Federal Student Aid

An OFFICE of the U.S. DEPARTMENT of EDUCATION

FY 2017 Annual Report

United States Department of Education
Betsy DeVos
Secretary

Federal Student Aid
A. Wayne Johnson, Ph.D.
Chief Operating Officer

Finance Office
Jay Hurt
Chief Financial Officer

www.StudentAid.gov

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

Contents

Letter from the Chief Operating Officer of Federal Student Aid

This page intentionally left blank.

Letter from the Chief Operating Officer of Federal Student Aid

Dear Federal Student Aid Colleagues, Partners, and Customers:

I am excited to have joined Federal Student Aid (FSA) as Chief Operating Officer in July of this year and I am honored to have the opportunity to present this annual report representing the incredible work and numerous accomplishments of the entire FSA team.


A. Wayne Johnson
Chief Operating Officer

At a time when the need for postsecondary education and training has become more critical for economic success, I am committed to leading FSA's efforts to make funding for education after high school possible for millions of Americans. The *FSA Fiscal Year 2017 Annual Report* provides a detailed view of the past year's goals, challenges, and accomplishments in the context of FSA's *FY 2015–19 Strategic Plan*. This also presents an opportunity to look to the future and launch a new vision for transforming how FSA delivers federal student aid.

Last year, FSA provided more than $120 billion in federal grants, loans, and work-study funds to approximately 13 million students at nearly 6,000 participating schools. These funds make higher education accessible and affordable for students and their families.

Increasing access to FSA's products, services, and funding will remain one of our top priorities. We began FY 2017 with one of the most consequential changes to the student aid process in years. By allowing applicants to utilize 2015 tax year information to apply for federal student aid, we were able to introduce the 2017–18 *Free Application for Federal Student Aid* (FAFSA®) three months earlier, on October 1, 2016, instead of on January 1, 2017. This change in policy alleviates the need for students and their families to estimate financial information on the FAFSA. An early FAFSA also provides a better opportunity for financial planning, improves program integrity, and permits applicants to better compare financial aid offers from schools.

In FY 2017, we restored the ability for students, parents, and borrowers who apply for federal student aid or request an income-driven repayment plan to securely retrieve financial information directly from the Internal Revenue Service (IRS) using the IRS Data Retrieval Tool. Going forward, we will ensure that every college-ready student is able to easily access and complete a FAFSA to unlock all the benefits FSA has to offer. Not everyone needs federal financial aid, but for those who do, FSA will make the FAFSA as simple and accessible as possible.

Improving the quality and speed of service to FSA customers will continue to be a point of emphasis in the future. In FY 2017, we redesigned StudentLoans.gov—our primary portal for federal student loan borrowers—and, in the process, optimized access to the website from mobile devices. We strengthened our information security protocols and improved the user experience for customers establishing and accessing their FSA ID. We expanded our customer outreach through social media, and we trained thousands of financial aid professionals at the national FSA Training Conference, at regional student aid conferences, and at other training events across the country.

Going forward, customer service and an improved user experience will be foundational to everything we do. We will transform our technology infrastructure and data processing environments and implement a world-class, intuitive, and consistent user experience across the entire student aid life cycle. At the heart of this new customer experience are simpler federal student aid processes, programs, and requirements that enhance the integrity of the *Title IV* programs. We will eliminate legacy practices and antiquated technology, customize each borrower's experience, and save taxpayer dollars.

I am eager for FSA to build upon the important work of the FSA Ombudsman and the introduction of the Federal Student Aid Feedback System, both of which facilitate FSA's assistance to customers through informal dispute resolution and direct customer feedback. In FY 2018, we will better integrate the feedback system with the Ombudsman tracking system to ensure a more robust way to compile, record, and address customer feedback and identify trends to inform process improvements and policy recommendations.

Beginning in FY 2017, we introduced a new approach to oversight of those organizations participating in or supporting the federal student aid programs. We have begun to transform FSA's oversight function by broadening its scope, increasing its capacity, and adopting a more comprehensive strategy. Taking a holistic approach to program oversight, we are building a model that integrates proactive risk management, comprehensive communications, and executive outreach with the compliance and enforcement functions to improve program integrity and, most importantly, improve student outcomes.

In FY 2018, we will continue to sharpen our focus on enhancing consumer protections for borrowers against third-party debt relief companies, reduce improper payments, and improve the accuracy of credit reporting for student borrowers. We also will continue our work with partners across the government, including the IRS, to improve the integrity of the data we rely upon to appropriately administer the federal student aid programs.

Just a few months into my tenure, hurricanes Harvey, Irma, and Maria seriously affected postsecondary institutions in the southern United States and the Caribbean. The FSA team quickly mobilized to identify impacted schools, establish communications and work with colleagues across the Executive and Legislative branches to provide operational assistance and update regulatory and statutory requirements to support those impacted by the storms. In addition, almost 40 FSA staff have volunteered to be deployed to impacted regions to assist with recovery efforts. I want to acknowledge the professionalism, selflessness, and complete dedication of this team to assisting those affected by the tragic storms.

At FSA, we recognize that behind every federal student loan, grant, and work-study dollar are individuals and families. We understand the importance of helping educate and train our nation's workforce, and we eagerly embrace the challenge of helping fund Americans' educational pursuits.

Sincerely,

A. Wayne Johnson, Ph.D.
Chief Operating Officer
Federal Student Aid
United States Department of Education
November 13, 2017

This page intentionally left blank.

Introduction

- About this Report
- Federal Student Aid at a Glance
- Guide to Federal Student Aid Programs
- Overview of the Federal Student Aid Annual Report

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 (FY) 2017. 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*
- *Government Performance and Results Modernization Act of 2010*
- *Digital Accountability and Transparency Act of 2014*
- *Federal Information Security Modernization Act of 2014*

The United States Department of Education produces the ***U.S. Department of Education FY 2017 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 FY 2017 Annual Report.*

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

Federal Student Aid at a Glance

(As of September 30, 2017)

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 colleges or career schools.

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 2017 Administrative Budget
$1.6 billion

Regional Offices
10

Total Employees
1,382

Total Applications Processed
19.1 million

Total Postsecondary Student Aid Recipients
12.9 million

Total Federal Student Aid Delivered
$122.5 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 multiple existing federal student loans into one new loan. The borrower will only have to make one monthly payment on the consolidation loan and the repayment term of the loan may be longer than the terms 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. Historically, participating schools received 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. This loan program officially expired on September 30, 2017.

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. This program 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.**

Overview of the Federal Student Aid Annual Report

The *Federal Student Aid FY 2017 Annual Report (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. The section concludes with a discussion of the organization's systems, controls, and compliance with laws and regulations and the Limitations of Financial Statements.

Annual Performance Report

This 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 provides links to the ***U.S. Department of Education FY 2017 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*

This page intentionally left blank.

Management's Discussion and Analysis

- Overview of the Management's Discussion and Analysis
- FY 2017 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 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 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 2017 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.* This subsection discusses the organization’s compliance with the *Federal Financial Management Improvement Act of 1996*, *Federal Information Security Modernization Act of 2014,* and other laws and regulations related to the compliance of financial systems with federal requirements.

Limitations of Financial Statements

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

Fiscal Year 2017 Financial and Performance Highlights of Federal Student Aid

Table 1: Operational Highlights

	FY 2017	FY 2016	Difference	Percentage Change
Total Student Aid Loan Portfolio[1]	$ 1,367 billion	$ 1,292 billion	$ 75 billion	5.8%
Total Borrowers with Federal Student Loans Outstanding	43 million	42 million	1 million	2.4%
Total Number of Postsecondary Education Institutions	5,963	6,051	(88)	(1.5)%
Audit Opinion	Unmodified	Unmodified	Not applicable	Not applicable

Table 2: Financial Highlights

Dollars in Millions	FY 2017	FY 2016	Difference	Percentage Change
Total Assets	$ 1,221,694	$ 1,136,919	$ 84,775	7.5%
Total Liabilities	$ 1,198,486	$ 1,138,601	$ 59,885	5.3%
Net Position	$ 23,208	$ (1,682)	$ 24,890	(1,479.8)%
Net Cost of Operations	$ 37,946	$ 58,772	$ (20,826)	(35.4)%
Total Budgetary Resources Available for Spending (Budgetary)	$ 103,422	$ 54,951	$ 48,471	88.2%
Total Budgetary Resources Available for Spending (Non-Budgetary Credit Reform Financing Accounts)	$ 245,721	$ 231,455	$ 14,266	6.2%
Agency Outlays, Net (Budgetary)	$ 65,548	$ 32,112	$ 33,436	104.1%
Agency Outlays, Net (Non-Budgetary Credit Reform Financing Accounts)	$ 40,490	$ 82,610	$ (42,120)	(51.0)%

Table 3: Performance Highlights

Performance Measures	FY 2017 Target	FY 2017 Actual	Performance Results
A.1: Percent of First-Time FAFSA Filers Among High School Seniors	56.5%–58.5%	60.2%	✓
C.1: Aid Delivery Costs Per Application	$11.46	$10.68	✓
D.3: Collection Rate	$51.68	$59.69	✓

[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 colleges or career schools.

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.

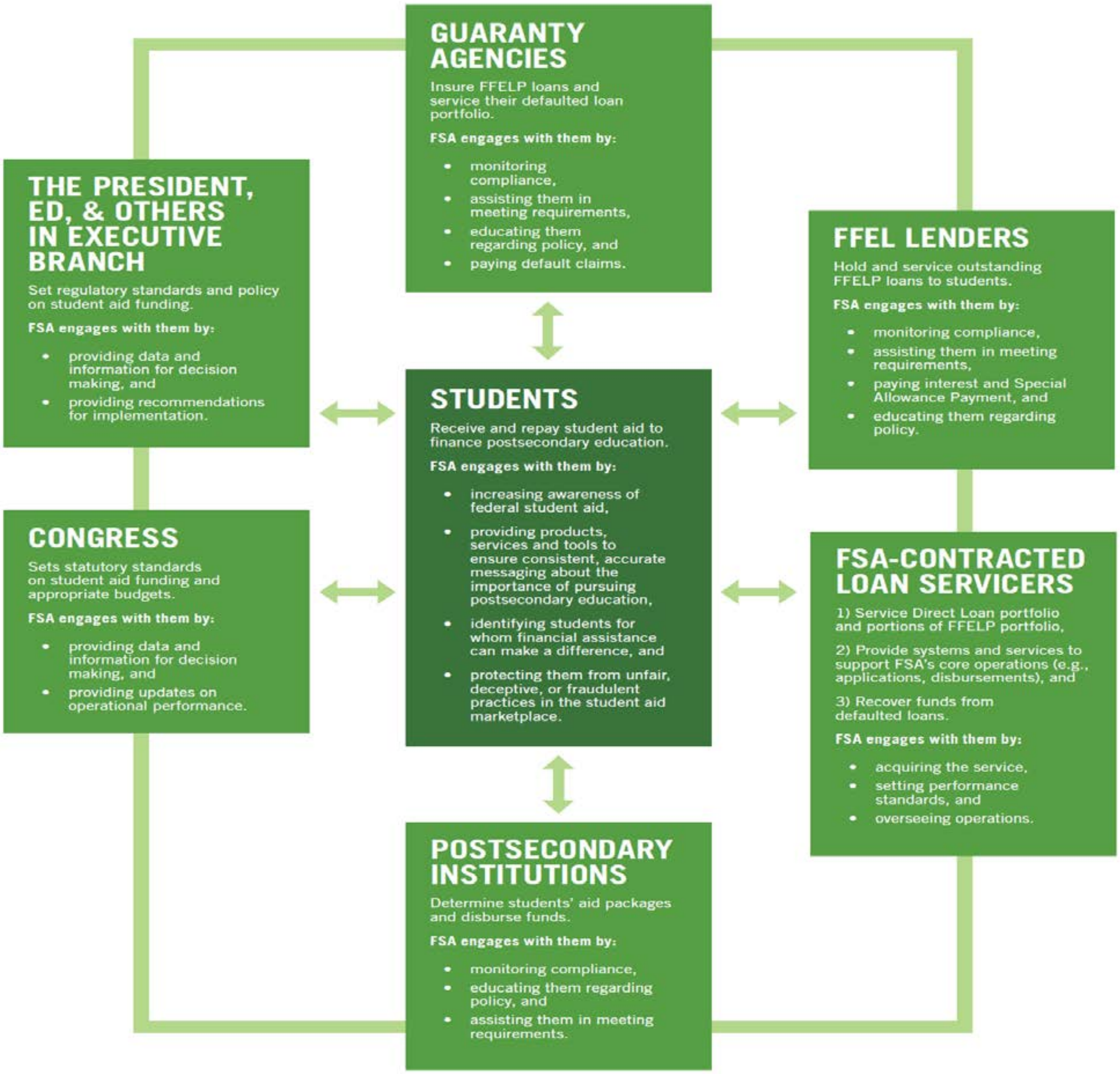
Overview of Legislative Authority

- ***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 Income Based Repayment plans.
- ***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 would be originated under the Federal Family Education Loan Program.
- ***Bipartisan Student Loan Certainty Act of 2013***
  Established that federal student loan interest rates will be tied to financial markets and that each loan will have a fixed interest rate for the life of the loan.
- ***Consolidated Appropriations Act, 2014***
  Transferred all Health Education Assistance Loan program loans as of July 1, 2014 from the Department of Health and Human Services to the Department.

FSA Stakeholders

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

Role of FSA and Participants in the Federal Student Aid System

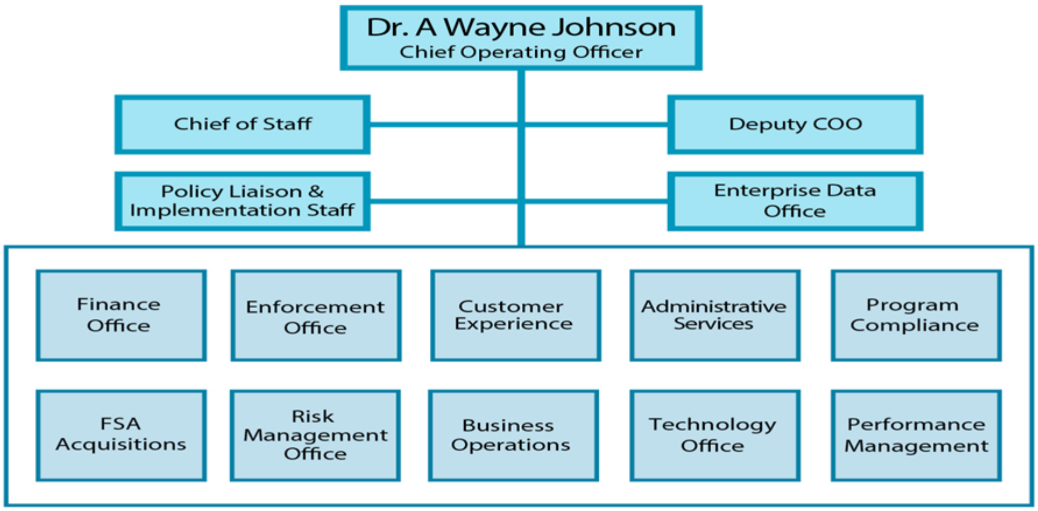


One of FSA's responsibilities is to coordinate and monitor the activity of the large number of federal, state, nonprofit, and private entities involved in federal student aid delivery, within a statutory framework established by Congress, and a regulatory framework established by the Department.

FSA Organizational Structure

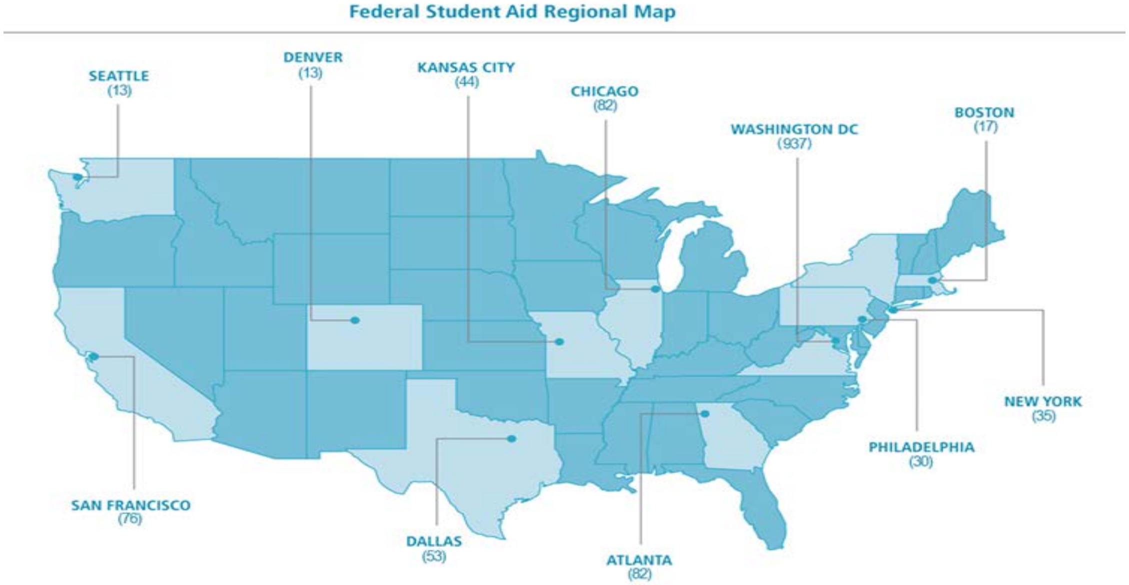
FSA currently operates under a functional organizational structure that aligns the organization closely with its strategic drivers, business objectives, and mission goals. A Chief Operating Officer (COO), who is appointed to a five-year term by the Secretary of Education (Secretary), leads FSA. The Secretary appointed Dr. A. Wayne Johnson as the COO in July 2017. The following graphic illustrates the current functional organizational structure of FSA.

Federal Student Aid Functional Organizational Structure



During FY 2017, the organization operated on an annual administrative budget of approximately $1.6 billion. FSA is staffed by 1,382 full-time employees and is augmented by contractors who provide outsourced business operations. The workforce is primarily based in Washington, DC, 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 aid programs collectively represent the nation's largest source of federal financial aid for students in postsecondary education. In FY 2017, FSA processed more than 19.1 million *Free Applications for Federal Student Aid* (FAFSA), resulting in the delivery of approximately $122.5 billion in Title IV aid to over 12.9 million postsecondary students and their families. These students attend approximately 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 2017 and 2016[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	2017 Aid Disbursed to Students	2016 Aid Disbursed to Students	Difference	Percentage Change
Loan Programs				
William D. Ford Federal Direct Loan Program	$ 92,957	$ 94,685	$ (1,728)	(1.8)%
Federal Perkins Loan Program	885	1,044	(159)	(15.2)
Subtotal Loan Programs	**$ 93,842**	**$ 95,729**	**$ (1,887)**	**(2.0)%**
Grant Programs				
Federal Pell Grant Program	$ 26,915	$ 28,189	$ (1,274)	(4.5)%
Federal Supplemental Educational Opportunity Grant Program	712	729	(17)	(2.3)
The Teacher Education Assistance for College and Higher Education Grant Program	85	90	(5)	(5.6)
Other Grant Programs/Rounding	-	1	(1)	(100.0)
Subtotal Grant Programs	**$ 27,712**	**$ 29,009**	**$ (1,297)**	**(4.5)%**
Work-Study Programs				
Federal Work-Study Program	$ 949	$ 964	$ (15)	(1.6)%
Rounding	-	(1)	1	(100.0)
Grand Total	**$ 122,503**	**$ 125,701**	**$ (3,198)**	**(2.5)%**

[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 $1.4 trillion in outstanding loans—representing more than 203 million student loans to approximately 43 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, 2017, FSA's portfolio of Direct Loans included $1,041.6 billion in credit program receivables, net. In FY 2017, the Department made $93.0 billion[3] in net loans to 9.4 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 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 $305.8 billion, as of September 30, 2017. Of this portfolio, $102.4 billion represented FSA's credit program receivables, net. In FY 2017, FSA made gross payments of approximately $0.8 billion to lenders for interest and special allowance subsidies and $6.0 billion to guaranty agencies for reinsurance claims and fees paid for account maintenance, default aversion, and collection activities. In addition, in FY 2017, 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, 2017, FSA-held FFEL credit program receivables, net totaled $102.4 billion, comprising $29.3 billion acquired under the "traditional" (Non-ECASLA) guaranteed loan program, and $73.1 billion in loans acquired under the ECASLA authorization.

