosed one instance of noncompliance, described below and in Exhibit B, that is required to be reported in accordance with *Government Auditing Standards* and OMB Bulletin No. 15-02.

> As of September 30, 2016, FSA is not in compliance with the legal requirement for referring 120 day delinquent student loan debts to Treasury. In 2014, Federal law[1] was amended[2] 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, FSA is not yet capable of meeting this accelerated timeline.

Management's Responsibility for Internal Control and Compliance

Management is responsible for evaluating the effectiveness of internal control over financial reporting based on criteria established under the Federal Managers' Financial Integrity Act (FMFIA), providing a statement of assurance on the overall effectiveness on internal control over financial reporting, and complying with other applicable laws, regulations, contracts, and grant agreements.

Auditors' Responsibilities

We are responsible for obtaining a sufficient understanding of internal control over financial reporting to plan the audit and testing compliance with certain provisions of laws, regulations, contracts and grant agreements.

We did not evaluate all internal controls relevant to operating objectives as broadly established by the FMFIA, such as those controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to testing controls over financial reporting. Because of inherent limitations in internal control, misstatements due to error or fraud,

[1] 31 U.S. Code Section 3716(c)(6)
[2] Public Law 113-101 (DATA Act) Section 5

INDEPENDENT AUDITORS' REPORT (Continued)

losses, or noncompliance may nevertheless occur and not be detected. We also caution that projecting our audit results to future periods is subject to risk that controls may become inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate. In addition, we caution that our internal control testing may not be sufficient for other purposes.

We did not test compliance with all laws, regulations, contracts and grant agreements applicable to FSA. We limited our tests of compliance to certain provisions of laws, regulations, contracts and grant agreements that have a direct effect on the determination of material financial statement amounts and disclosures. 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. We caution that noncompliance may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

Management's Response to Findings

Management's response to the findings identified in our report is presented in Exhibit C. We did not audit FSA's response and, accordingly, we express no opinion on it.

Status of Prior Year's Control Deficiency and Noncompliance Issue

We have reviewed the status of FSA's corrective actions with respect to the findings included in the prior year's Independent Auditors' Report, dated November 13, 2015. The status of prior year findings is presented in Exhibit D.

Purpose of the Report on Internal Control over Financial Reporting and the Report on Compliance

The purpose of the Report on Internal Control over Financial Reporting and the Report on Compliance sections of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of FSA's internal control or on compliance. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering FSA's internal control and compliance. Accordingly, these reports are not suitable for any other purpose.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Arlington, Virginia
November 14, 2016

INDEPENDENT AUDITORS' REPORT (Continued)
EXHIBIT A
Significant Deficiencies

Controls over Modeling Activities Need Improvement

FSA and the Department do not have a comprehensive framework for risk management and fully developed internal controls over critical modeling activities, including model development, risk assessment, operation, and validation.

The Cost Estimation and Analysis Division (CEAD) within the Office of Planning, Evaluation and Policy Development's Budget Service is responsible for developing estimates of the subsidy cost of FSA's direct and guaranteed loan programs. These estimates are used to support budget estimates, policy decisions and financial reporting. CEAD has developed a set of complex financial and economic models that apply mathematical techniques and statistical methods to historical loan level data to develop student loan program performance assumptions and estimate the value and cost of the FSA's various loan programs. These models support management's estimate of the net present value of cash flows related to nearly $1.3 trillion in direct, defaulted, and guaranteed student loans as of September 30, 2016.

An effective controls structure is generally defined through appropriately documented, approved, and implemented policies and procedures that outline requirements for ensuring all modeling and related control activities are performed and documented in accordance with the intent of management. A proper governance structure involves input from program management and multiple layers of review, approval, and oversight from CEAD management, the Department and FSA's Offices of the Chief Financial Officer, and senior agency management over modeling activities. Our audit identified the following:

Model development
The Department and FSA do not have a formalized process for managing critical model development activities, which should include documenting the objectives of the model, applicable program attributes and requirements affecting the planned model, evaluation of available data, proposed design, potential design alternatives, and model testing and approval.