[3] Excludes consolidation loans of $49.0 billion.

The **Federal Perkins Loan Program** is one of three campus-based student aid programs. While no new funding to the program was provided in FY 2017, historically, the Department had provided funds directly to eligible institutions. These funds enabled eligible institutions to offer low-interest loans to students based on financial need. In FY 2017, approximately $885.4 million of funds previously provided by the Department, were disbursed to eligible students through approximately 356,000 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). This loan program officially expired on September 30, 2017 and cannot be extended.

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 have originated through this program; however, borrowers are still obligated to repay any outstanding loans obtained through the program.

The Department assumed responsibility for the program and the authority to administer, service, collect, and enforce the loans. 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 $353.0 million for FY 2017.

Federal Grant Programs

In its responsibility for administering Title IV aid, FSA oversaw the disbursement of $27.7 billion in grants to 8.3 million recipients. The following provides a summary for each grant program, including aid disbursed for FY 2017.

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 2017, the Department disbursed $26.9 billion in Pell Grants averaging approximately $3,724 to more than 8.3 million students. The maximum Pell Grant award was $5,815 for the 2016–17 award year and increased to $5,920 for the 2017–18 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 2017, approximately $712.0 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, 2016, and before October 1, 2017, were reduced by 6.9 percent from the award amount for which a recipient would otherwise have been eligible. The maximum award of $4,000 was reduced by approximately $276, resulting in a maximum award amount of $3,724. 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 2017, the Department disbursed approximately 38,200 grants totaling $85.3 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, 2016 and before October 1, 2017 were reduced by 6.9 percent from the award amount for which a recipient would otherwise have been entitled. For example, the 2016–17 maximum award of $5,815 was reduced by approximately $401, resulting in a maximum award amount of $5,414. The Department disbursed $336,500 to support approximately 100 awards in FY 2017.

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 2017, approximately $948.8 million were disbursed through approximately 634,000 campus-based awards.

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

FSA MISSION

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

The FSA *FY 2017 Annual Report* provides a detailed view of the past year's goals, challenges, and accomplishments in the context of FSA's *FY 2015–19 Strategic Plan*. In the near future, the strategic planning process will be reviewed to ensure it aligns with FSA's goals and vision

This section of the *FSA FY 2017 Annual Report (Annual Report)* provides a general overview of the performance management processes at FSA. It includes a summary of FSA's FY 2017 performance metrics, objectives, and results; discussion of FSA's Agency Priority Goal (APG); and discussion of FSA's efforts to validate the quality of performance data reported.

Performance Management Processes at Federal Student Aid
During FY 2017, FSA used three tools to establish goals and to communicate, measure, and report performance:

- *Federal Student Aid: Strategic Plan, Fiscal Years 2015–19* (*FSA FY 2015-19 Strategic Plan)*;
- *Annual Performance Report*; and
- Annual Organizational Performance Review (OPR).

FSA FY 2015–19 Strategic Plan
As part of the strategic planning process, FSA continuously identifies and evaluates key drivers that significantly influence FSA's long-term goals and objectives. FSA analyzes these drivers to identify long-term core strategic goals that will serve as the foundation of FSA's 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 five-year strategic goals developed must be:

- appropriate to the mission of the organization;
- realistic and measurable;
- achievable in the time frame established and challenging in their targets; and
- understandable to the layperson (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 *FSA FY 2015-19 Strategic Plan*.

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

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

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

Annual Performance Report

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

Annual Organizational Performance Review

The annual 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 principal offices an opportunity to establish specific milestones. FSA tracks the status of its OPR metrics and reports on its progress to the Department.

FY 2017 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 FY 2015-19 Strategic Plan* reflects the organization's increased focus on quality of service as well as increasing analytical and research capabilities. Key strategic drivers, listed below, influenced the development and implementation of FSA's strategic plan, as well as the development and tracking of performance measures.

Key Strategic Drivers Relevant to FSA Strategic Planning

Key Strategic Driver	Relevance to FSA's Strategic Planning Process
The Higher Education Act of 1965 legislation	Prescribes Title IV program and PBO requirements (i.e., improve service, reduce costs, improve and integrate support systems, develop delivery and information systems, and enhance staff development and talent).
Student and borrower needs	Students and borrowers are key customers of FSA services and products.
Key trends and conditions for the financial aid environment	Indicates student aid environment within which FSA must operate. Listed below are key trends that may affect the financial aid environment. • Changing demand for Federal Student Aid. • 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. • Continued focus on data security.
The Department's Five-Year *Strategic Plan*	Requires FSA's support of the Department's strategic goals related to postsecondary education.

Key Strategic Driver	Relevance to FSA's Strategic Planning Process
The Office of Inspector General's (OIG) Management Challenges	Requires the Department and FSA senior management's consideration for establishing priorities. The Office of Inspector General's Management Challenges for FY 2017 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's five Strategic Goals, based upon analysis of the above key strategic drivers, are:

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

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

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

- **Strategic Goal:** States the strategic goal and provides a discussion of the relevance of 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. This brief summary is followed by a table that details, for each performance metric, the prior years' 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, 2017) 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 aid environment. These efforts allow students and families to make decisions in the most well informed manner. FSA also takes great care to ascertain that high quality service does not begin and end with aid disbursement and ensures that customers remain connected to the best resources available at every stage of the student aid lifecycle.

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

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

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

Performance Metrics measured: To determine the success of FSA's efforts to meet this strategic goal, FSA identified a set of performance metrics, including a target level of performance. For this strategic goal, the following table lists the performance metrics, prior year actual results, FY 2017 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 all performance metrics under this strategic goal.

Table 5: Performance Summary for Strategic Goal A

Performance Metrics	FY 2015 Actual	FY 2016 Actual	FY 2017 Target	FY 2017 Actual	Result	Reference Page
A.1: Percent of First-Time FAFSA Filers Among High School Seniors	60.5%	57.5%	56.5%–58.5%	60.2%	✓	66
A.2: Persistence Among First-Time Filing Aid Recipients	79.5%	79.7%	78.7%–80.7%	82.6%	✓	67
A.3: Customer Visits to StudentAid.gov	43.3 million	47.2 million	>=43.3 million	44.3 million	✓	68
A.4: Social Media Channel Subscribership	454,066	528,251	>=500,000	584,241	✓	69
A.5: ACSI Aid Life Cycle Surveys	—	—	69.4–71.4	69.9	✓	70

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

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

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

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

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

Performance Metrics measured: To determine the success of FSA's efforts to meet this strategic goal, FSA identified a set of performance metrics, including a target level of performance. For this strategic goal, the following table lists the performance metrics, prior year actual results, FY 2017 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 did not meet the target for either of the two performance metrics under this strategic goal.

Table 6: Performance Summary for Strategic Goal B

Performance Metrics	FY 2015 Actual	FY 2016 Actual	FY 2017 Target	FY 2017 Actual	Result	Reference Page
B.1: Improper Payment Rate*	2.38%[4]	4.85%	4.85%	4.97%	✗	71
B.2: Percent of Borrowers > 90 Days Delinquent*	9.8%	8.8%	7.4%	8.3%	✗	73

***Note: These performance metrics were revised in FY 2015.**

[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 the *Federal Student Aid 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 2017 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 all performance metrics under this strategic goal.

Table 7: Performance Summary for Strategic Goal C

Performance Metrics	FY 2015 Actual	FY 2016 Actual	FY 2017 Target	FY 2017 Actual	Result	Reference Page
C.1: Aid Delivery Costs Per Application	$10.73	$11.53	$11.46	$10.68	✓	74
C.2: Outstanding Direct Loan Portfolio in Current Repayment Status*	—	85.4%	84.9%–85.9%	85.7%	✓	75

***Note: This performance metric was 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 $120 billion in aid and administers a loan portfolio valued at almost $1.4 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 2017 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 all performance metrics under this strategic goal.

Table 8: Performance Summary for Strategic Goal D

Performance Metrics	FY 2015 Actual	FY 2016 Actual	FY 2017 Target	FY 2017 Actual	Result	Reference Page
D.1: Ease of Doing Business with FSA	75.8	72.3	71.3–73.3	73.4	✓	76
D.2: Percentage of Contract Dollars Competed by FSA	90.3%	92.9%	89.3%–91.3%	95.2%	✓	77
D.3: Collection Rate	$51.58	$53.07	$51.68	$59.69	✓	78

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 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 2017 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 the performance metric under this strategic goal.

Table 9: Performance Summary for Strategic Goal E

Performance Metrics	FY 2015 Actual	FY 2016 Actual	FY 2017 Target	FY 2017 Actual	Result	Reference Page
E.1: Employee Engagement Index	67.9%	67.4%	65.4%–69.4%	69.7%	✓	79

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 two-year 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.

During 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 these data help inform discussions about higher education, improve operational efficiencies, and foster better student and borrower 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 provides critical value to stakeholders seeking a consistent and accurate understanding of the contours of the higher education environment.

Each quarter, FSA releases a variety of financial aid information and data on the FSA Data Center. The focus on "Federal Student Aid Transparency" as an APG committed FSA to add new, relevant information and data aimed at increasing the general public's understanding of the federal student aid programs. The information and data released as part of the APG were in the form of reports or datasets related to one or more of the following categories:

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

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 about 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 2017. This section assists 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 2017, FSA achieved an unmodified audit opinion on its financial statements for the sixteenth 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 2017 and FY 2016, 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***.

FSA has oversight responsibilities for almost $1.4 trillion in federal student loans, of which it directly owns and manages approximately $1.2 trillion. 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. The subsidy cost represents an estimate in present value terms of the cost to the government of direct loans and loan guarantees that is recorded at the time the loan is disbursed. Components include default costs (net of recoveries), contractual payments paid to private third party collectors, net borrowing costs, etc., less any origination or other fees collected. If the net cost to the government is greater than zero, then the subsidy cost is said to be positive. However, the subsidy cost may also be zero (break-even) or even negative, if the estimated cost of providing loans to borrowers is less than the value of collections received as interest and fees. As of September 30, 2017, FSA reported $1.1 trillion in Credit Program Receivables, Net including an allowance for subsidy cost of approximately $35.8 billion. FSA's portfolio of Credit Program Receivables, Net has seen significant growth, increasing by 6.5 percent over the FY 2016 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 2017 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 2013 and the percentage change between the prior and current fiscal years as of September 30, 2016 and 2017 respectively. Some charts and tables presented in this section include rounding adjustments to ensure that the component line items sum to the corresponding total. As a result, there may be small discrepancies between the amounts shown in a particular chart or table when compared to similar items discussed in the text or presented in other areas of the Annual Report.

Table 10: FSA Financial Highlights
Condensed Balance Sheet
Fiscal Years 2013–17

(Dollars in millions)	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	Percentage Change[5]
Fund Balance with Treasury	$ 69,997	$ 61,506	$ 67,985	$ 60,358	$ 74,032	22.7%
Credit Program Receivables, Net[6]	825,660	922,418	1,016,425	1,075,227	1,145,406	6.5
Remaining Assets	1,588	1,596	1,648	1,334	2,256	69.1
Total Assets	**$ 897,245**	**$ 985,520**	**$ 1,086,058**	**$ 1,136,919**	**$ 1,221,694**	**7.5%**
Debt	$ 851,258	$ 965,362	$ 1,050,344	$ 1,126,345	$ 1,178,473	4.6%
Subsidy due to Treasury General Fund[7]	8,425	5,958	8,237	2,642	7,013	165.4
Remaining Liabilities	7,568	7,530	7,169	9,614	13,000	35.2
Total Liabilities	**$ 867,251**	**$ 978,850**	$ **1,065,750**	**$ 1,138,601**	**$ 1,198,486**	**5.3%**
Unexpended Appropriations	$ 33,595	$ 30,485	$ 28,325	$ 26,531	$ 28,524	7.5%
Cumulative Results of Operations	(3,601)	(23,815)	(8,017)	(28,213)	(5,316)	(81.2)
Net Position	**$ 29,994**	**$ 6,670**	**$ 20,308**	**$ (1,682)**	**$ 23,208**	**(1,479.8)%**
Total Liabilities & Net Position	**$ 897,245**	**$ 985,520**	**$ 1,086,058**	**$ 1,136,919**	**$ 1,221,694**	**7.5%**

Table 11: Statement of Net Cost Summary
Fiscal Years 2013–17

(Dollars in millions)	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	Percentage Change[5]
Gross Cost	$ 13,266	$ 65,470	$ 59,500	$ 93,032	$ 73,771	(20.7)%
Less: Earned Revenue	(26,688)	(28,979)	(31,547)	(34,260)	(35,825)	4.6
Net Cost of Operations	**$ (13,422)**	**$ 36,491**	**$ 27,953**	**$ 58,772**	**$ 37,946**	**(35.4)%**

5 Note that the percentage change is calculated as the difference between FY 2016 and FY 2017, divided by the FY 2016 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.

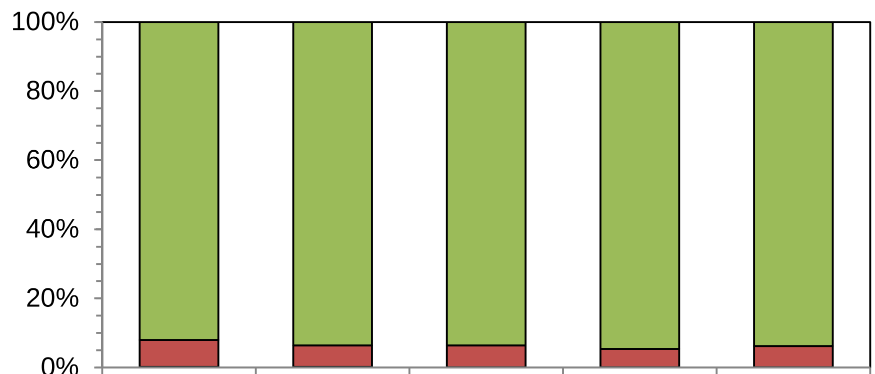
7 Prior to FY 2016, *Subsidy due to Treasury General Fund* was included in the Condensed Balance Sheet line item, *Other Intragovernmental Liabilities*. Beginning in FY 2016, *Subsidy due to Treasury General Fund* is reported separately, while *Other Intragovernmental Liabilities* is now included in the category *Remaining Liabilities*. Data for the years FY 2013–15 have been restated using the FY 2016 format.

Balance Sheet

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

Composition of FSA Assets. The consolidated Balance Sheet shows that FSA had total assets of $1,222 billion as of September 30, 2017, an increase of $84.8 billion, or 7.5 percent over the September 30, 2016 total assets balance of $1,137 billion. The difference resulted primarily from an increase in net Credit Program Receivables ($70.2 billion), and an additional increase in Fund Balance with Treasury ($13.7 billion). Together, FSA's Fund Balance with Treasury and its net Credit Program Receivables accounted for approximately 99.9 percent of Total Assets as of September 30, 2017, as illustrated in the Composition of Assets chart (Chart 1). The Comparison of Assets chart (Chart 2) presents the growth of these two principal Balance Sheet line items over the past five fiscal years.

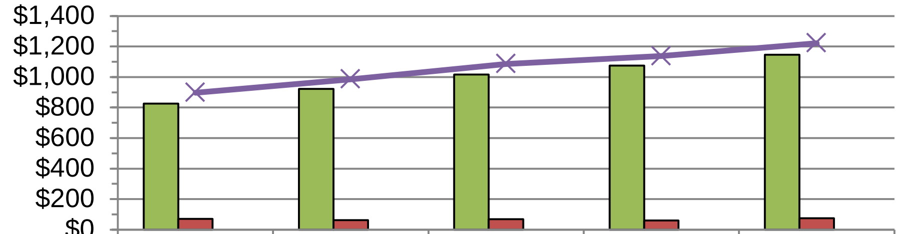
Chart 1: Composition of Federal Student Aid Assets*
Fiscal Years 2013–17



	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Credit Program Receivables, Net	92.0%	93.6%	93.6%	94.6%	93.8%
Fund Balance with Treasury	7.8%	6.2%	6.3%	5.3%	6.1%
Remaining Assets	0.2%	0.2%	0.1%	0.1%	0.1%

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

Chart 2: Comparison of Federal Student Aid Assets*
Fiscal Years 2013–17
(*Dollars in Billions*)

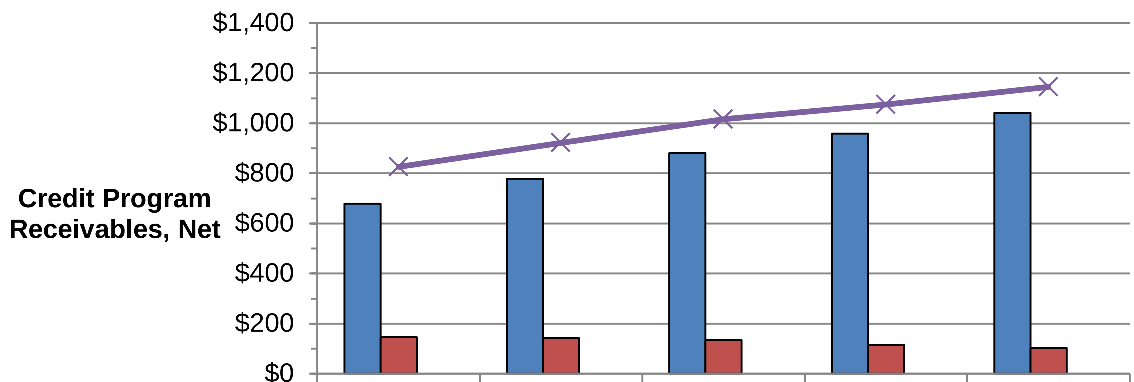


	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Credit Program Receivables, Net	$825.7	$922.4	$1,016.4	$1,075.2	$1,145.4
Fund Balance with Treasury	$70.0	$61.5	$68.0	$60.4	$74.0
Remaining Assets	$1.5	$1.6	$1.7	$1.4	$2.3
Total Assets	$897.2	$985.5	$1,086.1	$1,137.0	$1,221.7

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

Credit Program Receivables, Net. With a $1,145.4 billion balance as of September 30, 2017, Credit Program Receivables, Net represent FSA's most important asset category and accounted for 93.8 percent of Total Assets. This balance included $1,181.2 billion in principal, interest, and fees, less an allowance for positive subsidy cost of approximately $35.8 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 2013–17
(*Dollars in Billions*)



	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Direct Loans	$679.1	$778.5	$880.6	$958.9	$1,041.6
FFEL	$145.8	$142.9	$134.7	$114.9	$102.4
Other Programs	$0.8	$1.0	$1.1	$1.4	$1.4
Total	$825.7	$922.4	$1,016.4	$1,075.2	$1,145.4

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

Chart 3 also shows that over the five-year period FY 2013–17, FSA's portfolio of Federal Student Aid net credit program receivables increased by $319.7 billion or 38.7 percent, with the Direct Loan program accounting for most of this change. In fact, the Direct Loan portfolio increased by a slightly greater amount, $362.5 billion or 53.4 percent, but the increase was offset by the $43.4 billion (29.8 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 student loans into one loan. Consolidation 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, 2017 comprised 90.9 percent of the net balance, a total of $1,041.6 billion. The FY 2017 ending balance total includes $1,058.4 billion in principal, interest, and fees, net of an allowance for (positive) subsidy cost to the government of $16.8 billion. In other words, the cost to the government of making the direct loans and loan guarantees included in its portfolio as of the fiscal year end was expected to exceed the value of interest and fees it would receive (in present value terms) by $16.8 billion. This contrasts to the prior year when the interest rate and/or fees charged to the borrower were expected to be more than the costs of the risk of default, resulting in a negative subsidy amount of $5.3 billion which was added to the $953.6 billion in principal, interest and fees, leading to a net outstanding Direct loan portfolio in the amount of $958.9 billion.

The $82.7 billion increase in Direct Loan Receivables during FY 2017 was mainly driven by the growth in the outstanding amount owed by borrowers, principally resulting from new loan originations ($93.0 billion), consolidation disbursements, net of consolidation payoffs ($49.0 billion), interest capitalization ($20.7 billion), and a net increase in interest and fees receivable ($8.8 billion). This was offset by reductions to principal due to loan payments by borrowers ($62.6 billion), loan discharges ($4.5 billion), and other adjustments. In addition, a $22.1 billion increase in subsidy costs during FY 2017 eliminated the previously negative allowance for subsidy balance and resulted in the ending allowance for subsidy balance of $16.8 billion, reducing Direct Loan Credit Program Receivables, Net by the same amount, as explained in more detail in **Note 5**.

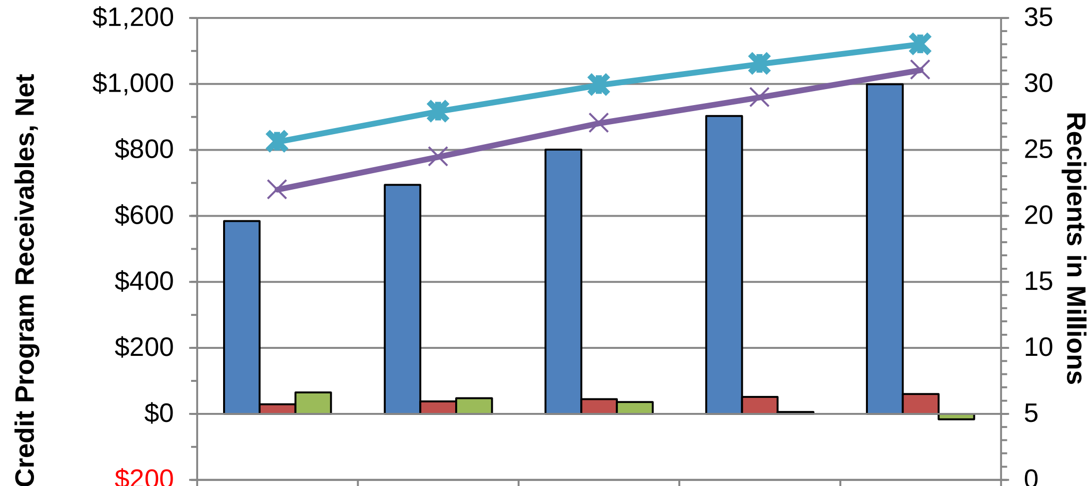
The growth in principal outstanding has accounted for virtually all of the growth of the Direct Loan portfolio over the past five years in dollar terms, as seen in Chart 4[8]. Over the same period accrued interest actually increased at a higher average annual rate than did principal outstanding (19.5 percent versus 14.4 percent), but accrued interest only increased from 4.3 percent to 5.7 percent of the net receivable amount, while principal outstanding increased from 86.1 percent to 95.9 percent of the total. By comparison, as discussed in **Note 5,** as a result of increased subsidy costs, the allowance for subsidy as a percentage of the Direct Loan

[8] Recipients in Millions for FY 2013–17 are based on data published by the FSA Data Center, at: https://studentaid.ed.gov/sa/about/data-center/student/portfolio.

Credit Program Receivable net value, changed from a 9.6 percent contribution to a 1.6 percent offset by the end of FY 2017.

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 student is the recipient. The chart shows that Direct Loan recipients grew from 25.6 million to 33.0 million over the five-year period, reflecting an average annual increase of 6.6 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 33.7 percent during this time, from $23,979 to $32,071, the higher debt burden per student likely an indication of increasing postsecondary education costs.

Chart 4: Components of Direct Loan Receivables, Net*
Fiscal Years 2013–17[8]
(Dollars in billions)



	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Principal	$584.5	$694.0	$800.8	$902.8	$998.8
Accrued Interest*	$29.3	$37.2	$44.3	$50.8	$59.6
Subsidy	$65.3	$47.3	$35.5	$5.3	$(16.8)
Total Receivable	$679.1	$778.5	$880.6	$958.9	$1,041.6
Total Recipients	25.6	27.9	29.9	31.5	33.0

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

Table 12: Components of Direct Loan Credit Program Receivables, Net by Percentage*
Fiscal Years 2013–17

Direct Loan Component	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Principal*	86.1%	89.1%	91.0%	94.1%	95.9%
Accrued Interest	4.3%	4.8%	5.0%	5.3%	5.7%
Subsidy	9.6%	6.1%	4.0%	0.6%	(1.6%)
Total Receivable	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

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

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

Direct Loan Component	FY 2013–14	FY 2014–15	FY 2015–16	FY 2016–17	FY 2013–17 Average Year-to-Year change
Principal	18.7%	15.4%	12.7%	10.6%	14.4%
Accrued Interest	27.0%	19.1%	14.7%	17.7%	19.5%
Subsidy	-27.6%	-24.9%	-85.1%	-415.1%	-138.1%
Total Receivable	14.6%	13.1%	8.9%	8.6%	11.3%
Total Recipients	9.0%	7.2%	5.4%	4.8%	6.6%

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

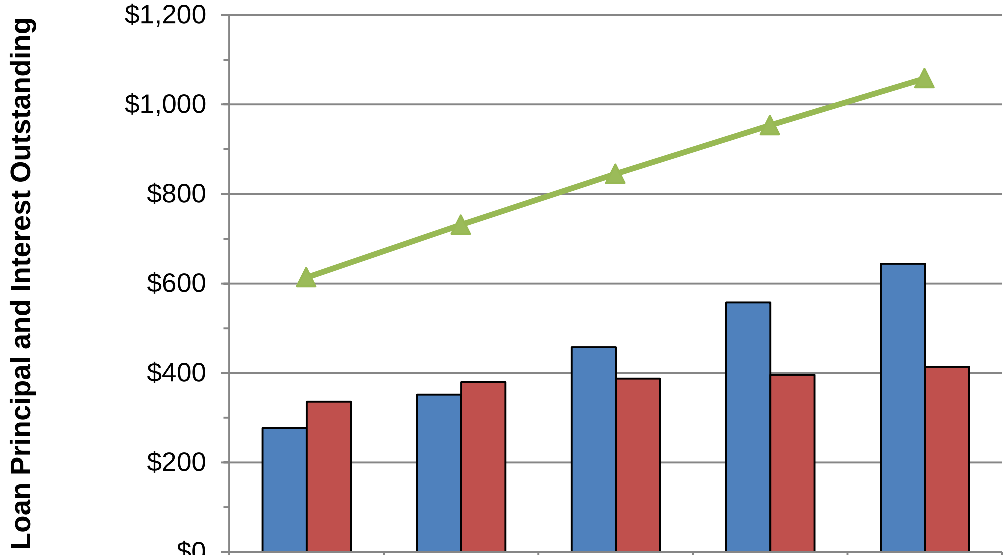
While the Direct Loan portfolio has grown rapidly in recent years, it has also changed in character as an increasing proportion of students enter into the repayment phase of their loans. Under Title IV, each loan may pass through several distinct statuses as the student progresses from school to the 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. During this set period of time, repayment is not required to begin on the loan. Not all federal student loans have a grace period and for most loans, interest will accrue during the grace period. At the end of the grace period, the loan will enter “Repayment” status and regular monthly payments will be required according to an agreed payment schedule. If the borrower continues to make timely payments such that no more than 30 days elapse after the due date without payment, then the loan is classified as “Current.” If more than 30 days elapse, then the loan will be reclassified as “Delinquent.” Under Title IV, if more than 270 days pass without payment being received to satisfy the oldest payment due, Direct Student Loans are technically considered “In Default”. 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 Direct Loan 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.

[9] FY 2013–17 based on data published by the FSA Data Center, https://studentaid.ed.gov/sa/about/data-center/student/portfolio.

Chart 5: Direct Loan Portfolio by Repayment Status*
Principal and Interest Only
Fiscal Years 2013–17
(*Dollars in Billions*)



	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
In Repayment Status*	$277.8	$351.6	$457.8	$557.5	$644.2
Not in Repayment	$336.0	$379.6	$387.3	$396.1	$414.2
Total Direct Loan Portfolio*	$613.8	$731.2	$845.1	$953.6	$1,058.4

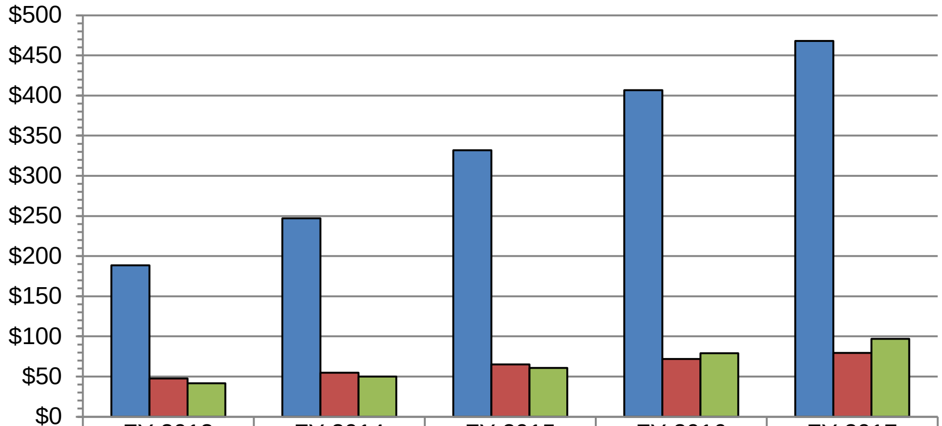
*Note: Line items may include rounding adjustments to reconcile to the total amount being reported.

As can be seen in Chart 5, although both segments grew during the past five years, the “In Repayment” segment has grown more rapidly and has become the larger portfolio segment. It now comprises 60.9 percent of the total principal and interest amount outstanding, increasing the need for FSA to facilitate the ability of Direct Loan borrowers to meet their repayment obligations timely.

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 2017 balance of $467.9 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 past five years, FY 2013–17 than either of the other two components. This subcomponent grew from 67.9 percent to 72.6 percent of the In-Repayment Sector, a positive trend. In addition, while the Delinquent component of the portfolio also increased in dollar terms over the past five years to $79.5 billion, it declined consistently in percentage terms from 17.2 percent to 12.3 percent of the In Repayment Sector. However, the Default/Bankruptcy/Other category showed a small percentage increase over the past two years, from 13.3 percent in FY 2015 to 15.1 percent currently, slightly above the FY 2013 level of 14.9 percent.

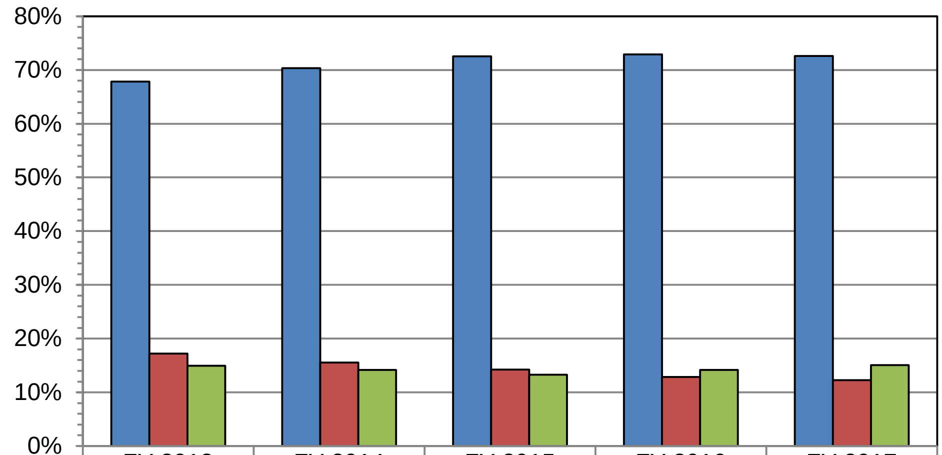
[10] *ibid.*

Chart 6: Direct Loan Portfolio Segment in Repayment by Status*
Fiscal Years 2013–17
Principal and Interest only
Chart 6A - *Dollars in Billions*



	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Current	$188.5	$247.2	$332.0	$406.8	$467.9
Delinquent	$47.8	$54.6	$65.1	$71.8	$79.5
Default/Bankruptcy/Other*	$41.5	$49.8	$60.7	$79.0	$96.8

Chart 6B – *Percentage of Total*



	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Current	67.9%	70.3%	72.5%	72.9%	72.6%
Delinquent	17.2%	15.5%	14.2%	12.9%	12.3%
Default/Bankruptcy/Other*	14.9%	14.2%	13.3%	14.2%	15.1%

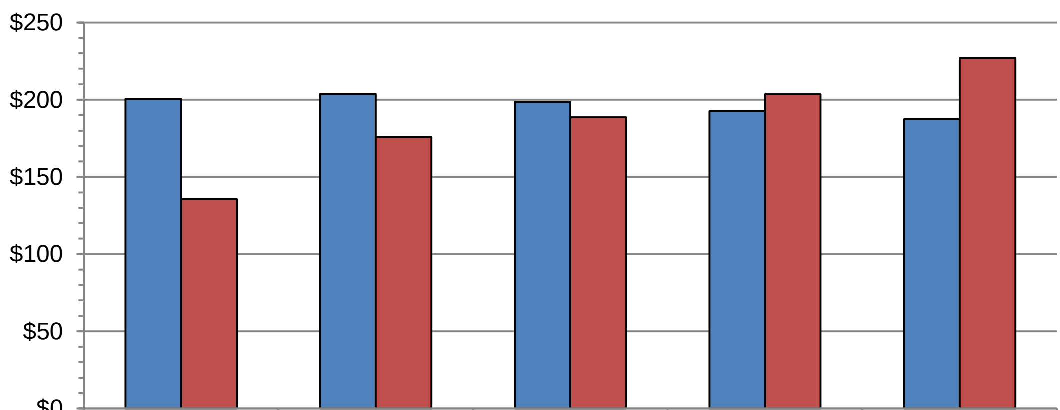
***Note: Line items in may include rounding adjustments to reconcile to the total amount being reported.

In addition, of the total $1,058.4 billion in Direct Loan principal and interest at the current fiscal year end, $70.7 billion (6.7 percent of total receivables) in loan principal was in default and had been transferred to the Department's defaulted loan servicer, compared to $57.3 billion (6.0 percent of total receivables) as of September 30, 2016. For related performance information about the percentage of borrowers more than 90 days delinquent (FSA's performance metric B.2), please see **page 73**.

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 7A shows that, after increasing slightly from FY 2013–14, the amount of Direct Loan principal and interest categorized as “In School/Grace” has declined steadily from $203.8 billion in FY 2014 to $187.3 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 $135.5 billion to $226.9 billion, increasing from 40.3 percent to 54.8 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 21 percent. This suggests that the underlying factors that result in a deferment or forbearance being granted have also remained fairly consistent.

Chart 7: Direct Loan Portfolio Segment not in Repayment by Status*
Principal and Interest only
Fiscal Years 2013–17
Chart 7A - *Dollars in Billions*

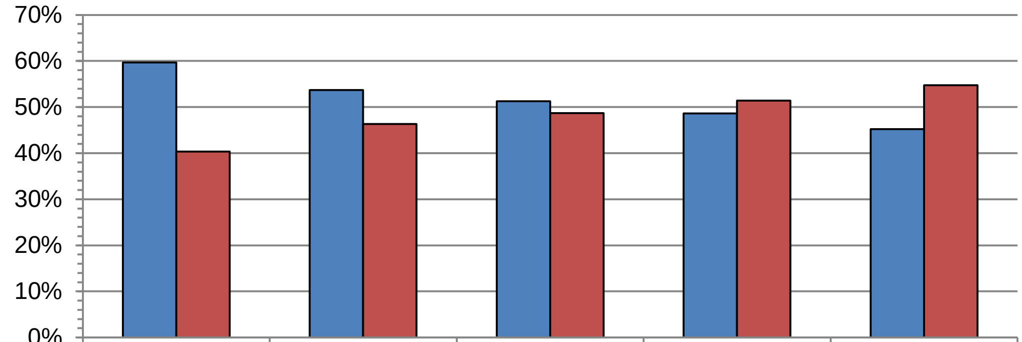


	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
In School/Grace	$200.5	$203.8	$198.6	$192.6	$187.3
In Deferment/ Forbearance	$135.5	$175.8	$188.7	$203.5	$226.9

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

[11] *ibid.*

Chart 7: Direct Loan Portfolio Segment not in Repayment by Status
Principal and Interest only
Fiscal Years 2013–17
Chart 7B – *Percentage of Total*

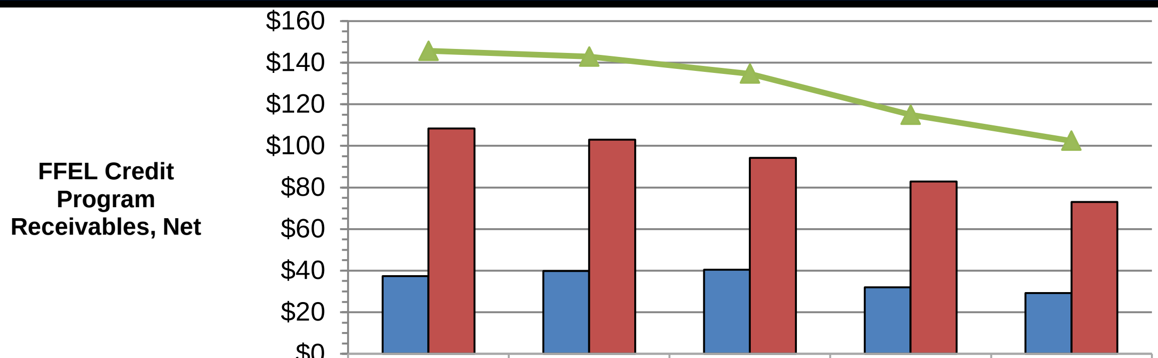


	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
In School/Grace	59.7%	53.7%	51.3%	48.6%	45.2%
In Deferment/ Forbearance	40.3%	46.3%	48.7%	51.4%	54.8%

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

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 2013–17
(*Dollars in Billions*)



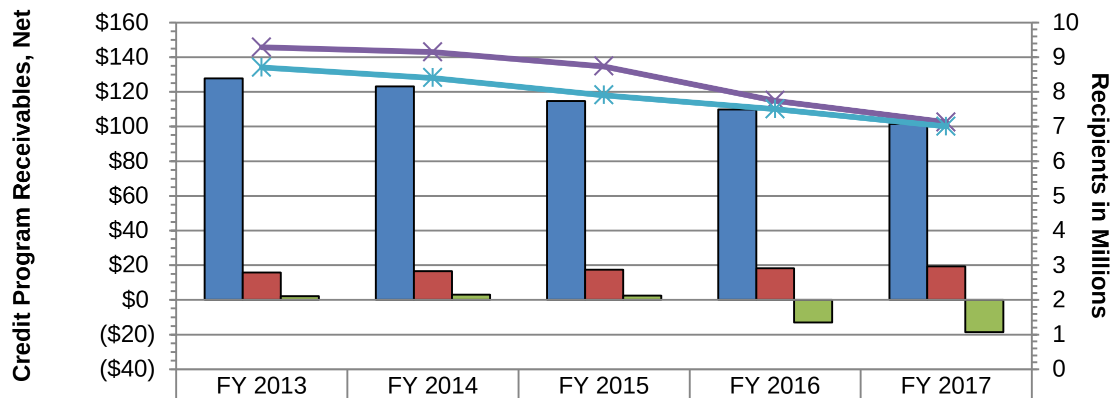
	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
FFEL, Guaranteed*	$37.4	$39.9	$40.5	$32.0	$29.3
FFEL, ECASLA**	$108.3	$103.0	$94.2	$82.9	$73.1
Total FFEL	$145.7	$142.9	$134.7	$114.9	$102.4

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

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 $108.3 billion to $73.1 billion) and as a percentage of total FFEL (from 74.3 percent to 71.4 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 $9.5 billion reduction in the net credit program receivable balance outstanding. The latter is discussed more fully in the Statement of Net Cost section, and in **Note 5**.