Our audit found the Department maintained limited documentation supporting the initial design, evaluation, justification and testing of the model for:

- selecting a sample of borrowers from the National Student Loan Data System (NSLDS) used for calculating program performance assumptions
- estimating future incomes for borrowers under income-dependent repayment plans
- projecting future cash flows for borrowers under income-dependent repayment plans
- calculating specific performance assumptions
- projecting overall program level cash flows (Student Loan Model)

During FY2016, the Department made concerted efforts to enhance the documentation of two models updated during the year, including the modeling of recoveries on defaulted loans and documentation related to the NSLDS sampling process. The revised documentation represented a substantial improvement in explaining the methodology and its basis but was not sufficiently detailed to be fully effective guide for independent reviewer to follow the process performed.

CEAD is comprised of a small team of experienced economists and analysts responsible for performing its modeling activities, but thoroughly documenting such design requirements may

INDEPENDENT AUDITORS' REPORT (Continued)
EXHIBIT A
Significant Deficiencies

be onerous for the current team. Given the size, growth and changes of the Direct Loan Program in recent years, ineffective controls over the design of new models can impact the reliability of their estimates, as noted in our review of the Department's modeling for income-driven repayment (IDR) plans.

IDR modeling: The Department's model for estimating future cash flows from student loan borrowers with IDR plans was updated in 2015, following the announcement of the new income-dependent Pay As You Earn program. The previous update to the Department's IDR model was in 2004. Due to recent growth in the number of borrowers using IDR plans, this model now supports a significant portion of the Direct Loan Program's subsidy cash flow estimates.

The process used to estimate these cash flows is performed outside the Student Loan Model and requires the Department to estimate borrowers' future incomes in order to estimate the amount and timing of the principal the borrower will repay. The Department obtained "synthetic" income data from the Department of the Treasury's Office of Technical Assistance (OTA), which CEAD used to estimate future incomes and project the corresponding future income-based loan repayments. CEAD found the format and nature of the data provided by OTA was not well suited for their purposes, but was nevertheless used due to time limitations to complete the forecasts.

We found the methodology used for imputing borrower incomes was also not well suited based on the nature of the OTA data, and could result in unreliable or inappropriate income forecasts. The Department did not have a process to document and communicate their concerns and the risks to their estimates as a result of these limitations.

The Department did not have formalized documentation for their justification of the overall IDR modeling approach selected, potential alternatives and their evaluation, testing plans, and formal approval for the implementation of the new model. Further, the Department did not have formalized documentation describing the process for imputing borrower incomes and calculating other IDR related assumptions.

We also found the current methodology did not take into account inflation or forecasted macroeconomic data such as found in the President's Economic Assumptions. We also found deficiencies in the methodology for forecasting defaults from IDR borrowers. Although management indicated it plans to enhance the model, the Department has not documented the basis for its conclusion to not update this model immediately once the risk to the estimates were identified.

The Department is also currently developing a new model to be used for estimating the subsidy cost for the Direct Loan Program; however, there is limited documentation regarding the specifications, requirements, evaluation, or testing plan relating to the development of the model.

Model risk assessment
CEAD maintains over 18 different economic and financial modeled assumptions used within the calculation of the Allowance for Subsidy for just the Direct Loan Program. Some of the assumptions are updated annually, while others are updated biannually. The Department and FSA do not have a formalized process for compiling and maintaining the Department's model inventory, assessing and documenting modeling risks, and monitoring the implementation of

INDEPENDENT AUDITORS' REPORT (Continued)
EXHIBIT A
Significant Deficiencies

corrective actions. This risk assessment process should be independent of the agency-level risk assessment process performed in connection with the agency level management controls review process required by OMB Circular A-123. The Department also does not have a documented risk-based process for obtaining an independent, external validation review of its models.

Model operation
The Department's documentation of the control activities performed for operating approved models is not formalized. We identified deficiencies in the documentation of control activities over the Department's model operations relating to data accumulation and validation, assumption development, and model execution. As a result, we were not always able to ensure certain control activities were performed. The Department has initiated the development of a number of policy manuals and desk guides to support the proper operation of current models but these manuals are incomplete and not readily used.

Model validation
Model validation refers to the initial and ongoing review and approval of the design of the model and its ability to properly correlate historical data into estimated future program performance. The Department performs a number of critical procedures to monitor the performance of its models and validate the overall reasonableness of its outputs, including backcasts, actuals to estimates review, cohort analysis, and sensitivity analysis. However, the Department does not have a comprehensive process to evaluate the results of these procedures and document their conclusion as to whether the models, in aggregate, continue to be adequate for forecasting the future performance of the student loan programs. Further, the Department's sensitivity analysis did not address key components of the program known to have a significant impact on its cost, including IDR plan participation rates, borrower incomes, or Public Service Loan Forgiveness participation rates.