Over the same five year period, the much smaller FFEL Guaranteed portfolio segment first increased by $3.1 billion (8.3 percent) from FY 2013 to FY 2015 and then declined by $11.2 billion in the last twenty-four months. The initial increase was mainly due to a $2.4 billion reduction in subsidy expense together with a $1.5 billion increase in interest and fees payable, offset by a $0.9 billion reduction in negative liability for loan guarantees. The subsequent balance reduction was mostly attributable to a $9.3 billion increase in subsidy expense, together with a $3.4 billion adjustment to eliminate the negative liability for Loan Guarantee, offset by a $1.4 billion increase in principal and interest outstanding. The overall impact of changes in the principal, accrued interest and subsidy components of the FFEL portfolio are shown in Chart 9[12]. The concurrent reduction in FFEL recipients during the period FY 2013–17 also demonstrates the impact of debt consolidations and refinancing on the outstanding portfolio balance.

Chart 9: Components of FFEL Receivables, Net
Fiscal Years 2013–17
(Dollars in Billions)



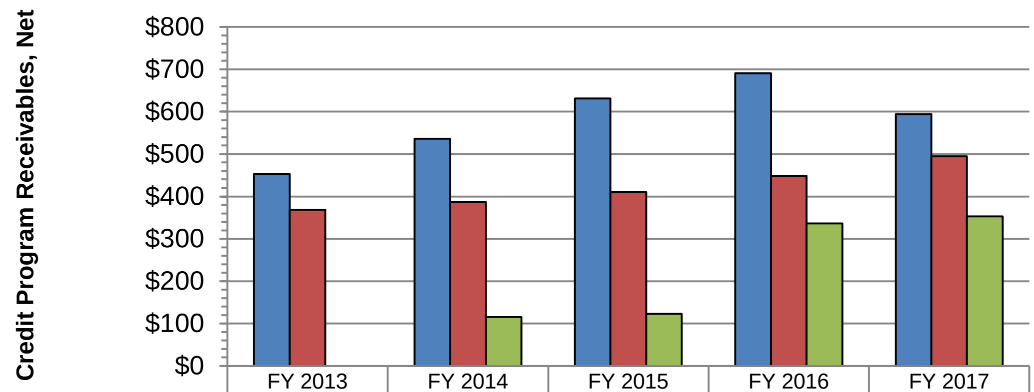
	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Principal	$127.8	$123.2	$114.7	$109.8	$101.6
Accrued Interest	$15.8	$16.6	$17.5	$18.2	$19.3
Subsidy	$2.1	$3.1	$2.5	$(13.1)	$(18.5)
Total Receivable	$145.7	$142.9	$134.7	$114.9	$102.4
Total Recipients	8.7	8.4	7.9	7.5	7.0

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

[12] Recipients in Millions for FY 2013–17 are based on data published by the FSA Data Center, at: https://studentaid.ed.gov/sa/about/data-center/student/portfolio.

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.

Chart 10: Federal Student Aid Other Loan Portfolio
Fiscal Years 2013–17
(*Dollars in Millions*)



	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
TEACH Grant Program	$453	$536	$631	$691	$594
Perkins Loan Program	$369	$387	$410	$449	$495
HEAL	$-	$115	$123	$336	$353

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

This segment increased by 75.4 percent during the past five years, but still accounted for only 0.1 percent of FSA's total loan portfolio throughout that period and ended FY 2017 with a balance of just $1.4 billion, a $34 million decrease compared to the prior year end.

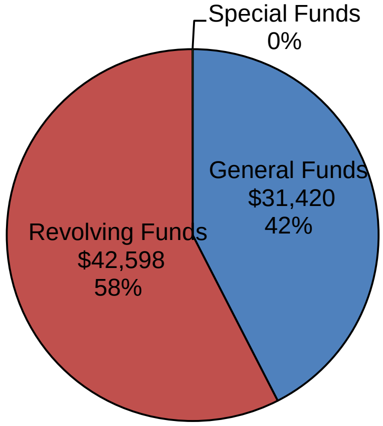
The TEACH program comprised $594 million of the "Other" loan portfolio, representing 41.2 percent of the September 2017 "Other" credit program receivables balance, a reduction of $97 million compared to the prior year end but still $141 million or 22.7 percent of the increase in the "Other" category over the past five years.

Partly offsetting the reduction in the TEACH portfolio, the Perkins credit receivables increased $46 million in FY 2017 to account for $495 million or 34.3 percent of the September 2017 "Other" loan portfolio balance. The Perkins program was responsible for 20.3 percent of the increase in the "Other" category over the FY 2013–17 period. Authority to make new Perkins loans to graduate and undergraduate students expired on September 30, 2016 and 2017 respectively. Authority to make subsequent disbursements on existing loans expired as of June 30, 2017 for Graduate students and will expire on June 30, 2018 for undergraduate students. However, although no new Perkins loan disbursements are permitted after June 30, 2018, under any circumstances, schools will continue to assign defaulted Perkins loans to the Department, so this segment of the portfolio may continue to grow in the coming years. For additional details, please refer to **Note 14**.

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 2017 ending balance of $353 million, $17 million or 5.1 percent above the prior year-end, and equal to about 24.5 percent of the "Other" ending balance.

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, 2017, FSA reported a Fund Balance with Treasury amount of $74.0 billion of which about 42 percent or $31.4 billion represented general funds, including funds provided in advance by multiyear appropriations. Revolving funds comprised most of the remaining 58 percent or $42.6 billion, derived from borrowings, as well as collections from the public and other federal agencies. FSA also reported $14 million in Special funds (including fees collected on delinquent or defaulted Perkins loans assigned to FSA by the initial lenders) that accounted for only 0.02 percent of the total.

Chart 11: Fund Balance with Treasury
Fiscal Year 2017
(Amount in millions and percentage of total)



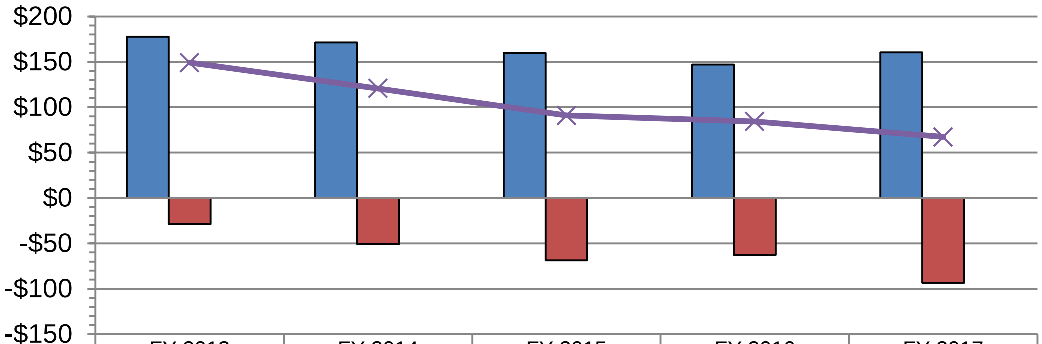
*Note: Line items may include rounding adjustments to reconcile to the total amount being reported.

The September 30, 2017 Fund Balance with Treasury amount was 22.7 percent above that at FY 2016 year-end, a $13.7 billion increase. The increase was mainly attributable to increased activities in both the Direct Loan and FFEL programs which had increased year-end balances of $6.1 billion and 6.4 billion respectively. Direct Loan activities that reduced Fund Balance with Treasury included reduced net new borrowings compared to the prior year ($14.5 billion), increased net interest payments to Treasury ($0.9 billion) and increased disbursements to borrowers ($2.1 billion). These reductions were offset by collections ($9.1 billion) and other activities ($6.7 billion). The account beginning balance was also higher by $7.8 billion, accounting for most of the remaining year-on-year variation. The FFEL-related activities that increased Fund Balance with Treasury included collections of principal, interest, and fees ($24.2 billion) and subsidy appropriations/borrowings ($11.2 billion), offset by default claim payments ($5.8 billion), debt repayments ($15.1 billion), interest payments to Treasury ($4.7 billion), subsidy-related transactions ($0.4 billion) and other activity ($3.0 billion). A further $1.2 billion increase in Fund Balance with Treasury was attributable to the combined Perkins Loan and Grants Programs due to a decrease in program disbursements ($4.2 billion) net of an increase in cancelled budget authority (2.8 billion) during FY 2017. 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, 2017, FSA had total liabilities of $1.2 trillion, an increase of $59.9 billion or 5.3 percent over the September 30, 2016 total, a lower rate of increase than the 7.5 percent growth in FSA's total assets.

Debt. With a September 30, 2017 balance of $1.2 trillion, FSA's debt is the primary component of its liabilities, accounting for 98.3 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 2013–17
(*Dollars in Billions*)

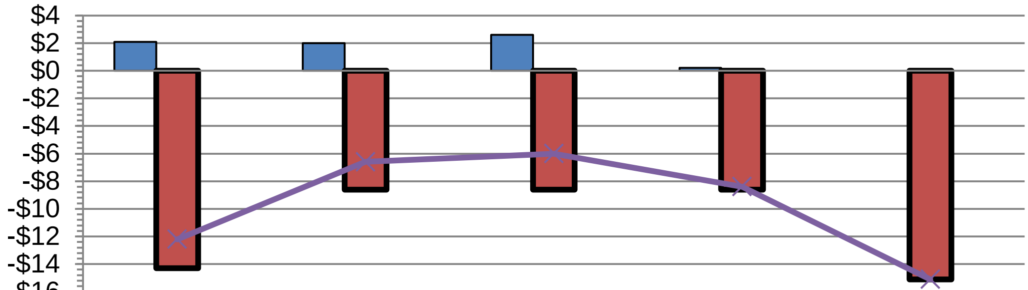


	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Borrowing	$177.7	$171.2	$159.7	$147.0	$160.5
Repayments	$(28.7)	$(50.6)	$(68.7)	$(62.6)	$(93.2)
Accrued Interest	$-	$-	$-	$-	$-
Net Change	$149.0	$120.6	$90.9	$84.4	$67.3

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

FSA's FY 2017 Debt ending balance was 4.6 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 2013–17 period, and ended FY 2017 with a $1,061.6 billion balance, 6.8 percent above the prior year amount, representing 90.1 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 2013–17 (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.

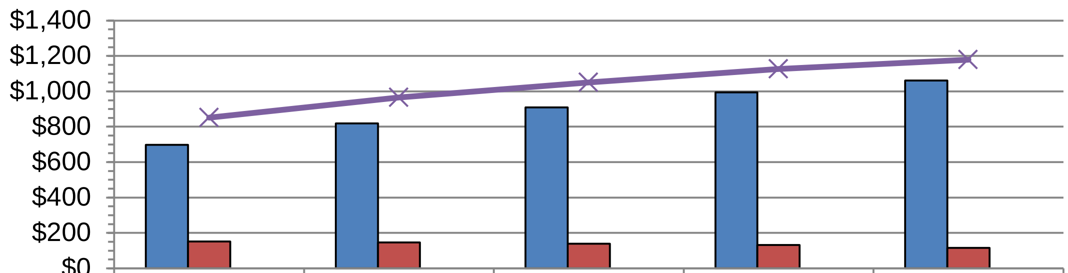
Chart 13: FFEL Loan Program Net Financing Activity
Fiscal Years 2013–17
(Dollars in Billions)



	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Borrowing	$2.1	$2.0	$2.6	$0.2	$-
Repayments	$(14.3)	$(8.6)	$(8.6)	$(8.6)	$(15.1)
Accrued Interest	$-	$-	$-	$-	$-
Net Change	$(12.2)	$(6.6)	$(6.0)	$(8.4)	$(15.1)

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

Chart 14: Comparison of Federal Student Aid Debt
Fiscal Years 2013–17
(Dollars in Billions)



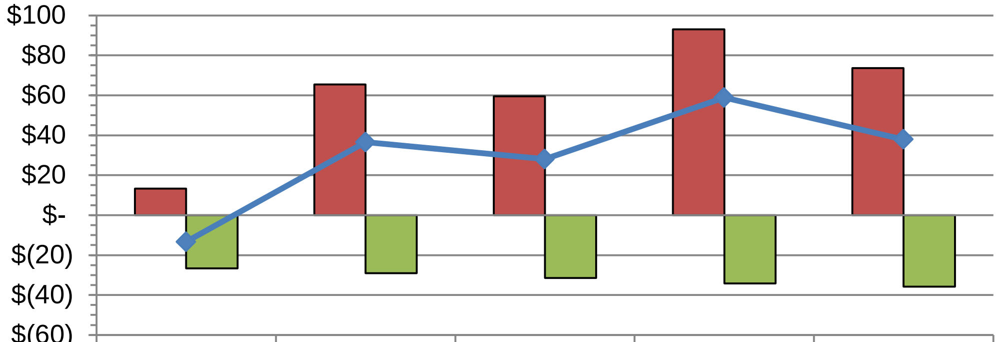
	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
DL Program	$698.4	$819.0	$909.9	$994.3	$1,061.6
FFEL Program	$152.4	$145.8	$139.8	$131.3	$116.3
Other (TEACH)	$0.5	$0.6	$0.6	$0.7	$0.6
Total Debt	$851.3	$965.4	$1,050.3	$1,126.3	$1,178.5

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

Statement of Net Cost

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

Chart 15: Composition of FSA Net Cost
Fiscal Years 2013–17
(*Dollars in Billions*)



	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Gross Costs	$13.3	$65.5	$59.5	$93.0	$73.7
Earned Revenue	$(26.7)	$(29.0)	$(31.5)	$(34.2)	$(35.8)
Net Costs	$(13.4)	$36.5	$28.0	$58.8	$37.9

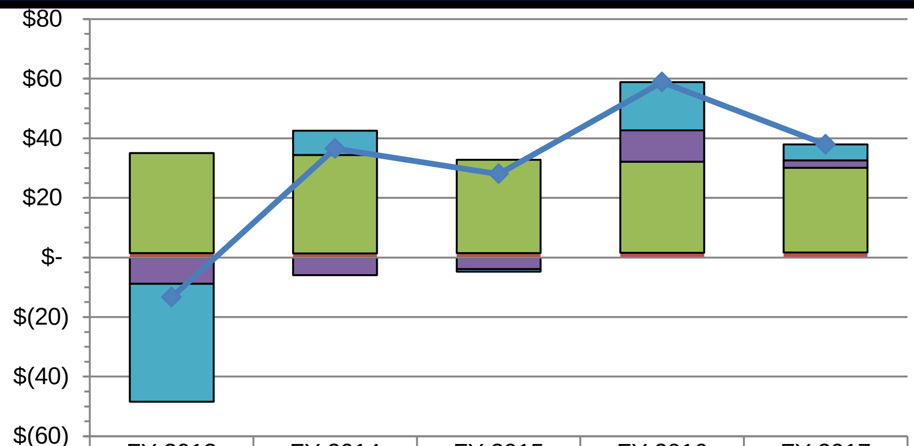
*Note: Line items may include rounding adjustments to reconcile to the total amount being reported.

As shown in Chart 15, FSA reported net costs for the year ended September 30, FY 2017 of $37.9 billion, compared to $58.8 billion for the twelve months ended September 30, FY 2016. In other words, FSA's total costs exceeded its earned revenues in both years, but the margin was smaller in FY 2017 by $20.9 billion.

The overall FY 2016–17 change in net costs was the result of a $19.3 billion decrease in Gross Costs (of which $10.0 billion was attributable to the Direct Loan Program, and $7.3 billion was attributable to the FFEL program) together with a $1.6 billion increase in Earned Revenue, more or less equally due to activity in both the Direct Loan and FFEL programs. Therefore, the Direct Loan Program contributed $10.8 billion toward the overall reduction in net costs, while the FFEL program contributed $8.1 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 $33.5 billion in FY 2013 to only $28.4 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 trended decreasingly less negative (i.e. net costs increased) from a negative net cost of $(8.8) billion in FY 2013 to an actual net cost of $10.6 billion in FY 2016, although this was reduced in the current year by $6.8 billion to only $2.5 billion. The FFEL net cost decrease in FY 2017 was primarily due to a $3.4 billion net upward adjustment to the FFEL guaranteed re-estimated subsidy cost in FY 2017, compared to a $10.2 billion net upward adjustment in FY 2016.

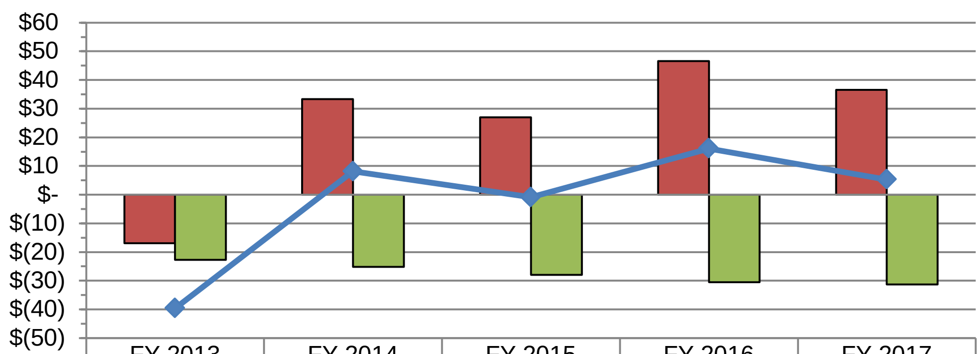
Chart 16: Program Contributions to FSA Net Cost
Fiscal Years 2013–17
(*Dollars in Billions*)



	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
DL Program	$(39.6)	$8.1	$(0.9)	$16.1	$5.3
FFEL Program	$(8.8)	$(6.0)	$(3.9)	$10.6	$2.5
Grants Programs*	$33.5	$33.1	$31.4	$30.5	$28.4
Other Programs**	$1.5	$1.3	$1.4	$1.6	$1.7
Total FSA Net Cost	$(13.4)	$36.5	$28.0	$58.8	$37.9

*Grants Programs include Federal Perkins Loan and Grants Programs, including Pell
**Other Programs Include TEACH, Administrative Programs, Heal (from FY 2014)
*Note: Line items may include rounding adjustments to reconcile to the total amount being reported.