Governance and guidance
The Department and FSA do not have a formalized process for engaging and involving their senior leadership in their governance capacity over critical decisions relating to various modeling activities, including model development, risk assessment, assumption development and review and model validation. Given the pervasive impact of the credit activities on FSA's operations and financial reporting, estimation (or model) risk should be one of the key enterprise risks to be managed by FSA, with a fully developed oversight and governance framework and control structure.

The Department does maintain a Credit Reform Working Group that brings together members of FSA and Department management periodically with CEAD staff to discuss estimation and modeling issues; however, the Department and FSA have not formally defined the roles and responsibilities of the members of this group within a comprehensive model risk management framework.

The Department and FSA have also not established a formalized structure or process for other critical model risk management activities, including maintaining the inventory of models with a corresponding assessment of risks, known deficiencies, and planned corrective actions, and performing or overseeing independent validations of the Department's models.

INDEPENDENT AUDITORS' REPORT (Continued)
EXHIBIT A
Significant Deficiencies

<u>Summary</u>
Without a fully effective risk management and control structure over its modeling activities, estimation errors or modeling risks may go undetected, increasing the potential for improper reporting and program decisions.

GAO's *Standards for Internal Controls in the Federal Government* requires that agencies:

- design controls activities in response to objectives and risks
- define and delegate responsibilities
- document internal controls and "all transactions and other significant events"
- evaluate and document the results of ongoing monitoring evaluations to identify internal control issues

OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, updated in July 2016, requires agencies to take steps to integrate risk management into the internal controls over their business operations.

Industry specific guidance from federal regulators regarding model risk management, model governance and related controls is also provided by the Federal Reserve and the Office of the Comptroller of the Currency in SR 11-7 *Supervisory Guidance on Model Risk Management*, and by the Federal Housing Finance Agency in their AB 2013-07 *Model Risk Management Guidance*.

Recommendations:

We recommend the Chief Operating Officer:

1a. Request the necessary information on the Department's modeling activities and perform a comprehensive risk assessment of the Department's modeling on FSA's mission in connection with the development of FSA's enterprise risk management program.

We recommend the FSA Chief Financial Officer support the Director, Budget Service in their effort to:

1b. Document the Department's process, policies and procedures for the design, development, testing and authorization of new models.
1c. Compile an inventory of the Department's models, and regularly document management's assessment of risks related to each model and how that assessment impact's the Department's level of controls, validation and monitoring over each model.
1d. Document the Department's process, policies, procedures and related controls for the periodic review, validation and approval of the Department's models at the model and program level.
1e. Document the overall review and conclusions drawn related to the evaluation of the results of model performance reviews and validation procedures performed.

We recommend the FSA Chief Financial Officer, the Department Director of Budget Service and the Department Chief Financial Officer:

INDEPENDENT AUDITORS' REPORT (Continued)
EXHIBIT A
Significant Deficiencies

1f. Document the process, policies, procedures and related controls for managing the operation and use of approved models.
1g. Design, document and implement a modeling governance structure that specifically and separately addresses the roles and responsibilities for the oversight of critical modeling activities, including model risk assessment, model development, model operation, and model validation activities, as well as defining standards for policies, procedures and internal controls for these activities.

We recommend the FSA Chief Financial Officer support the Department Chief Financial Officer to:

1h. Ensure the Department's management controls program fully evaluates the Department's modeling activities commensurate with the materiality of the impact of the process to FSA's reporting activities.

Federal Student Aid Management Needs to Mitigate Persistent Information Technology Control Deficiencies

FSA and the Department oversee a large portfolio of government- and contractor-owned business systems and applications that requires an effective and comprehensive information system security and privacy program. According to OMB Circular A-130, *Managing Information as a Strategic Resource*, key elements of an effective security program include 1) agency-wide and system-level policies and procedures; 2) properly designed, implemented and monitored information system controls to protect Department information and information systems from unauthorized access, use, disclosure, disruption, modification or destruction; and 3) cost effective risk management.

Prior audits have identified numerous control deficiencies at the FSA, Department and application level. While FSA and the Department have made progress in some areas to address these issues in recent years, we continued to identify control deficiencies in the Department's information security program relating to policies and procedures, compliance monitoring, personnel management, and security incident response, and FSA's management of various application level security, configuration management, and access controls.