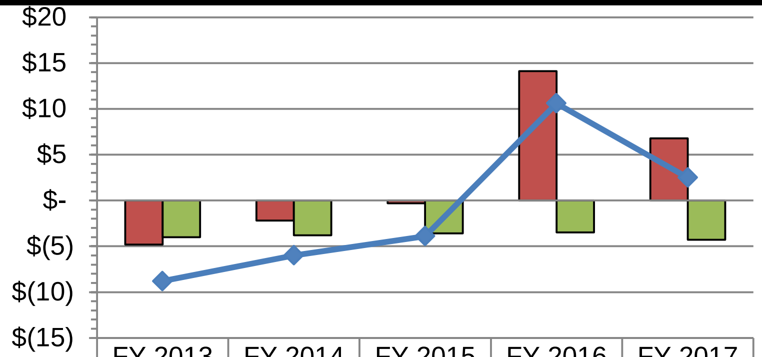
Charts 17: Composition of FSA Direct Loan Program Net Costs
Fiscal Years 2013–17
(*Dollars in Billions*)



	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Gross Costs	$(16.9)	$33.3	$27.0	$46.6	$36.6
Earned Revenue	$(22.7)	$(25.2)	$(27.9)	$(30.5)	$(31.3)
Net Costs	$(39.6)	$8.1	$(0.9)	$16.1	$5.3

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

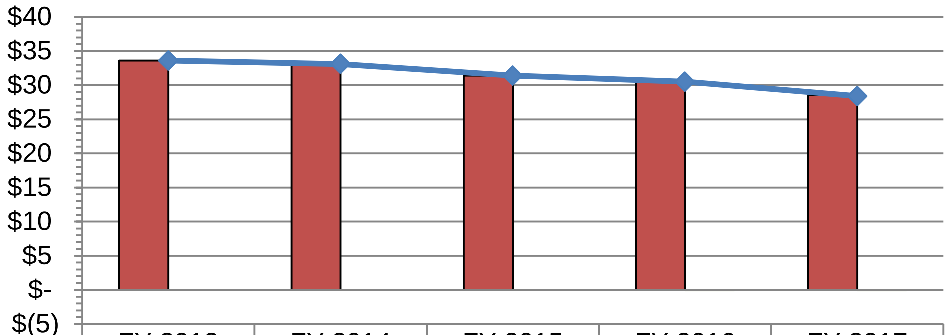
Chart 18: Composition of FSA FFEL Loan Program Net Costs
Fiscal Years 2013–17
(*Dollars in Billions*)



	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Gross Costs	$(4.8)	$(2.2)	$(0.3)	$14.1	$6.8
Earned Revenue	$(4.0)	$(3.8)	$(3.6)	$(3.5)	$(4.3)
Net Costs	$(8.8)	$(6.0)	$(3.9)	$10.6	$2.5

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

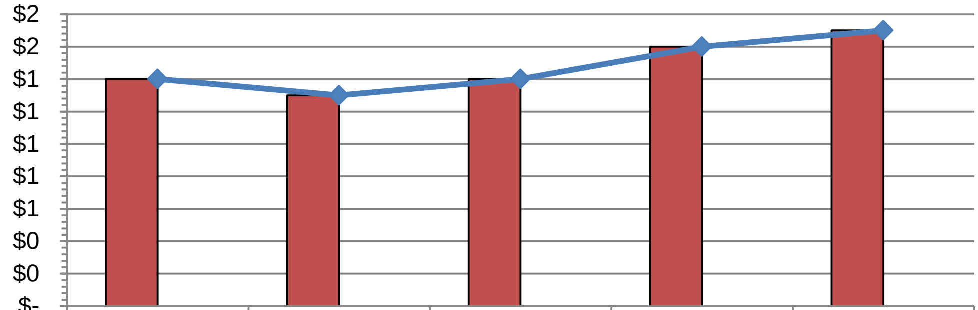
Chart 19: Composition of FSA Perkins Loan Program and Grants Net Costs
Fiscal Years 2013–17
(*Dollars in Billions*)



	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Gross Costs	$33.6	$33.1	$31.4	$30.7	$28.6
Earned Revenue	$-	$-	$-	$(0.2)	$(0.2)
Net Costs	$33.6	$33.1	$31.4	$30.5	$28.4

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

Chart 20: Composition of FSA Other Program Net Costs
Fiscal Years 2013–17
(*Dollars in Billions*)



	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Gross Costs	$1.4	$1.3	$1.4	$1.6	$1.7
Earned Revenue	$-	$-	$-	$-	$-
Net Costs	$1.4	$1.3	$1.4	$1.6	$1.7

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

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. 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. In addition, as discussed in **Note 5**, the Department also made several important changes to it subsidy cost model in FY 2017 to better incorporate the potential increased costs resulting from more borrowers selecting Income Driven Repayment (IDR) plans.

The net impact of these various factors in FY 2017 on the Direct Loan Program was a $7.9 billion upward adjustment of Direct Loan re-estimated subsidy cost compared to a $21.8 billion upward adjustment for the prior year, an overall decrease in the Direct Loan Program subsidy cost of $13.9 billion. This year-on-year difference was reduced by a decrease in negative subsidy transfers that increased costs by $3.1 billion, explaining the overall change in Direct Loan net costs of $10.8 billion. 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.

FSA's net position as of September 30, 2017 was $23.2 billion, an increase of $24.9 billion compared to the previous September 30 net position of negative $1.7 billion. The difference reflects an increase in the cumulative results of operations by the amount of $22.9 billion, from $(28.2) billion, to $(5.3) billion, of which $15.5 billion related to the Direct Loan Program and a further $7.4 billion was attributable to the FFEL program. In addition, unexpended appropriations also increased by $2.0 billion, of which $1.2 billion was attributable to the combined Perkins Loan and Grants programs, with the Direct Loan Program accounting for most of the remaining difference.

Statement of Budgetary Resources

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

This statement shows that as of September 30, 2017, FSA had $349.1 billion in combined budgetary resources, of which $25.0 billion remained unobligated and not apportioned. This compared to $286.4 billion in budgetary resources twelve months earlier of which $16.5 billion were unobligated and not apportioned. The $62.7 billion increase in budgetary resources represented a 21.9 percent increase. The Direct Loan Program accounted for $46.9 billion of this increase, mainly due to a $35.7 billion increase due to appropriation upward re-estimates subsidy. There was also another $13.0 billion increase attributable to the FFEL Programs.

FSA's Net Outlays after Distributed Offsetting Receipts as of September 30, 2017 were $106.0 billion, a decrease of $8.7 billion or 7.6 percent compared to the prior September 30 amount of $114.7 billion. The Direct Loan Program accounted for $6.4 billion of this change, with an additional $1.3 billion and $1.1 billion reduction attributable to the combined Perkins Loan, and Grants Programs and to the FFEL program respectively. Additional information is provided in **Note 12**.

Financial Management Risks

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, the number of borrower accounts, the repayment status of a borrower's loan, and the timing of the borrowers' loan disbursements currently drive loan-servicing costs. The budget 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.

Next Generation Financial Services Environment Implementation. Recent major system implementation efforts continue to be very successful, such as the implementation of the revised IRS Data Retrieval Tool in both the Income-Driven Repayment application and FAFSA. Over the next few years, FSA will be implementing the Next Generation Financial Services Environment, re-engineering most of its major business processes, including the application, origination, disbursement, and servicing processes. These re-engineered business processes will drive major changes in the way FSA procures services for its integrated environment. Managing the business process re-engineering and procurements related to that re-engineering presents a significant risk to FSA operations and, more specifically, to financial management at FSA. To mitigate risks of these large and complex implementations, FSA must be vigilant in many ways, including the following.

- Ensure that FSA has sufficient staff and contractor resources to properly plan and implement the Next Generation Financial Services Environment, while successfully operating the current complex, integrated student aid delivery environment.

- Ensure that FSA staff have a common understanding of the Next Generation Financial Service Environment and can relate their work to achieving that future environment.

- Ensure that knowledgeable staff have sufficient time and the skill sets to fully plan and execute on the plan to migrate to the new environment.

- Ensure that project and portfolio management practices are in place to maintain effective management control over all of the changes required by the migration to the new environment.

Exacerbating this risk associated with planning and implementing the Next Generation Financial Services Environment 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 robust and dynamic investment management and enterprise change management processes.

Payment Integrity. 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 2017 outlays for these programs were as follows:

- Direct Loan Program: $95.4 billion
- Pell Grant Program: $26.9 billion

In FY 2017, FSA documented and assessed 335 improper payment related controls in its internal control framework and found that the risk of improper payments is effectively mitigated.

With that said, the FY 2017 aggregate improper payment rate for the Direct Loan and Pell Grant programs is 4.97 percent, based on the OMB-approved alternative sampling methodology. In FY 2017, recipients of Federal money made approximately 96.27 percent of estimated improper payments. FSA has implemented a framework of continuous control monitoring and process evaluation, striving for zero improper payments. While zero improper payments is infeasible, it continues to be the goal until the Department, working with OMB, can establish the appropriate risk tolerance threshold.

FSA has plans to improve the accuracy of the non-statistically valid improper payment rate. In addition, FSA is working to reduce the risk of incorrectly reported income on the FAFSA, thereby reducing the improper payments associated with that root cause. For more information regarding FSA's assessment of improper payment risk and planned strategies to mitigate this risk, please refer to the Payment Integrity narrative in the Other Information section located in the ***U.S. Department of Education FY 2017 Agency Financial Report (AFR).***

Debt Collection. As of September 30, 2017, the Department managed a Net Credit Program Receivable portfolio of approximately $1,145 billion, an increase of 6.5 percent from FY 2016. 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, 2016, the Department was responsible for administering 84 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 2017, FSA saw a slight increase in the portfolio's three-year default rate, from 11.3 percent reported in FY 2016 for the FY 2013 three-year cohort default rate to 11.5 percent reported in FY 2017 for the FY 2014 three-year cohort default rate. FSA also increased its collection rate from $53.07 to $59.69. This demonstrates continued maintenance of a relatively low default rate, 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 is working with numerous Federal stakeholders to potentially implement a change that will provide for automatic multi-year income certification for borrowers on income-driven repayment plans. This change will reduce the number of borrowers who mistakenly fail to re-certify their income, are switched back to standard repayment plans, and subsequently default on their loans.

Guaranteed Loan Portfolio. As of September 30, 2017, the $236.0 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 8.9 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; FSA 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 reporting for internal and external use, including reports on budget execution, financial statements, and other reports for internal and external use; and
- Compliance with applicable laws and regulations.[13]

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 continues to coordinate with the Department and internally to execute these requirements. For example, FSA's Chief Enterprise Risk Officer and Chief Financial Officer are collaborating to leverage the Circular A-123 internal control assessment to identify financial and non-financial risks which will be used to inform 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, 2017, was operating effectively, except where noted in the *Legal Compliance* section of the Department's ***AFR***.

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

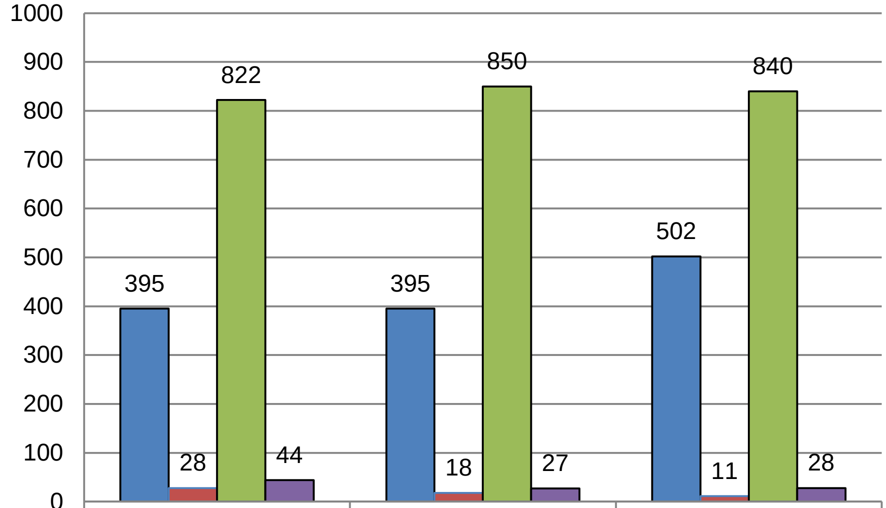
In addition, FSA, working with the Department's management, conducted its current year assessment of the effectiveness of internal control over financial reporting in accordance with the requirements of Appendix A of OMB Circular A-123. The scope of FSA's assessment included, based on a rotation plan,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

- Debt Collection*
- Financial Partner Invoicing (GA Invoicing and Forms 2000)
- Student Eligibility Service Group (Institutional Eligibility, Financial Statement Review, Compliance Audit, Program Reviews, and Method of Payment)
- Direct Loan Origination
- Student Eligibility
- Grant Program Operations (Pell Grant, Iraq and Afghanistan Servicer Grants, and TEACH Grants*)
- Campus Based Programs (Federal Supplemental Education Opportunity Grant and Federal Work Study)
- Financial Reporting (Month End Close, Year-End Close, Preparation of the FSA Annual Report, and Treasury Report on Receivables Reporting)
- Procurement Management (Contract Acquisition, Invoice Processing, and Monthly Contract Accruals)
- Human Resource Management (Time and Attendance)
- Servicing of Direct Loans and ECASLA-acquired Federal Family Education Loan Program Loans by four Title IV Additional Servicers (TIVAS)* and five Not-For-Profits (NFPs)*
- Federal Perkins Loans*
- Servicer Oversight
- Borrower Defense
- Gainful Employment
- Entity-Level Controls
- Information Technology Controls over the following systems: Financial Management System, Central Processing System, Debt Management and Collections System*, Electronic Campus Based, Postsecondary Education Participants System , Common Origination Disbursement* , the Virtual Data Center* , four TIVAS Servicing Systems*, five NFP Servicing Systems*, and the Federal Perkins Loan Servicing System*

In FY 2017, 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 16/18, Reporting on Controls at a Service Organization. For the audits conducted for the time period ended December 31, 2016, FSA continued to receive SSAE 16 reports. For audits conducted for the time period ended, June 30, 2017, FSA received SSAE 18 reports per the revised standards. In the list above, an asterisk (*) indicates full or partial reliance on SSAE16/18 Service Organization Control 1 (SOC1) reports for relevant process and IT controls.

With this reliance on SSAE 16/18 SOC1s, the number of key process controls assessed in FY 2017 was 1,342 process and entity level controls. As illustrated in Chart 21, the breakdown of this total number of key process controls assessed includes 840 controls covered by SSAE 16/18 SOC1s and 502 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 an increase in the total number of controls assessed for operating effectiveness in FY 2017. 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 2017 (39) includes deficiencies identified from both SSAE16/18 SOC1 reports (28) and A-123A testing (11). These deficiencies individually and taken together do not materially affect financial reporting. Corrective actions are being finalized to prevent reoccurrence and ensure control objectives are achieved.

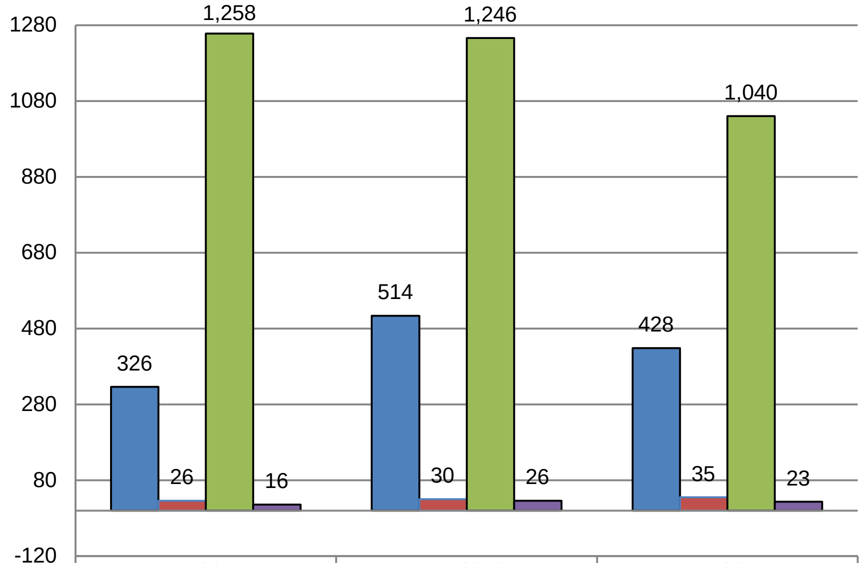
Chart 21: FSA A-123A Process and Entity Level Controls and Deficiencies Analysis Fiscal Years 2015–17



	FY 2015	FY 2016	FY 2017
Controls Tested by A-123A Team	395	395	502
A-123A Deficiencies Identified	28	18	11
Controls Tested by SSAE16/18 SOC1s	822	850	840
SSAE16/18 SOC1 Deficiencies	44	27	28

As illustrated in Chart 22, the total number of IT controls subject to assessment decreased from FY 2016 to FY 2017 as a result of FSA's three-year rotation plan controls. The total number of IT controls assessed was 1,468 and includes 1,040 controls covered by SSAE16/18 SOC1s and 428 tested by the FSA self-assessment team. The number of deficiencies depicted below for FY 2017 (58) includes deficiencies identified from both SSAE16/18 SOC1 reports (23) and A-123A testing (35). These deficiencies individually and taken together do not materially affect financial reporting. Appropriate actions are being taken to address risks.

Chart 22: FSA A-123A IT Controls and Deficiency Analysis
Fiscal Years 2015–17



	FY 2015	FY 2016	FY 2017
Controls Tested by A-123A Team	326	514	428
A-123A Deficiencies Identified	26	30	35
Controls Tested by SSAE16/18 SOC1s	1,258	1,246	1,040
SSAE16/18 SOC1 Deficiencies	16	26	23

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, 2017 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 2017 and FY 2016 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.

This page intentionally left blank.

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 section of 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 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 2017 Accomplishments of Federal Student Aid

This 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 14: Fiscal Year 2017 Performance Highlights of Federal Student Aid

Performance Metrics	FY 2017 Target	FY 2017 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	56.5%–58.5%	60.2%	✓	66
A.2 Persistence Among First-Time Filing Aid Recipients	78.7%–80.7%	82.6%	✓	67
A.3 Customer Visits to StudentAid.gov	>=43.3 million	44.3 million	✓	68
A.4 Social Media Channel Subscribership	>=500,000	584,241	✓	69
A.5 ACSI Aid Life Cycle Surveys	69.4–71.4	69.9	✓	70
Strategic Goal B: ***Proactively manage the student aid portfolio to mitigate risk.***				
B.1 Improper Payment Rate	4.85%	4.97%	✗	71
B.2 Percent of Borrowers > 90 Days Delinquent	7.4%	8.3%	✗	73
Strategic Goal C: ***Improve operational efficiency and flexibility.***				
C.1 Aid Delivery Costs Per Application	$11.46	$10.68	✓	74
C.2 Outstanding Direct Loan Portfolio in Current Repayment Status	84.9%–85.9%	85.7%	✓	75
Strategic Goal D: ***Foster trust and collaboration among stakeholders.***				
D.1 Ease of Doing Business with FSA	71.3–73.3	73.4	✓	76
D.2 Percentage of Contract Dollars Competed by FSA	89.3%–91.3%	95.2%	✓	77
D.3 Collection Rate	$51.68	$59.69	✓	78
Strategic Goal E: ***Invest in expanded workforce capability.***				
E.1 Employee Engagement Index	65.4%–69.4%	69.7%	✓	79

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 *FSA FY 2017 Annual Report* provides a detailed view of the past year's goals, challenges, and accomplishments in the context of FSA's *FY 2015–19 Strategic Plan*. In the near future, the strategic planning process will be reviewed to ensure it aligns with FSA's goals and vision.

The current strategic plan, *FSA FY 2015–19 Strategic Plan,* 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

- **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 about FSA's strategic goals and performance metrics, visit the FSA Data Center to view the current FSA strategic plan.

StudentAid.gov/strategic-planning-and-reporting

FSA FY 2015–19 Strategic Plan	
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, training 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 2017 performance metrics.