Effective system security starts with strong governance, including agency level oversight, policies and procedures, entity-wide controls, and controls monitoring. We have reported for several years that the Department's agency level information technology policies are outdated or did not fully address specific controls required by NIST Special Publication (SP) 800-53, revision 4, *Recommended Security and Privacy Controls for Federal Information Systems and Organizations*. Designing and implementing effective agency level policies is the responsibility of the Department's Chief Information Officer (CIO). While the CIO has revised the Department's Information Assurance/Cybersecurity Policy, it has not been approved by the Department's Office of Management. In addition, the associated guidance has not been completed, according to Department management, due to limited resources.

Managing the information and system security program across the Department is primarily the responsibility of the Department's Chief Information Security Officer (CISO), in conjunction with FSA's CISO. The Department and FSA CISOs have enhanced their efforts to monitor the

INDEPENDENT AUDITORS' REPORT (Continued)
EXHIBIT A
Significant Deficiencies

system security control activities over their agency systems in recent years and have initiated several multi-year corrective actions that should aid in addressing many of the long standing weaknesses that affect the Department and FSA systems. For example, the FSA CISO has implemented a security program based on continuous monitoring that includes regular updates to security documentation, routine security control assessments and vulnerability assessments, and risk analysis. The outcomes of these system security activities are reviewed and evaluated by the CISO in support of an ongoing authorization to operate. Monitoring of remediation activities associated with identified control deficiencies in FSA's systems is fostered by regular update meetings held with management within the Technology Office and Business Operations, the Office of Inspector General (OIG) and the financial statement auditors.

However, agency-level security controls also require the efforts of other offices across FSA and the Department, including the Office of Security, Facilities and Logistics Services. We continue to find a large number of Department and FSA employees and contractors with overdue reinvestigations, incorrect levels of background investigations for privileged users, and lack of investigation information. In addition, the CIO has not ensured Department system owners adopt the Office of Personnel Management Position Designation Tool in order to determine and document suitability and investigation requirements for each system's roles/responsibilities. Furthermore, the Department Office of the Chief Financial Officer has not implemented service level agreements for contractor employee clearance monitoring, as recommended last year.

We also found the CIO's centralized controls for responding to security incidents were not always in accordance with Department policy. The entire population of sixteen sampled security and privacy incidents did not have documentation of the remediation actions and closure date of the incidents.

The Department's agency-level information security controls are required to be evaluated annually by the OIG, in accordance with the Federal Information Security Modernization Act (FISMA). The FY2015 OIG review involved testing Department and FSA financial and non-financial systems' controls and identified control deficiencies in four of ten reporting areas related to configuration management, continuous monitoring, incident response and reporting, and remote access management. The review also determined that the Department's Identity and Access Management programs and practices would be generally effective if implemented properly.

Although FSA had implemented a governance structure for managing agency-level system security risk, the tactical execution of remediating system level control weaknesses and ensuring compliance with information security requirements still needs improvement.

Managing FSA's system security controls at the application or system level is the responsibility of the system owners, in conjunction with system level information security officers. Our audit identified application, or system, specific control deficiencies in the areas of security management, access controls, and configuration management in one or more of the four FSA financial systems we tested this year. We also continued to identify configuration management issues with the Department's general support system, but noted substantial improvement in the remediation of information security control weaknesses for the Department's core financial management system, which is used for FSA's financial reporting.

INDEPENDENT AUDITORS' REPORT (Continued)
EXHIBIT A
Significant Deficiencies

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INDEPENDENT AUDITORS' REPORT (Continued)
EXHIBIT A
Significant Deficiencies

Security management
An organization–wide information security program sets the framework for addressing risk through developing and implementing effective information security procedures, monitoring the effectiveness of those procedures, providing appropriate security training and remediating control weaknesses through the Plan of Action and Milestones (POA&M) process. Security policies and procedures also include employee hiring, transfer and termination practices. We noted that the POA&Ms for three FSA systems had passed their scheduled dates of completion without updated milestone information.

Overall, we found improvement in the level of compliance with security awareness training requirements this year. For three of the four systems tested, we found system users did not always complete the required security awareness training. Also, contractors with significant system security responsibilities had not always completed role based training for two of the four FSA systems tested.

When the AO changed in FY2015 for all 4 systems tested, the new AO did not sign the new authorization decision documents to explicitly accept the risk and formally transfer responsibility and accountability for the information systems. Upon notification of this issue to management, the new AO signed new authorization decision documents in September 2016 to explicitly accept the risk and formally transfer responsible and accountability for the information systems.