Table 15: Summary of Performance Results by Strategic Goal

Strategic Goal	Met	Not met	N/A	Total
Goal A: *Improve quality of service for customers across the entire student aid life cycle.*	**5**	**–**	**–**	**5**
Goal B: *Proactively manage the student aid portfolio to mitigate risk.*	**–**	**2**	**–**	**2**
Goal C: *Improve operational efficiency and flexibility.*	**2**	–	**–**	**2**
Goal D: *Foster trust and collaboration among stakeholders.*	**3**	**–**	**–**	**3**
Goal E: *Invest in expanded workforce capability*	**1**	–	**–**	**1**
Total	**11**	**2**	**–**	**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, 2017) 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 16: Performance Metric A.1: Percent of First-Time FAFSA Filers Among High School Seniors.

Fiscal Year	Target	Actual	Target Achieved	Performance Result
FY 2017	56.5%–58.5%	60.2%	✓	Met
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

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 met its target for this metric with a result of 60.2 percent.

FSA provides a weekly update of total FAFSAs filed for every high school in the United States with five or more FAFSAs completed. Schools use these data to increase their FAFSA completion rates. Combined with awareness and outreach efforts, the result is an increase in the number of high school seniors who file a FAFSA

Data Quality and Limitations:
The denominator is the number of graduating high school seniors according to the most recent projection by National Center for Education Statistics. The numerator is based on the number of applications for first-time filers during the first nine months of the application cycle that are, as of September 30 of the first year of the application cycle, complete (not rejected). First-time filers are defined as incoming freshmen, with or without previous college attendance; age 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 17: Performance Metric A.2: Persistence Among First-Time Filing Aid Recipients				
Fiscal Year	**Target**	**Actual**	**Target Achieved**	**Performance Result**
FY 2017	78.7%–80.7%	82.6%	✓	**Met**
FY 2016	78.5%–80.5%	79.7%	✓	**Met**
FY 2015	78.6%–80.6%	79.5%	✓	**Met**
FY 2014	77.5%–79.5%	79.6%	✓	**Met**
FY 2013	**Performance metric established in FY 2014 Prior-year data not available**			**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.

Analysis of Progress:
FSA met its target for this metric with a result of 82.6 percent.

Moving the FAFSA start date back three months (from Jan. 1 to Oct. 1) provided more time for federal student aid recipients to file a renewal FAFSA. The increased time—provided by the expanded FAFSA calendar—resulted in more first-time filers returning to file a FAFSA for their next school 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 2015–16 return applicants (by September 30 of the first year of the application cycle) that were identified in the denominator.

Table 18: Performance Metric A.3: Customer Visits to StudentAid.gov				
Fiscal Year	**Target**	**Actual**	**Target Achieved**	**Performance Result**
FY 2017	>=43.3 million	44.3 million	✓	**Met**
FY 2016	>=43.4 million	47.2 million	✓	**Met**
FY 2015	>=32.7 million	43.3 million	✓	**Met**
FY 2014	>=30.7 million	32.7 million	✓	**Met**
FY 2013	**Performance metric established in FY 2014 Prior-year data not available**			**N/A**

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

Analysis of Progress:
FSA met its target with a result of 44.3 million visits.

FSA continued to exceed its target on this metric once again in FY 2017 with a result of 44.3 million customer visits. 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 primary information interface for federal student aid tools, resources, and services.

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

Table 19: Performance Metric A.4: Social Media Channel Subscribership				
Fiscal Year	**Target**	**Actual**	**Target Achieved**	**Performance Result**
FY 2017	>=500,000	584,241	✓	**Met**
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**

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 federal student aid information across the organization's digitally engaged customer base.

Analysis of Progress:
FSA exceeded its target with more than 584,000 subscribers.

FSA greatly exceeded its target for this metric for the fourth year in a row, with subscribers to FSA's Facebook, Twitter, and YouTube social media channels. FY 2017 results indicate an 11 percent increase compared to FY 2016.

In today's information age, digital media techniques are becoming increasingly critical for effective customer engagement. Within the past several years, FSA has aggressively leveraged social media tools to drive awareness, uncover insights, engage and interact with students and borrowers, and drive traffic to FSA's websites. 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. The tool that tracks Social Media Channel Subscribership for YouTube, Facebook, and Twitter is dynamic. Depending on the moment in time the subscribership result is captured, the total could be different.

Table 20: Performance Metric A.5: ACSI Aid Life Cycle Surveys

Fiscal Year	Target	Actual	Target Achieved	Performance Result
FY 2017	69.4–71.4	69.9	✓	**Met**
FY 2016	**Performance metric revised in FY 2017. Prior-year data not available under revised method.**			**N/A**
FY 2015				**N/A**
FY 2014				**N/A**
FY 2013				**N/A**

Target Context:
This performance metric measures how FSA is improving in terms of streamlined processes for customer interactions while applying for, receiving, and repaying federal student aid, and the metric measures the accessibility of information FSA provides to customers. Historically, to measure the overall customer satisfaction level throughout the student aid life cycle, FSA has calculated a weighted score for the American Customer Satisfaction Index (ACSI) surveys for applicants, students in school, and borrowers in repayment. FSA adjusted the metric's calculation and weightings to account for surveys that were not conducted because budgetary constraints during FY 2017 limited the number and frequency of surveys used for this metric. Despite the adjustments, the FY 2017 target was unchanged.

Analysis of Progress:
FSA met its target for this metric with a score of 69.9.

Due to budgetary constraints during FY 2017, FSA discontinued the in-school survey and reduced the frequency of the borrower survey from four times per year to two times per year. Shifts in weighting and other calculation changes resulted in FY 2017 scores that are fundamentally different from those derived for previous years. As a proxy for comparison purposes, FSA calculated alternative FY 2016 results adjusted to more closely reflect the changes in methodology impacting this metric in FY 2017. For comparative purposes only, FSA's simulated result for FY 2016 using the adjusted weightings equals 70.0.

Data Quality and Limitations:
Traditionally, the ACSI survey has been conducted annually for FSA's major programs. The index provides a national, cross-industry, cross-sector economic indicator, using widely accepted methodologies to obtain standardized customer satisfaction information. Survey scores are indexed on a 100-point scale. The ACSI scores for application, in-school experience, and servicing are weighted by the utilization of each process/service and the intensity of the service provided. In FY 2017, due to budget constraints and other factors, FSA did not conduct the in-school survey, and rather than conducting the servicer survey quarterly, FSA conducted it biannually. To adjust for these limitations, FSA modified the weightings for each component of this metric.

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

Table 21: Performance Metric B.1: Improper Payment Rate

Fiscal Year	Target	Actual	Target Achieved	Performance Result
FY 2017	4.85%	4.97%	✗	Not met
FY 2016	N/A[14]	4.85%	N/A	N/A
FY 2015	1.65%[15]	2.38%	✗	Not met
FY 2014	Performance metric revised in FY 2015. Prior-year data not available under revised method.			N/A
FY 2013				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. For fiscal years 2015–2017, FSA's risk-susceptible programs are the Pell Grant and Direct Loan programs. The Improper Payment Rate metric presented here is a single 'blended' rate for these two programs that divides aggregated estimated improper payments for both programs by aggregated estimated program outlays.

In FY 2017, FSA made several updates to its OMB-approved alternative estimation methodology with the intent of mitigating known limitations of the methodology, specifically the relative imprecision and inherent volatility when compared to statistically valid methodologies. For example, schools and student samples were grouped into two rather than three strata. Despite these improvements, the estimates remain imprecise and volatile. The potential exists for a single school or student-level improper payment finding, particularly at lower-risk schools, to significantly influence the improper payment estimates. FSA continues to coordinate with OMB to identify other opportunities to revise the methodology to address the imprecision and volatility of the estimates.

Analysis of Progress:
FSA did not meet its target for this metric with a blended improper payment rate for the Direct Loan and Pell Grant programs of 4.97 percent.

---

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

[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.

As noted above and below, the underlying improper payment estimates were calculated using an alternative methodology. The increase in the improper payment estimates may be attributable to the margin of error associated with these estimates.

Although FSA strives for zero improper payments, there continue to be improper payments. In designing controls, FSA must strike the right balance between providing timely and accurate payments to grant recipients and students, while at the same time ensuring that controls are not too costly and burdensome to fund recipients. Additionally, FSA must rely on controls established by fund recipients who make payments on behalf of the FSA. It is estimated that over 96 percent of the estimated improper payments are made by recipients of Federal money whereas approximately 4 percent are made directly by FSA.

Data Quality and Limitations:
The OMB-approved FY 2017 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 2017 alternative methodology includes improvements over the prior year including clarifying the criteria used to determine whether a sample is in-scope, and grouping Program Reviews into two rather than three strata. These changes help improve the completeness of the estimation methodology and help in part to address the volatility of the improper payment estimates.

Table 22: Performance Metric B.2: Percent of Borrowers >90 Days Delinquent

Fiscal Year	Target	Actual	Target Achieved	Performance Result
FY 2017	7.4%	8.3%	✗	**Not met**
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**

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 did not meet its target for this metric with a result of 8.3 percent.

During the prolonged continuing resolution, the Department discontinued an incentive program under which loan servicers received quarterly payments for improved performance in reducing delinquencies. This change impacted FSA's ability to meet its FY 2017 loan delinquency rate target.

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 more than 90 days delinquent relative to all accounts where payments are anticipated.

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

Table 23: Performance Metric C.1: Aid Delivery Costs Per Application

Fiscal Year	Target	Actual	Target Achieved	Performance Result
FY 2017	$11.46	$10.68	✓	Met
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

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 four- to eight-percent annual increase built into the multi-year contract.

Analysis of Progress:
FSA met its target for this metric with a result of $10.68.

One of the drivers for FSA's success in meeting this metric was because FSA ID call center costs associated with the online FAFSA were $8 million less than forecasted. Though the target assumed the call center would primarily support calls related to the online FAFSA, analysis of the actual call center utilization (based on FSA ID successful registrations and authentications) revealed significant support for other IT investments, such as StudentLoans.gov and the National Student Loan Data System (NSLDS).

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

Fiscal Year	Target	Actual	Target Achieved	Performance Result
FY 2017	84.9%–85.9%	85.7%	✓	Met
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

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

Analysis of Progress:
FSA met its target for this metric with a result of 85.7 percent.

FSA has taken a number of steps over the past few years to create incentives for federal loan servicers to help borrowers understand their repayment options and other benefits in order to successfully manage their student loan debt more effectively. It has conducted outreach to borrowers to increase awareness of income-based repayment plans and have made repayment plans simpler to access for more borrowers. FSA believes the results related to this metric reflect the success of these efforts.

Data Quality and Limitations:
The C.2 metric is calculated using the Direct Loan Portfolio by Delinquency Status Report published by the FSA Data Center using data provided by NSLDS. It is the outstanding principal and interest balance of "current" Direct Loans in the active repayment status divided by the total principal and interest balance of Direct Loans in an active repayment status at the non-default servicers. The metric result is calculated as a four-quarter moving average as of September 30 of the current fiscal year. This allows FSA to account for changes relating to seasonality and indirect factors that could be false indicators of change

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

Table 25: Performance Metric D.1: Ease of Doing Business with FSA

Fiscal Year	Target	Actual	Target Achieved	Performance Result
FY 2017	71.3–73.3	73.4	✓	**Met**
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**

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

Analysis of Progress:
FSA met its target for this metric with a result of 73.4.

Funding impacted FSA's ability to conduct this survey as frequently in FY 2017. In past years, the survey was conducted biannually, in the fall and spring, and the scores were averaged for a single performance metric score. In FY 2017, the survey was only administered once, in the summer.

Data Quality and Limitations:
A survey of 10 to 12 questions, regarding the ease of doing business with FSA, is sent to schools quarterly (but only once in FY 2017, due to budget constraints). The questions focus on the ease of use of FSA's major delivery and information systems.

Table 26: Performance Metric D.2: Percentage of Contract Dollars Competed by FSA

Fiscal Year	Target	Actual	Target Achieved	Performance Result
FY 2017	89.3%–91.3%	95.2%	✓	Met
FY 2016	89.3%–91.3%	92.9%	✓	Met
FY 2015	87.7%–89.7%	90.3%	✓	Met
FY 2014	85.3%–87.3%	88.7%	✓	Met
FY 2013	Performance metric established in FY 2014 Prior-year data not available			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 met its target for this metric with a result of 95.2 percent.

FSA exceeding the target for this performance metric in FY 2017 is the result of FSA’s commitment to competitively award a high percentage of contract dollars each year, driving value for taxpayers through a competitive acquisition process.

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

Table 27: Performance Metric D.3: Collection Rate				
Fiscal Year	**Target**	**Actual**	**Target Achieved**	**Performance Result**
FY 2017	$51.68	$59.69	✓	**Met**
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**

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

Analysis of Progress:
FSA met its target for this metric with a result of $59.69.

FSA exceeded the target for this metric in FY 2017 because collections from servicing and default were 11.9 percent higher than forecasted. In addition, loan servicing costs were primarily lower than forecast due to a delay of $15.7 million in contract re-compete costs, while debt collection costs were considerably lower than forecasted due to level spending on the default collection management system operations and maintenance instead of an anticipated 9.2 percent increase.

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 28: Performance Metric E.1: Employee Engagement Index				
Fiscal Year	**Target**	**Actual**	**Target Achieved**	**Performance Result**
FY 2017	65.4%–69.4%	69.7%	✓	**Met**
FY 2016	66.9%–68.9%	67.4%	✓	**Met**
FY 2015	66.7%–68.7%	67.9%	✓	**Met**
FY 2014	>=64.2%	67.7%	✓	**Met**
FY 2013	**Performance metric established in FY 2014 Prior-year data not available**			**N/A**

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

Analysis of Progress:
FSA met its target for this metric with a result of 69.7 percent.

In FY 2017, FSA's employee engagement team coordinated with business units to deliver meaningful programs (under the FSA First Class initiative) designed to (1) increase employees' awareness of FSA's mission and priorities, (2) help employees map their own work to the organization's mission, and (3) increase employees knowledge about other areas within FSA outside of their own business unit. Implementing strategic initiatives directly led to an increase in the positive responses associated with the EEI questions.

The FY 2017 result is the highest percentage of positive responses for the Employee Engagement Index (EEI-15 question subset) within the FEVS that FSA has ever received. Fourteen out of the 15 questions within the EEI increased in positive response, increasing the total Index score by 2.3 percentage points since 2016. Similarly, FSA had 47 total questions (inclusive of the EEI) within the FEVS increase in their percentage of positive responses between FY 2017 and FY 2016

Data Quality and Limitations:
The EEI is calculated as the average of positive response percentages to a predetermined set of questions in the annual FEVS: questions numbered 3, 4, 6, 11, 12, 47, 48, 49, 51, 52, 53, 54, 56, 60, and 61. These questions can be found as part of the FY 2017 FEVS results located at **fedview.opm.gov/2017/reports**.

FY 2017 Accomplishments of Federal Student Aid

During FY 2017, 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.*

- Starting with the 2017–18 FAFSA on October 1, 2017, students and parents were able to complete and submit a FAFSA earlier (beginning in October, rather than January) and report income from two years prior, so they do not need to wait for new Internal Revenue Service (IRS) tax data. These changes allow students to learn about their Federal financial aid eligibility earlier and help families have a more accurate picture of college costs sooner in the college selection process.

- FSA took the necessary steps to implement year-round Federal Pell Grant Program funding for students starting with the 2017–18 Award Year. This change will allow eligible students to access Pell Grant funding during summer school sessions, which will present an opportunity for students to finish their degrees faster than they would otherwise. FSA also manually restored Federal Pell Grant Lifetime Eligibility Used (LEU) to more than 290,000 students who attended more than 700 closed schools dating back to 1999; FSA will utilize an automated process to restore Pell Grant LEU going forward.

- FSA made several enhancements to FSA web properties in FY 2017. Among the improvements were changes to **StudentLoans.gov** to make the site mobile-responsive and improve the user experience accessing loan counseling, repayment calculators, the online request for an income-driven repayment plan, and other resources. Enhancements to **StudentAid.gov** include adding a "best bets" functionality that improves on-site search results, which allows users to find the right information about federal student aid faster.

- When the IRS Data Retrieval Tool (DRT) was disabled during FY 2017 due to security concerns, FSA disseminated information via social media, websites, and email to students, parents, and borrowers instructing them how to apply for federal student aid and an income-driven repayment plan without the IRS DRT. FSA worked with the IRS to provide information about how students, parents, and borrowers could access their tax return information.

- FSA delivered nearly 60 training sessions during the 2016 annual training conference for financial aid administrators, including a track exclusively for foreign schools, Birds of a Feather networking sessions, and a resource center for one-on-one assistance with Department and FSA subject matter experts.

- FSA staff delivered presentations via webinar and in-person in order to strengthen FSA's community partnerships. FSA provided information, resources, and tools related to the

2017–18 FAFSA launch and other topics during community roundtables, college fairs, congressional presentations, and educational panel discussions; and at counselor and mentor training sessions. Through the Financial Aid Toolkit, FSA also shared information specifically about the 2017–18 FAFSA launch with counselors, college access professionals, and others who advise students on the financial aid process. The Toolkit was visited more than 296,000 times—an increase of more than 76 percent compared to FY 2016—and resources were downloaded more than 68,000 times.

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

- In FY 2017, FSA developed its Initial Risk Profile, which included components of OMB's revised Circular A-123. This comprehensive risk profile documents FSA's most significant risks and provides FSA leadership with a critical management tool to proactively address and manage risks across the organization.

- FSA issued a final program review determination to Xerox Educational Services for interest incorrectly paid by the Department for deferments granted to ineligible borrowers. When Xerox makes its final payment in November 2017, the total liability with interest returned to American taxpayers will be in excess of $9.5 million.

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

- FSA documented and tested more than 1,300 key process controls and more than 1,400 IT system internal controls across 35 business processes (and sub-processes) and 17 integrated IT systems, respectively. In FY 2017, FSA assessed that 96 percent of the controls tested are designed and operating effectively. The remaining 4 percent are immaterial deficiencies for which FSA has established or is establishing corrective actions.

- During FY 2017, FSA worked jointly with the IRS to return the IRS DRT for borrowers applying for an income-driven repayment plan on **StudentLoans.gov.** Extra security and privacy protections were added to the IRS DRT and the online IDR plan application.

- FSA supported more than 47 million students, parents, and borrowers using their FSA ID to log in to a Department website more than 300 million times since the FSA ID was introduced in May 2015. During FY 2017, FSA also introduced SMS/text feature that gives customers an additional convenient self-help option if they forget their username or password or if their FSA ID account is locked.

- A government-wide mandate required all federal agencies to make all publicly accessible Federal websites and web services use Hypertext Transfer Protocol Secure (HTTPS) and discontinue use of Transport Layer Security 1.0 for all internal/external communications. This mandate also extended to all FSA partners (not-for-profit servicers, guaranty agencies, and Title IV servicers) to upgrade their public-facing website to use HTTPS as well to ensure stronger privacy and integrity protection for web connections. FSA took the necessary steps to ensure that all FSA and partner public-facing websites will be compliant by the end of 2017.

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

- FSA published a series of new and updated data sets, reports, and other information to the FSA Data Center during FY 2017. Data published include general portfolio statistics, high school FAFSA completion rates for each state and the District of Columbia, a report of data from the Federal Student Aid Feedback System, Cohort Default Rates, a collection of independent Zenith Monitoring Reports, data about public service loan forgiveness and enrollment in income-driven repayment plans, Heightened Cash Monitoring reports, the Proprietary 90/10 Revenue Percentages Report, Financial Responsibility Composite Scores, the Foreign Schools Gifts and Contracts Report, and the FY 2016 Top 10 Program Review and Audit Findings Report.

- FSA implemented a two-tiered quality control process to identify and analyze internal performance trends related to private collection agency (PCA) customer calls. The enhanced process improves the overall quality of FSA's monitoring of PCA customer calls and provides greater consistency of measuring contractor performance.

- In response to concerns about the impact of the IRS DRT outage on students and families selected for verification of their FAFSA/ISIR information, the Department and FSA provided institutions with flexibilities they could choose to use as part of their verification procedures. The flexibilities began immediately and applied to both the 2016–17 and 2017–18 FAFSA processing and verification cycles; both use 2015 tax year information because of the implementation of "prior-prior."

- FSA provided support, information, and other resources to students, institutions, and borrowers impacted by a wave of natural disasters in the southern U.S. and the Caribbean, including proactive communications before the disasters struck and regular communications following the disaster; operational assistance; and regulatory flexibilities.

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

- FSA facilitated strategic visioning workshops for managers, including a session for all managers within one business unit. Through guided facilitation, the managers refined a vision statement for their respective teams; created a team mission statement; consolidated their analysis of strengths, weaknesses, opportunities, and threats they may face in achieving the mission; and developed team strategic goals and objectives that align with FSA's *FY 2015–19 Strategic Plan*.

- FSA created and delivered customized internal control reports for each business unit to ensure compliance with the Department's mandatory training requirements.

- To increase manager competencies in leadership in order to drive organizational results, FSA designed and presented a leadership coaching training session to the Department and FSA managers. The training focused on identifying different approaches to coaching, developing foundational coaching skills, and understanding best practices to capture the innate capabilities of staff, which will increase employee engagement and drive business results. Evaluation data indicated a 99-percent satisfaction assessment rating for the workshop.

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 several issues including: continuance of current experiments under the Experimental Sites Initiative consistent with the Administration's higher education priorities; developing policies relating to the regulations for the eligibility of gainful employment programs at institutions of higher education; developing guidance and providing regulatory flexibility and relief, and statutory proposals, for the purpose of assisting students, borrowers, institutions of higher education and others affected by recent natural disasters; 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 2017. However, because FY 2017 performance results were not finalized at the time this report was prepared, the section also discusses FY 2016 performance results.

At the end of FY 2017, there were 55 FSA senior managers and 8 Senior Executive Service members. 8 of the 55 senior managers and 1 of the 8 Senior Executive Service staff served on the FSA Operating Committee and reported directly to the COO. The remaining 47 senior managers and 7 Senior Executive Service staff served in a variety of senior positions and capacities within FSA.

The following section discusses FY 2016 performance results.

For performance year 2016, the composition of ratings for the 38 senior managers who did not serve on the Operating Committee last year were as follows: 16 achieved a performance rating of Exceptional Results, 17 achieved a performance rating of High Results and 5 achieved a performance rating of Results Achieved.

Award amounts for those senior managers achieving an Exceptional Results rating ranged from a low of $4,675 to a high of $9,908 with a median award of $8,325. Award amounts for those achieving a High Results rating ranged from a low of $1,000 to a high of $5,197 with a median award of $4,464.

There were also FY 2016 performance ratings and awards for 12 senior manager members of the Operating Committee. The composition of those rated includes: 8 achieved a performance rating of Exceptional Results; 2 achieved a performance rating of High Results; and 2 achieved a performance rating of Results Achieved. Two 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 $12,957 to $37,020, 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 18th year of service to federal student aid recipients in FY 2017. 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 brought to it by individual student loan customers.

In addition to its work on behalf of individual customers, the Ombudsman Group compiles data in its Ombudsman Case Tracking System (OCTS). The data are analyzed, and the findings are shared within Federal Student Aid in discussions with the business units that manage student loan operations so that the customers' voice is heard and used to identify and resolve systemic issues that affect Title IV programs. Implementation of systemic solutions can at times prevent problems, an approach preferable to resolving individual complaints.

Since 1999, the Ombudsman has received 421,605 customer contacts, including 25,695 in FY 2017. In recent years, annual customer contacts to the Ombudsman Group have consistently ranged between 30,000 and 40,000. However, in the last two fiscal years contacts have declined. The primary reason for this is the deployment of the FSA Feedback System. Increasingly, customer complaints that were formerly initially lodged with the Ombudsman now are submitted through the FSA Feedback System.

FSA Feedback System

FSA leadership, including the Ombudsman Group, developed an online portal (**feedback.studentaid.ed.gov**) where postsecondary students and federal aid recipients can submit a complaint about their experience with the student aid process. The Feedback System began online operation in a pilot phase in April 2016 and began full operations on July 1, 2016.

Customers can submit complaints, allegations of suspicious activity, or positive feedback through an online portal, through a call center, or by mail and email. Complaints are entered into a data system built on the same technology platform as OCTS; the Ombudsman Group is responsible for managing the system. The goal is a system that simplifies submission of a complaint and provides a more efficient and expeditious path to resolution. The most notable feature of the Feedback System is that feedback is automatically routed to the FSA business unit, loan servicer, or collection agency with primary responsibility for resolution.

Between July 1, 2016 and June 30, 2017, the FSA Feedback System received 17,430 customer contacts. Although customers who previously had a case with the Ombudsman and those with issues related to FFEL loans are initially routed to the Ombudsman Group, the majority of customer contacts to the FSA Feedback System were routed to other business units within

FSA. This is a major contributing factor to the overall reduction in initial customer contacts to the Ombudsman Group and in the significantly lower number of Ombudsman Research cases.

Table 29: Total Volume of Contacts

FY	New Customer Contacts	Percentage Change from Previous Fiscal Year
2017	25,695	-11.6%
2016	29,068	-14.5%
2015	34,008	-12.0%
2014	38,665	+14.0%

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 30 demonstrates, this trend reversed in FY 2013 and continues.

Table 30: Research Contacts Received

FY	Research Cases	Percentage Change in Research Cases from Previous Fiscal Year	Research Cases as Percentage of Total Customer Contacts
2017	1,112	-70.4%	4.3%
2016	3,758	-37.8%	12.9%
2015	6,046	-22.7%	17.8%
2014	7,819	-16.9%	20.2%

Borrowers contacting the Ombudsman Group who have not exhausted the problem resolution options available from other entities in the student financial aid system are referred to the FSA Feedback System and counseled to re-contact the Ombudsman Group if resolution is not achieved or is unsatisfactory. To the extent that the customer is able to resolve their problem through the FSA Feedback System, 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. Table 31 shows the total volume of customer contacts by each of the 16 major issues categories along with a brief description of the category.

Table 31: Fiscal Year 2017 Customer Contacts by Original Issue

Issue Category Name	Description	FY 2017 Volume	
		Research	General Assistance
Account Balance	Questions/disagreement about the balance being collected, balance dispute, school refund, disbursement	255	4,415
Bankruptcy	Bankruptcy related issues from a bankruptcy court filing	11	67
Closed School	Issues related to a post-secondary school's closure	18	583
Collection Practices	Actions taken by collectors deemed excessive, abusive, unreasonable, or illegal by borrower	13	197
Consolidation	Question/complaint about terms and processes for consolidating FFEL, Federal Direct Loan, Perkins, or HEAL Loans	78	908
Credit Reporting	A report detailing all outstanding consumer-related debt, including bad student loan debt	61	1,129
Default	Assertion that the default status is wrong, or is asking for options for default removal	94	1,757
Deferment/Forbearance	Deferment, Deferment Rejected, Forbearance, Forbearance Granted	15	1,036
FSA Assistance	General Information Request, Pell Grant, Not a Loan Question, Other, Other Aid Issue	33	3,139
Loan Cancellation/Discharge	Loan Cancellation, Disability Discharge, Discharge – Death, Discharge Denied, Loan Discharge, False Certification, ID Theft	207	4,511
NSLDS	NSLDS is incorrect	24	197
Repayment Plans/Amounts	Customer wants to establish, revise, or comment on available repayment plans/amounts	140	2,777
Service Quality	Complaints about loan servicing, service quality, due diligence, quality of education	78	1,435
Student Eligibility	Borrower cannot receive Title IV funds because of regulatory or school imposed policy/procedures	13	1,273
Tax Refund/(Federal) Offset	Borrower wants to avoid tax or other Federal offset	43	756
Wage Garnishment	Borrower objects to administrative wage garnishment, wants to avoid it, reduce amount, or complain about how the agency implements administrative wage garnishment.	29	402
Issue Not Yet Classified		0	1

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 party, the Ombudsman Group typically declines to characterize every contact it receives as a "complaint." However, 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, this section shares more information about the cause and types of issues identified as Research cases.

Table 32: Top Five Research Case Issues

Issue Category	FY 2017 Rank	FY 2016 Rank	FY 2015 Rank	FY 2014 Rank
Account Balance	1	1	1	1
Loan Cancellation/Discharge	2	2	2	2
Repayment Plans/Amounts	3	3	3	3
Default	4	N/A	N/A	4
Loan Consolidation	5T	5	5	N/A
Service Quality	5T	N/A	N/A	N/A

Analysis of Outcomes

Resolutions of the problems customers present are rarely binary——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, Public Service Loan Forgiveness (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 33: Outcomes for Research and GenAssist Cases Closed in Fiscal Year 2017

Case Type	Action	Confirmation	Information	Referral	Other	Total Cases
Research	28.4%	33.5%	28.6%	5.5%	4.0%	2,063
General Assistance	1.0%	0.9%	7.2%	81.0%	9.9%	25,177

Outcomes for Research Cases Closed in FY 2017 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 2017, for about 33.5 percent of Research cases, Confirmation was the result. With less frequency, the Ombudsman Group's engagement results in an Action — 28.4 percent of Research cases.

Table 34: Fiscal Year 2017 Research Case Outcome Category by Issue Category

Original Issue Category	Action	Confirmation	Information	Referral	Other	Total Closed
Account Balance	25.0%	49.6%	17.9%	4.0%	3.6%	100.0%
Bankruptcy	17.6%	64.7%	5.9%	5.9%	5.9%	100.0%
Closed School	21.2%	33.3%	33.3%	9.1%	3.0%	100.0%
Collection Practices	18.2%	31.8%	31.8%	9.1%	9.1%	100.0%
Consolidation	25.3%	40.4%	28.8%	4.1%	1.4%	100.0%
Credit Reporting	24.3%	29.0%	40.2%	0.9%	5.6%	100.0%
Default	22.1%	28.8%	42.3%	3.7%	3.1%	100.0%
Deferment/Forbearance	33.3%	33.3%	23.1%	2.6%	7.7%	100.0%
FSA Assistance	25.0%	14.3%	35.7%	10.7%	14.3%	100.0%
Loan Cancellation/Discharge	35.7%	23.9%	29.4%	8.0%	3.1%	100.0%
NSLDS	71.4%	14.3%	11.9%	2.4%	0.0%	100.0%
Repayment Plans/Amounts	30.2%	27.9%	32.1%	6.9%	3.1%	100.0%
Service Quality	28.3%	37.5%	19.2%	7.5%	7.5%	100.0%
Student Eligibility	22.2%	33.3%	22.2%	14.8%	7.4%	100.0%
Tax Refund/Offset	11.6%	20.3%	60.9%	2.9%	4.3%	100.0%
Wage Garnishment	36.6%	22.0%	36.6%	0.0%	4.9%	100.0%

As Table 34 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 2017 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 cases. 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.

> "I took out several student loans from 1991 to 1997 that were consolidated into two FFEL loans in 1999. I had a Chapter 13 bankruptcy, job losses and had various forbearances over time. I still owe approximately $38,000 which is close to the original amount I took out 20 years ago."

Interest capitalization is the act of adding unpaid, accrued interest to the outstanding principal balance of a student loan, thereby increasing the amount to be repaid. After interest is capitalized, interest continues to accrue on the higher balance. The adverse effect of interest capitalization is a primary driver of the volume of research cases within the Account Balance category. The following is a list of the most common scenarios under which interest capitalization is required or permitted by provisions of the Higher Education Act, or the implementing regulation(s).

- All unpaid interest at the time a borrower enters repayment following the end of the six-month grace period.

- The unpaid interest balance at the end of a deferment or forbearance.

- The unpaid interest balance is capitalized whenever a borrower changes income-driven repayment plans; does not renew the IDR plan; or is determined to be ineligible for continued participation in IDR.

- All unpaid interest at the time of loan consolidation is added into the balance of the new consolidation loan.

The burden of interest capitalization is more significant on the older loans in the federal student loan portfolio. In the example cited above, the borrower acknowledged experiencing periods of economic hardship which led her to place her loans in forbearance and ultimately to file for bankruptcy. At the end of the periods of forbearance and the bankruptcy, accrued, unpaid interest on her loans was capitalized. The Ombudsman Group researched her situation and determined that the interest capitalizations were consistent with applicable law and regulation and the current balance on her student loans was correct. Because the borrower worked for a government agency, she was provided with information and guidance about Public Service Loan Forgiveness.

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 and gaining final discharge can still be a challenge for many borrowers who apply.

In the example below, the borrower was initially approved for TPD discharge in 2012 and was placed in the three-year monitoring period. The borrower failed to provide the final income verification statement by the required deadline. Consistent with provisions, the TPD processor reinstated the borrower's loans to collections and, because the loans had been in default at the time of application for TPD, sent the loans to the FSA's Default Resolution Group (DRG). Shortly after the reinstatement, the borrower provided the income verification. The TPD processor issued a recall of the loans from DRG and approved the borrower for final discharge. However, because the borrower was not in DRG's database as approved for TPD discharge, the loans remained with DRG and in collections.

> "[I was] awarded a permanent disability discharge September 30, 2015. This week I received a letter from the Department of Treasury informing me my disability check from Social Security will be offset."

The Ombudsman was able to coordinate between the TPD processor and DRG to confirm the discharge status, return the loans for final discharge, and prevent the offset of disability benefits.

Repayment Plans/Amounts: Customer requests for assistance involve 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 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.

> "When reapplying for my [IDR plan] in the spring, my fax did not go through. . . However, I have the confirmation fax in my records stating it did. . . ."

For some borrowers, selecting the ideal repayment plan may be the easiest part of the process. Submitting a properly completed initial or renewal application, along with acceptable documentation of income can present challenges. Renewal applications, because of narrow timeframes for submission and exacting income documentation requirements, add additional complexity and complications.

In the example noted above, the loan servicer informed the customer to submit a reapplication within 10 days of March 27. The customer faxed documents on March 28. The servicer reported there was a fax malfunction on the customer's end, and they received only a cover sheet, blank pages, and no signature page. By the time the customer resubmitted correct documents, the renewal deadline had passed, and unpaid accrued interest was capitalized to the customer's loan balance. As a result of the Ombudsman Group working with the internal FSA business unit on this case, FSA has reversed the interest capitalization on the account, and it is reviewing the guidance currently in place as it relates to the way its loan servicers process similar IDR renewals.

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 20 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. In the highlighted case, the Ombudsman Group contacted the loan servicer, which stated it had never received copies of the borrower's military orders. However, the servicer agreed that, if the borrower would provide copies of all of the relevant military orders, it would grant a retroactive deferment, remove the default from the credit history, and return the borrower's loans to good standing. The borrower provided the required documentation, and the military deferment was retroactively granted.

> "I was told . . . that if I submit my military orders showing I am in full time military status I could defer my loan. Based on the conversations I had I was told my loan was deferred however I never received a confirmation. I have been on active duty military status since March 2014 and I have continued to submit orders . . . My loan is considered in 'Collections' . . ."

Consolidation: 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 recent increase in consolidation cases has been 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 communications. The Department's authority to regulate institutions of higher education limits its role in consumer protection activities. Therefore, the Department collaborates actively with enforcement partners to curb the impact of third party firms that seek to take unfair advantage of federal student loan customers.

> "I have been trying to resolve an issue for several years now. In 2007, my loans consolidated, and it looks like there were two consolidations with the same loans charged twice."

In the highlighted case, the borrower had consolidated her loans in 2007 and believed there had been an error in the process, causing some of her loans to be counted twice in her balance.

The Ombudsman Group contacted the loan servicer and reviewed the records relating to the 2007 consolidation. However, before contacting the Ombudsman, the borrower had reconsolidated her student loans. By entering into a new consolidation loan, the borrower had affirmed the prior debt by including it in the new consolidation and could no longer dispute the prior balance. The customer has enrolled in an income-based repayment plan that will help her manage loan repayment going forward.

Service Quality. For the first time since the Ombudsman began tracking customer issues, Service Quality entered the Top 5 for Research cases. Service Quality cases are defined as "Complaint about responsiveness or accuracy of information from school or loan holder," and involve situations where the customer asserts that their school or loan servicer was unresponsive or provided incomplete or inaccurate guidance.

Some Service Quality cases are related to difficulties experienced in applying for or renewing income driven repayment options. Confusion resulting from the existence of multiple IDR plans leads customers to complain that they did not receive accurate information about the options available to them.

"[Servicer] claims that the deadline for IBR plan was 'November 8, 2016. The customer service rep. told me the deadline was DECEMBER 8, 2016. Therefore, my submission of my IBR request received by [Servicer] on December 1, 2016 was timely."

Renewal of an IDR plan requires an affirmative step on the part of the borrower—submission of a renewal application and provision of income documentation. Customers contacting the Ombudsman report missed deadlines or difficulties in providing acceptable income documentation. The Ombudsman believes that two steps could alleviate many of these problems and supports efforts by FSA to implement them: automatic renewal of IDR plans so that the borrower would need to take an affirmative step only to withdraw from an IDR plan and a process of data exchange with IRS to provide current and accurate income documentation.

In the highlighted case, the borrower stated that a servicer's customer service representative had provided an incorrect deadline for submission of his IDR renewal application. Despite submitting by the date he said he was provided, his IDR plan was cancelled. The servicer informed him that the actual deadline was earlier.

Ombudsman research with the servicer revealed that the actual due date was one month prior to what the customer said he was told and that renewal notices had been sent over a month prior to the correct due date. Because the servicer had complied with the procedural requirements, the expiration of the customer's IDR plan remained.

Other FY 2017 Highlights

Customer Satisfaction Survey

On a weekly basis, a survey is sent by email to 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.

In FY 2017, a change in the survey design and a related event affected the Ombudsman Group customer satisfaction survey. In previous years, the Ombudsman Group had sent survey questionnaires to customers with GenAssist and Research cases. GenAssist customers are typically referred to another entity in the student loan community to seek resolution of their issue and have minimal contact with the staff of the Ombudsman Group. Additionally, as a result of the launch of the FSA Feedback System, GenAssist customers are increasingly referred to the Feedback System to initiate a case. Therefore, it was decided to limit the customer satisfaction survey to customers with Research cases, who work more extensively, and have more frequent contact, with Ombudsman staff because their issues are more complex.

During FY 2017 budget uncertainties and reductions temporarily disrupted Ombudsman Group customer satisfaction surveys. For one quarter of the fiscal year, the Ombudsman Group was unable to survey customers for their perception of the service provided.

The overall ACSI score for the Ombudsman Group for FY 2017 is 49. 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 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 when the customer's desired outcome is not achieved.

The Ombudsman Group reviews the survey data, as well as customer comments, with the goal of identifying improvements to processes that could enhance customer satisfaction. In FY 2017, the Service driver of the overall score saw the greatest improvement over FY 2016. Customers expressed greater satisfaction in the specific areas of courtesy; willingness to help; time to resolve the concern; ability to answer questions clearly; having required knowledge; and making next steps clear.

Feedback and Dispute Management System
As part of ongoing efforts to improve customer service and resolve complaints, FSA, with leadership from the Ombudsman Group, is preparing to initiate the Feedback and Dispute Management System (FDMS).

FDMS will create a single point of contact for receiving and logging customer complaints. Customers will be able to submit complaints and disputes through a variety of channels—telephone, email, mail, facsimile, web-based template—to a central location which will route the customer issue to the FSA business unit or external entity—loan servicer, collection agency, school—best positioned to respond to the customer.