In addition, a *Clearance of Personnel for Separation or Transfer Form* was not provided to validate that Department assets were returned for ten from a sample of twenty-one Department terminated employees. For one of five FSA terminated employees we tested, the form did not contain all required signatures validating that all assets were returned.

Access Controls
Access controls limit or detect inappropriate access to systems, protecting the data within them from unauthorized modification, loss or disclosure. Standards require that entities use a properly executed Memorandum of Understanding (MOU) to document the terms and conditions for sharing data and information resources in a secure method. An Interconnection Security Agreement (ISA) identifies the technical and security requirements for establishing, operating, and maintaining the interconnection. Consistent with previous years, we identified expired MOUs, one MOU that was not reviewed in accordance with the requirements of the ISA, and instances in which interconnections were not detailed in the corresponding System Security Plan.

User authorization refers to the documentation of the granting of user access to only the elements of a system the user needs to perform his or her duties. To be an effective control, user access should be documented, approved and periodically reviewed. Accounts for users should be terminated when the user no longer needs access to the system. Based on our work, we found:

- Accounts for terminated Department, FSA, and/or loan servicer employees, were not disabled for the Department's general ledger system and three of the four FSA systems tested
- Inactive accounts were not disabled for one FSA system

INDEPENDENT AUDITORS' REPORT (Continued)
EXHIBIT A
Significant Deficiencies

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INDEPENDENT AUDITORS' REPORT (Continued)
EXHIBIT A
Significant Deficiencies

- For one FSA system, eighteen from a sample of 25 new users did not have evidence that their access was approved and one individual was granted a role that was not approved
- For another FSA system, five from a sample of 25 new users had user roles that were modified from the original access level with no evidence that the modified role was approved
- User access was not always recertified, and some user accounts that were recertified had either never used the system, or had not logged in for an extended period of time
- One user had inappropriate access to directly implement changes to the production environment

Configuration Management
Configuration management ensures changes to systems are tested and approved, and systems are configured securely in accordance with policy. In our audit, we found one FSA system with configuration settings that did not adhere to Department policy. Additionally, we found security impact assessments were not conducted for one FSA system. Furthermore, our testing identified insecure configurations as well as unpatched and unsupported software in both the Department and FSA systems.

The 2015 FISMA review determined that the Department's and FSA's information technology security programs were generally effective in key aspects of three metric areas—Risk Management, Security Training, Contingency Planning—but further improvements were needed. For the Department and FSA's corrective action process, the review determined that, if implemented as intended, it should be effective. The review also found that the Department's controls over access to FSA's mainframe environment need improvement. Overall, eight of the ten reporting metrics contained repeat or modified repeat findings identified from 2011 through 2014.

According to NIST SP 800-39, *Managing Information Security Risk - Organization, Mission, and Information System View*, the information system owner, in coordination with the information system security officer, is responsible for ensuring compliance with information security requirements.

The information system security officer is an individual responsible for ensuring that the appropriate operational security posture is maintained for an information system and as such, works in close collaboration with the information system owner. The information system security officer also serves as a principal advisor on all matters, technical and otherwise, involving the security of an information system. The information system security officer has the detailed knowledge and expertise required to manage the security aspects of an information system and, in many organizations, is assigned responsibility for the day-to-day security operations of a system.

OMB Circular A-130, *Managing Information as a Strategic Resource*, July 28, 2016, Appendix 1 states agencies are to:

- Implement policies and procedures to ensure that all personnel are held accountable for complying with agency-wide information security and privacy requirements and policies.

INDEPENDENT AUDITORS' REPORT (Continued)
EXHIBIT A
Significant Deficiencies

- Implement security and privacy controls, and verify that they are operating as intended, and continuously monitored and assessed; put procedures in place so that security and privacy controls remain effective over time, and that steps are taken to maintain risk at an acceptable level within organizational risk tolerance.

- Correct deficiencies that are identified through information security and privacy assessments, information system continuous monitoring and privacy continuous monitoring programs, or internal or external audits and reviews, to include OMB reviews.

In order to appropriately manage risk from an organization-wide structure, individuals with responsibility for information system security need clear expectations in the form of agency level information security policies and procedures that address all NIST and OMB requirements. Therefore, it is essential that the Department complete, approve and disseminate the Information Assurance/Cybersecurity Policy and associated guidance. In addition, due to the continuance of persistent IT control deficiencies across multiple systems, the FSA CISO needs to hold accountable those individuals responsible for ensuring that persistent IT control deficiencies are remediated and the appropriate security posture is maintained for FSA information systems.

Recommendations:

We recommend FSA's Chief Information Officer work with the Department CIO to:

2a. Ensure the update, review, approval and dissemination of the Information Assurance/ Cybersecurity Policy and associated guidance is completed in order to comply with NIST standards and OMB guidance.
2b. Design and implement controls over the handling of Department security and privacy incidents to ensure their resolution is properly documented.

We recommend FSA's Chief Administration Officer work with the Principal Deputy Assistant Secretary, Office of Management to:

2c. Implement a monitoring process over the personnel security activities to ensure investigations and reinvestigations are prioritized for personnel with sensitive system access within the Department.

We recommend the FSA CISO:

2d. Strengthen and refine the process for holding FSA system owners and information system security officers accountable for remediation of control deficiencies and ensuring that the appropriate security posture is maintained for FSA information systems.

INDEPENDENT AUDITORS' REPORT (Continued)
EXHIBIT B
Instance of Noncompliance

Requirement for Referring Delinquent Student Loan Debts to Treasury

In 2014, Federal law[3] was amended[4] 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, FSA is not yet capable of meeting this accelerated timeline. Accordingly, as of September 30, 2016, FSA is not in compliance with the legal requirement for referring 120 day delinquent student loan debts to Treasury.

To meet this requirement, FSA has been able to obtain legal clarification of how certain specific requirements of the amended law apply to the Direct Loan Program and other FSA programs, improve delinquent debt reporting procedures, increase the frequency of some debt referrals and modify its defaulted loan management system to accommodate this change. FSA is also evaluating the impact of defining defaulted loans earlier on 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 they 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 Chief Operating Officer:

3. 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.

[3] 31 U.S. Code Section 3716(c)(6)
[4] Public Law 113-101 (DATA Act) Section 5

INDEPENDENT AUDITORS' REPORT (Continued)
EXHIBIT C
Management's Response

Federal Student Aid
An OFFICE of the U.S. DEPARTMENT of EDUCATION

PROUD SPONSOR of the AMERICAN MIND™

November 14, 2016

MEMORANDUM

TO: Kathleen Tighe
Inspector General

FROM: John W. Hurt, III
Chief Financial Officer
Federal Student Aid

SUBJECT: DRAFT AUDIT REPORTS
Fiscal Years 2016 and 2015 Financial Statements
Federal Student Aid
ED-OIG/A17Q0002

Please express our sincere appreciation to everyone on your staff and the CliftonLarsonAllen, LLP team who supported the completion of the Fiscal Year 2016 Financial Statement Audit. Federal Student Aid (FSA) reviewed the draft audit reports provided on November 2, 2016. We concur with the findings and recommendations as identified in the Report on Internal Control over Financial Reporting and in the Report on Compliance.

FSA will work with the Department of Education (Department) on improving the controls over the modeling activities. In addition, FSA will continue to work with the Department to address the significant control deficiency related to Information Technology. Furthermore, FSA and the Department are continuing to work with Treasury regarding the timeline for referring delinquent student loans debts to the Department of the Treasury.

We are dedicated to sustaining an unmodified opinion with no material weaknesses and will develop as well as implement suitable corrective action plans to address 1) the significant control deficiencies, and 2) the noncompliance cited in these reports.

Once again, we thank the Office of Inspector General and CliftonLarsonAllen for their efforts to complete a successful audit of Federal Student Aid's financial statements.

INDEPENDENT AUDITORS' REPORT (Continued)
EXHIBIT D
Status of Prior Year Recommendations

Our assessment of the current status of the recommendations related to findings identified in the prior year audit is presented below:

Fiscal Year 2015 Recommendation	Fiscal Year 2016 Status
CLA recommended the FSA CISO work with the Department CISO to:	
1a. Refine and fully implement FSA's system security program to monitor compliance with NIST requirements, in coordination with the Department's organization-wide information security program, at both the agency and system level.	Modified repeat finding; see Significant Deficiency
1b. Strengthen and refine the process to ensure accountability for individuals responsible for remediating the identified control deficiencies in FSA's systems, including cooperation between the Technology Office and Business Operations.	Repeat finding; see Significant Deficiency
1c. Strengthen and refine the process for holding contractors accountable for remediation of control deficiencies in FSA's systems.	Resolved.
Noncompliance with Laws and Regulations	
CLA recommended that the FSA Chief Operating Officer work with the Secretary of Education to:	
2. Modify their loan servicing systems, procedures and internal processes to comply with the legal timing requirement for referring delinquent non-tax debts to Treasury.	Repeat finding; see Instance of Noncompliance

Federal Student Aid
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Other Information

- Schedule of Spending
- Other Information Links

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Schedule of Spending

Department of Education
Federal Student Aid
Combined Schedule of Spending
For the Years Ended September 30, 2016 and 2015
(Dollars in Millions)

	FY 2016		FY 2015	
	Budgetary	**Non-Budgetary Credit Reform Financing Accounts**	**Budgetary**	**Non-Budgetary Credit Reform Financing Accounts**
Section I: What Money is Available to Spend?				
Total Resources	$ 55,002	231,455	$ 69,669	231,957
Amount Available but Not Agreed to be Spent	(8,782)	-	(10,473)	(550)
Amount Not Available to be Spent	(1,653)	(15,303)	(2,246)	(13,686)
Total Amounts Agreed to be Spent	**$ 44,567**	**216,152**	**$ 56,950**	**217,721**
Section II: How was the Money Spent?				
Increase College Access, Quality, and Completion				
Credit Programs	$ 12,044	195,824	$ 25,210	198,154
Grants	29,882	-	31,588	-
Personnel Compensation and Benefits	208	-	193	-
Contractual Services	1,293	772	1,196	1,064
Other [1/]	22	-	22	-
Total Program Spending	**$ 43,449**	**196,596**	**$ 58,209**	**199,218**
Total Spending	**$ 43,449**	**196,596**	**$ 58,209**	**199,218**
Amounts Remaining to be Spent[2/]	1,118	19,556	(1,259)	18,503
Total Amounts Agreed to be Spent	**$ 44,567**	**216,152**	**$ 56,950**	**217,721**
Section III: Who did the money go to?				
Non-Federal Obligations	$ 44,460	216,151	$ 56,850	217,721
Federal Obligations	107	1	100	-
Total Amounts Agreed to be Spent - Section III	**$ 44,567**	**216,152**	**$ 56,950**	**217,721**

[1/] Other primarily consists of payments for rent, utilities, communication, equipment, travel, and transportation.

[2/] The "Amounts Remaining to be Spent" line is the difference between Total Spending and Amounts Total Amounts Agreed to be Spent. Actual spending in the current FY may include spending associated with amounts agreed to be spent during previous FY, which may result in negative amounts shown for the "Amounts Remaining to be Spent" line.

Other Information Links

***Improper Payment Information Act (as Amended by IPERA and IPERIA)* Reporting Details**

The Improper Payments Information Act of 2002 (IPIA; 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; 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. Please refer to the *Improper Payments Reporting Details* narrative found in the Other Information section located within the Department's ***AFR***.

Summary of Financial Statement Audit and Management Assurances

For details on FSA programs, please refer to the ***Analysis of Systems, Controls and Legal Compliance*** discussion found in the Management's Discussion and Analysis section of this document as well as the *Summary of Financial Statement Audit and Management Assurances* narrative located in the Other Information section of the Department's ***AFR***.

Management Challenges

For details on FSA Management Challenges, please refer to relevant items included in the *Office of Inspector General's Management Challenges for FY 2017 Executive Summary* found in the Other Information section located within the Department's ***AFR***.

Appendices

- Appendix A: Discontinued Strategic Goals and Performance Metrics
- Appendix B: Index of Tables and Charts
- Appendix C: Glossary of Acronyms and Terms
- Appendix D: Availability of the Federal Student Aid Annual Report

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Appendix A: Discontinued Strategic Goals and Performance Metrics

Discontinued Strategic Goals and Performance Metrics
FSA Strategic Plan FY 2015–2019

During FY 2015, FSA reviewed its strategic plan to identify revisions that would enable FSA to better address the challenges of the economic environment and improve the delivery of its mission–"Funding America's Future, One Student at a Time". As a result of this review, FSA implemented a new Strategic Plan, *the FSA Strategic Plan FY 2015–16*, which contained slightly revised strategic goals. The implementation of the new strategic plan resulted in many of the metrics remaining largely unchanged, but a few of the metrics were revised.

In FY 2016, one metric was discontinued and another metric was incorporated to better reflect and measure the organization's performance. The discontinuation of the performance metric, listed in Table 1, along with its previous years' results, which are listed in Table 2 are presented below.

Table 1: Discontinued Performance Metric

Strategic Goal/Performance Goal	Description
Strategic Goal C	**Improve operational efficiency and flexibility.**
Performance Metric C.2	Loan Servicing Costs per Borrower

Table 2: Previous Results of Discontinued Performance Metric

Performance Metric C.2: Outstanding FSA Loan Portfolio in Current Repayment Status

Fiscal Year	Actual	Target Achieved	Performance Result
FY 2015	$22.36	✓	**Met**
FY 2014	$21.59	✗	**Not met**
FY 2013	$21.42	✗	**Not met**
FY 2012	$18.94	✓	**Met**

Appendix B: Index of Tables and Charts

Tables

Section: Management Discussion and Analysis

Tables

Section: Annual Performance Report

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Charts

Section: Management Discussion and Analysis

Appendix C: Glossary of Acronyms and Terms

Acronym	Description
A	
ABCP Conduit	Asset-Backed Commercial Paper Conduit
ACSI	American Customer Satisfaction Index
AFR	*U.S. Department of Education FY 2016 Agency Financial Report*
APG	Agency Priority Goal
Annual Report	*Federal Student Aid Annual Report FY 2016*
C	
CFPB	Consumer Financial Protection Bureau
Conduit	Asset-Backed Commercial Paper Conduit
COO	Chief Operating Officer
CSRS	Civil Service Retirement System
D	
the Department	U.S. Department of Education
Direct Loan	William D. Ford Federal Direct Loan
DOL	U.S. Department of Labor
E	
ECASLA	*Ensuring Continued Access to Student Loans Act of 2008*
ED	U.S. Department of Education
EDWA	Enterprise Data Warehouse
EMW	Equity Management Workshop
Extension Act	*Federal Perkins Loan Program Extension Act of 2015*
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*

Acronym	Description
Federal Funds	Federal Student Loan Reserve Funds
FERS	Federal Employees Retirement System
FEVS	Federal Employee Viewpoint Survey
FFEL	Federal Family Education Loan
FFELP	Federal Family Education Loan Program
FISCAM	Federal Information Systems Control Audit Manual
FSA	Federal Student Aid
FSA Strategic Plan, FY 2015–19	*Federal Student Aid: Strategic Plan, FY 2015–19*
FSEOG	Federal Supplemental Educational Opportunity Grants
FY	Fiscal Year
G	
GAAP	Generally Accepted Accounting Principles
GAO	U.S. Government Accountability Office
GenAssist	General Assistance
H	
HCERA	*Health Care and Education Reconciliation Act of 2010*
HEA	*Higher Education Act of 1965,* as amended
HEAL	Health Education Assistance Loan
I	
IBR	Income Based Repayment
IDR	Income Driven Repayment
IRS	Internal Revenue Service
IT	Information Technology
ITT	ITT Technical Institutes
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.

Acronym	**Description**
NCES	National Center for Education Statistics
NFP	Not-For-Profit
Not met	Performance result did not meet target
O	
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	
PBO	Performance-Based Organization
Pell Grant	Federal Pell Grant Program
PSLF	Public Service Loan Forgiveness
Pub.L	Public Law
S	
SBR	Statement of Budgetary Resources
Secretary	Secretary of Education
SSA	Social Security Administration
SSAE	Statement on Standards for Attestation Engagements
SOC1	Service Organization Control 1
T	
TEACH	Teacher Education Assistance for College and Higher Education Grant
Title IV	Title IV of *the Higher Education Act of 1965*, as amended
TIVAS	Title IV Additional Servicers
TPD	Total and Permanent Disability
Treasury	U. S. Department of the Treasury

Acronym	Description
U	
U.S.	United States

Appendix D: Availability of the Federal Student Aid Annual Report

FSA's publicly available *Annual Report FY 2016* and previous years' *Annual Reports are* accessible 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 previous years' *Strategic Plans are also* available at **StudentAid.gov/strategic-planning-reporting**

To stay connected to Federal Student Aid through social media:

- Visit the FSA website: **StudentAid.gov**
- Follow FSA on Twitter: **(@FAFSA)**
- Like FSA on Facebook: **Facebook.com/FederalStudentAid**
- Find FSA on YouTube: **YouTube.com/user/FederalStudentAid**

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