In addition, the databases currently used by the Ombudsman Group and the FSA Feedback System will be merged. This new Customer Relationship Management tool will improve access to information and allow timelier and more complete responses to customers. The merged database will enhance FSA's ability to analyze data to identify potential problem areas and systemic issues that can be redesigned to improve customer service.

FDMS is projected to launch in February 2018.

Student Loan Ombudsman Caucus
The Ombudsman Group hosted the annual meeting of the Student Loan Ombudsman Caucus in September 2017. 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.

During this year's annual meeting, attendees reviewed case studies for training on the handling of difficult, challenging complaints. Presentations touched on third party debt relief firms and credit reporting as well as other issues.

Activities in Support of the Feedback System
In May and June 2017, the Ombudsman Group facilitated conference calls with student loan borrower and aid recipient advocacy groups, as well as with loan servicers to collect comments and suggestions on the Preliminary Report of the FSA Feedback System.

The Ombudsman Group chairs a working group of representatives of FSA business units with primary responsibility for resolution of FSA Feedback System cases. The working group meets on a regular basis to review issues related to system performance and work processes, and to make recommendations for modifications that will improve customer service and the timeliness of responses to customers. This group also collaborated and oversaw the implementation of a quality assurance process that reviews the accuracy of data collected and adherence to feedback system processing standards and expectations.

This page intentionally left blank.

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 that 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
An OFFICE of the U.S. DEPARTMENT of EDUCATION
PROUD SPONSOR of the AMERICAN MIND™

John W. Hurt, III
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.

In fiscal year (FY) 2017, FSA spent $1.6 billion to deliver $122.5 billion of federal aid to more than 12.9 million postsecondary students and their families as well as to oversee a loan portfolio of 43 million borrowers with almost $1.4 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 a more secure Internal Revenue Service Data Retrieval Tool within the 2018-19 Free Application for Federal Student Aid and our Income-Driven Repayment plan application, along with numerous other operational changes. 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 1,342 key process controls (including 1,093 Business Process and 249 entity level controls) and 1,468 Information Technology (IT) system internal controls across 35 business processes (and sub-processes) and 17 integrated IT systems, respectively. In FY 2017, we assessed that 96 percent of the controls tested are designed and operating effectively. The other 4 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 frameworks 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 13, 2017

Financial Statements

FSA prepares the following comparative statements: the Consolidated Balance Sheet, the Consolidated Statement of Net Cost, the Consolidated Statement of Changes in Net Position and the Combining Statement of Budgetary Resources. The preparation of these financial statements is an important feature of FSA's demonstrated accountability and stewardship of the resources entrusted to it.

Below is a brief description of the four principal financial statements presented on the following pages:

Consolidated Balance Sheet:

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

Consolidated Statement of Net Cost:

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

Consolidated Statement of Changes in Net Position:

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

Combining Statement of Budgetary Resources:

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

Following the Financial Statements are the Notes to the Financial Statements, which provide a description of significant accounting policies and detailed information on select financial statement line items. The Notes included are:

Note 1	Summary of Significant Accounting Policies
Note 2	Non-Entity Assets
Note 3	Fund Balance with Treasury
Note 4	Other Assets
Note 5	Credit Programs for high Education, Credit Program Receivables, Net and Liabilities for Loan Guarantees
Note 6	Liabilities not Covered by Budgetary Resources
Note 7	Debt
Note 8	Subsidy Due to Treasury General Fund
Note 9	Other Liabilities
Note 10	Gross Cost and Exchange Revenue by Program
Note 11	Credit Program Interest Expense and Interest Revenue
Note 12	Statement of Budgetary Resources
Note 13	Reconciliation of Net Cost of Operations to Budget
Note 14	Commitments and Contingencies

United States Department of Education
Federal Student Aid
Consolidated Balance Sheet
As of September 30, 2017 and 2016
(Dollars in Millions)

	FY 2017	FY 2016
Assets:		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$ 74,032	$ 60,358
Other Intragovernmental Assets (Note 4)	7	8
Total Intragovernmental	74,039	60,366
Public:		
Credit Program Receivables, Net (Note 5)		
Direct Loan Program	1,041,554	958,881
FFEL Program	102,410	114,870
Other Credit Programs for Higher Education	1,442	1,476
Other Assets (Note 4)	2,249	1,326
Total Public	1,147,655	1,076,553
Total Assets (Note 2)	**$ 1,221,694**	**$ 1,136,919**
Liabilities:		
Intragovernmental:		
Debt (Note 7)		
Direct Loan Program	$ 1,061,559	$ 994,285
FFEL Program	116,290	131,347
Other Credit Programs for Higher Education	624	713
Subsidy Due to Treasury General Fund (Note 8)	7,013	2,642
Other Intragovernmental Liabilities (Note 9)	2,608	1,721
Total Intragovernmental	1,188,094	1,130,708
Other Liabilities (Note 9)	10,392	7,893
Total Liabilities (Note 6)	**$ 1,198,486**	**$ 1,138,601**
Commitments and Contingencies (Note 14)		
Net Position:		
Unexpended Appropriations	$ 28,524	$ 26,531
Cumulative Results of Operations	(5,316)	(28,213)
Total Net Position	**$ 23,208**	**$ (1,682)**
Total Liabilities and Net Position	**$ 1,221,694**	**$ 1,136,919**

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, 2017 and 2016
(Dollars in Millions)

	FY 2017	FY 2016
Program Costs:		
Increase College Access, Quality, and Completion		
Gross Costs	$ 73,771	$ 93,032
Earned Revenue	(35,825)	(34,260)
Net Program Costs	$ 37,946	$ 58,772
Net Cost of Operations (Notes 10 & 13)	**$ 37,946**	**$ 58,772**

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, 2017 and 2016
(Dollars in Millions)

	FY 2017		FY 2016	
	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations
Beginning Balances:				
Beginning Balances	$ (28,213)	$ 26,531	$ (8,017)	$ 28,325
Budgetary Financing Sources:				
Appropriations Received	$ -	$ 89,625	$ -	$ 41,985
Appropriations Transferred – In/Out	-	(2)	-	-
Other Adjustments (Rescissions, etc.)	-	(1,437)	-	(180)
Appropriations Used	86,193	(86,193)	43,599	(43,599)
Nonexchange Revenue	-	-	9	-
Other Financing Sources:				
Imputed Financing from Costs Absorbed by Others	10	-	26	-
Negative Subsidy Transfers, Downward Subsidy Re-Estimates, and Other	(25,360)	-	(5,058)	-
Total Financing Sources	**$ 60,843**	**$ 1,993**	**$ 38,576**	**$ (1,794)**
Net Cost of Operations:	**$ (37,946)**	**$ -**	**$ (58,772)**	**$ -**
Net Change:	**$ 22,897**	**$ 1,993**	**$ (20,196)**	**$ (1,794)**
Net Position	**$ (5,316)**	**$ 28,524**	**$ (28,213)**	**$ 26,531**

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, 2017 and 2016
(Dollars in Millions)

	FY 2017 Budgetary	FY 2017 Non-Budgetary Credit Reform Financing Accounts	FY 2016 Budgetary	FY 2016 Non-Budgetary Credit Reform Financing Accounts
Budgetary Resources:				
Unobligated Balance, Brought Forward, October 1	$ 10,384	$ 15,303	$ 12,719	$ 14,236
Recoveries of Prior Year Unpaid Obligations	3,919	13,356	188	21,047
Other Changes in Unobligated Balance (+ or -)	(239)	(18,270)	(374)	(24,687)
Unobligated Balance from Prior Year Budget Authority, Net	$ 14,064	$ 10,389	$ 12,533	$ 10,596
Appropriations (Discretionary and Mandatory)	88,321	-	41,948	24
Borrowing Authority (Discretionary and Mandatory) (Note 12)	-	166,426	-	167,272
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	1,037	68,906	470	53,563
Total Budgetary Resources (Note 12)	**$ 103,422**	**$ 245,721**	**$ 54,951**	**$ 231,455**
Status of Budgetary Resources:				
New Obligations Incurred and Upward Adjustments (Total) (Note 12)	$ 92,308	$ 222,838	$ 44,567	$ 216,152
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	8,595	-	8,782	-
Unapportioned, Unexpired Accounts	2,093	22,883	1,212	15,303
Unexpired Unobligated Balance, End of year	**$ 10,688**	**$ 22,883**	**$ 9,994**	**15,303**
Expired Unobligated Balance, End of Year	426	-	390	-
Unobligated Balance, End of Year (Total)	**$ 11,114**	**$ 22,883**	**$ 10,384**	**$ 15,303**
Total Status of Budgetary Resources (Note 12)	**$ 103,422**	**$ 245,721**	**$ 54,951**	**$ 231,455**
Change in Obligated Balance:				
Unpaid Obligations:				
Unpaid Obligations, Brought Forward, October 1	$ 20,216	$ 76,389	$ 19,286	$ 77,880
New Obligations and Upward Adjustments	92,308	222,838	44,567	216,152
Outlays (Gross) (-)	(86,205)	(207,131)	(43,449)	(196,596)
Recoveries of Prior Year Unpaid Obligations (-)	(3,919)	(13,356)	(188)	(21,047)
Unpaid Obligations, End of Year	$ 22,400	$ 78,740	$ 20,216	$ 76,389
Uncollected Payments:				
Uncollected Payments, Federal Sources, Brought Forward, October 1 (-)	$ -	$ (4)	$ -	$ (4)
Change in Uncollected Payments, Federal Sources (+ or -)	-	(588)	-	-
Uncollected Payments, Federal Sources, End of Year (-)	$ -	$ (592)	$ -	$ (4)
Memorandum (Non-add) Entries:				
Obligated Balance, Start of Year (+ or -)	**$ 20,216**	**$ 76,385**	**$ 19,286**	**$ 77,876**
Obligated Balance, End of Year (+ or -)	**$ 22,400**	**$ 78,148**	**$ 20,216**	**$ 76,385**
Budget Authority and Outlays, Net:				
Budget Authority, Gross (Discretionary and Mandatory)	$ 89,358	$ 235,332	$ 42,418	$ 220,859
Actual Offsetting Collections (Discretionary and Mandatory) (-)	(1,219)	(166,641)	(653)	(113,986)
Change in Uncollected Payments from Federal Sources (Discretionary and Mandatory) (+ or -)	-	(588)	-	-
Recoveries of Prior Year Paid Obligations (Discretionary and Mandatory) (+ or -)	(1)	(439)	(1)	(516)
Budget Authority, Net (Discretionary and Mandatory)	**$ 88,138**	**$ 67,664**	**$ 41,764**	**$ 106,357**
Outlays, Gross (Discretionary and Mandatory)	$ 86,205	$ 207,131	$ 43,449	$ 196,596
Actual Offsetting Collections (Discretionary and Mandatory) (-)	(1,219)	(166,641)	(653)	(113,986)
Outlays, Net (Discretionary and Mandatory)	84,986	40,490	42,796	82,610
Distributed Offsetting Receipts (-) (Note 16)	(19,438)	-	(10,684)	-
Agency Outlays, Net (Discretionary and Mandatory) (Note 12)	**$ 65,548**	**$ 40,490**	**$ 32,112**	**$ 82,610**

The accompanying notes are an integral part of these statements.

Notes to the Financial Statements for the Years Ended September 30, 2017 and 2016

Note 1. Summary of Significant Accounting Policies

Reporting Entity and Programs

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

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

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

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

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

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

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

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

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

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

- Financing accounts borrow funds from Treasury, make direct loan disbursements, collect fees from lenders and borrowers, pay claims on guaranteed loans, collect principal and interest from borrowers, earn interest from Treasury on any uninvested funds, and transfer excess subsidy to Treasury General Fund receipt accounts. Financing accounts are presented separately in the combined 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 the subsidy cost of existing loans.

FSA 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. FSA advances funds to schools based on these estimates. Promissory notes are signed when schools reach individual agreements with borrowers and the schools subsequently report each disbursement of advanced funds to the Department. A new promissory note is usually not required for students in the second or later year of study. Half of all loan awards are issued in the fourth quarter of the fiscal year. Loans awarded are typically disbursed in multiple installments over an academic period. As a result, loans may be disbursed over multiple fiscal years. Loan awards may not be fully disbursed due to students leaving or transferring to other schools. FSA's obligation estimate may also not reflect the actual amount of awards made. Based on historical averages, FSA expects approximately 7.5 percent of the amount obligated for new loan awards will not be disbursed.

When a loan is placed in deferment or forbearance, loan repayment is temporarily suspended with the length of postponement different for each lender. Interest accrues while a loan is in deferment or forbearance. Loans are cancelled if a person dies, meets disability requirements, or through the bankruptcy courts. Loans are also cancelled through the Public Service Loan Forgiveness (PSLF) Program, which forgives the remaining balance on a Direct Loan after 120 qualifying monthly payments are made. These payments must be made under a qualifying repayment plan while working full-time for a qualifying employer. In addition, FSA offers the Pay

As You Earn (PAYE) program. This student loan repayment program is designed to help borrowers who struggle to make their normal student loan payments. The plan allows payments to be limited to 10 percent of discretionary income if qualifications are met. Under the PAYE program, if all requirements are met, forgiveness of the remaining balance of a student loan is possible after 20 years of consistent payments.

Budgetary Resources

Budgetary resources are amounts available to enter into new obligations and to liquidate them. FSA's budgetary resources include unobligated balances of resources from prior years; recoveries of prior-year unpaid 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 1st of the current fiscal year, regardless of when FSA borrowed the funds, except for amounts borrowed to make annual interest payments.

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

Unobligated balances represent the cumulative amount of budgetary resources that are not obligated and that remain available for obligation under law, unless otherwise restricted. Resources expiring at the end of the fiscal year remain available for five years, but only for upward adjustments of prior year obligations, after which they are cancelled and may not be used. Resources that have not expired at year-end are available for new obligations, as well as upward adjustments of prior-year obligations. Funds are appropriated on an annual, multi-year, or no-year basis. Appropriated funds 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' estimates are based on management's best knowledge of current events, historical experiences, and other assumptions that are believed to be reasonable under the circumstances. Significant estimates reported on the financial statements include: allocation of administrative overhead costs; allowance for subsidy 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; 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 three types of funds in the FSA 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); and (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. (See Note 3)

Accounts Receivable

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

Guaranty Agencies' Federal Funds

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

The balance in the Federal Fund represents consolidated reserve balances of the 26 guaranty agencies based on the Guaranty Agency financial reports that each agency submits annually to

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

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

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

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

Property and Equipment, Net and Leases

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

Liabilities

Liabilities represent actual and estimated amounts to be paid as a result of transactions or events that have already occurred. However, no liabilities can be paid by FSA 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 on September 30th. (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 Revenue and Expense

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

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

Interest expense equals interest revenue plus administrative fees accrued for all credit programs due to subsidy amortization. Subsidy amortization is required by the FCRA and accounts for the difference between interest expense and revenue cash flows. For direct loans, the allowance for subsidy is adjusted with the offset to interest revenue. For guaranteed loans, the liability for loan guarantees is adjusted with the offset to interest expense. (See Note 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 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. Components of Fund Balance with Treasury were reclassified to identify the amount of borrowing authority not yet converted to Fund Balance with Treasury; the total Fund Balance with Treasury was unaffected. Components of gross costs and earned revenue in Note 10 were reclassified between intragovernmental and with the public to better reflect the underlying activities that resulted in changes in the Guaranty Agencies’ Federal

Funds balance; the total gross cost and the total earned revenue were unaffected. Direct Loan program revenue was reclassified in Note 5 to better reflect administrative fee revenue; total Direct Loan program revenue was unaffected. Components of Distributed Offsetting Receipts in Note 12 were reclassified to identify the amount associated with HEAL program loans; total distributed offsetting receipts was unaffected.

Note 2. Non-Entity Assets

As of September 30, 2017 and 2016, non-entity assets consisted of the following:

Non-Entity Assets (Dollars in Millions)

	2017		2016	
	Intragovernmental	With the Public	Intragovernmental	With the Public
Non-Entity Assets				
Credit Program Receivables, Net	$ -	$ 495	$ -	$ 449
Other Assets				
Guaranty Agencies' Federal Funds	-	2,077	-	1,197
Accounts Receivable, Net	-	33	-	32
Total Non-Entity Assets	**-**	**2,605**	**-**	**1,678**
Entity Assets	74,039	1,145,050	60,366	1,074,875
Total Assets	**$ 74,039**	**$ 1,147,655**	**$ 60,366**	**$ 1,076,553**

FSA’s FY 2017 assets are predominantly entity assets (99.8 percent), leaving the small portion of assets remaining as non-entity assets. Non-entity assets with the public primarily consist of guaranty agency reserves (79.7 percent), reported as Guaranty Agencies’ Federal Funds, and Federal Perkins Loan program loan receivables (19.0 percent), reported as credit program receivables, net. The corresponding liabilities for these non-entity assets are reflected in various accounts, including intragovernmental accounts payable, Guaranty Agencies’ Federal Funds due to Treasury, and other liabilities. (See Note 9)

Note 3. Fund Balance with Treasury

Fund Balance with Treasury by status of funds and fund type, as of September 30, 2017 and 2016, consisted of the following:

Fund Balance with Treasury (Dollars in Millions)

	General Funds	Revolving Funds	Special Funds	Total
2017				
Unobligated Balance				
Available	$ 8,592	$ -	$ 3	$ 8,595
Unavailable	433	22,882	10	23,325
Obligated Balance, not Disbursed	22,395	78,149	-	100,544
Authority Temporarily Precluded from Obligation	-	-	1	1
Borrowing Authority Not Yet Converted to Fund Balance with Treasury	-	(58,433)	-	(58,433)
Total Fund Balance with Treasury	**$ 31,420**	**$ 42,598**	**$ 14**	**$ 74,032**
2016				
Unobligated Balance				
Available	$ 8,782	$ -	$ -	$ 8,782
Unavailable	391	15,304	13	15,708
Obligated Balance, not Disbursed	20,211	76,385	2	96,598
Borrowing Authority Not Yet Converted to Fund Balance with Treasury	-	(60,730)	-	(60,730)
Total Fund Balance with Treasury	**$ 29,384**	**$ 30,959**	**$ 15**	**$ 60,358**

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 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 ($23,325 million) differs from unapportioned and expired amounts on the SBR ($25,402 million) due to the Guaranty Agencies' Federal Funds ($2,077 million).

Note 4. Other Assets

Other assets, as of September 30, 2017 and 2016, consisted of the following:

Other Assets (Dollars in Millions)

	2017		2016	
	Intragovernmental	With the Public	Intragovernmental	With the Public
Guaranty Agencies' Federal Funds	$ -	$ 2,077	$ -	$ 1,197
Accounts Receivable, Net	-	137	-	100
Advances	7	1	8	3
Property and Equipment, Net	-	31	-	24
Other	-	3	-	2
Total Other Assets	**$ 7**	**$ 2,249**	**$ 8**	**$ 1,326**

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

Credit Program Receivables, as of September 30, 2017 and 2016, consisted of the following:

Credit Program Receivables, Net (Dollars in Millions)

	Principal	Accrued Interest	Allowance for Subsidy	Net
2017				
Direct Loan Program	$ 998,825	$ 59,534	$ (16,805)	$ 1,041,554
FFEL Program	101,601	19,338	(18,529)	102,410
Other Credit Programs for Higher Education	1,545	393	(496)	1,442
Total Credit Receivables	**$ 1,101,971**	**$ 79,265**	**$ (35,830)**	**$ 1,145,406**
2016				
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**

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

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.

Direct Loan program loan receivables include defaulted and nondefaulted loans owned and held by the Department. Of the $1,058.4 billion in gross receivables, as of September 30, 2017, $70.7 billion (6.7 percent) in loan principal was in default and had been transferred to the Department's defaulted loan servicer, compared to $57.3 billion (6.0 percent) as of September 30, 2016.

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)

	2017	2016
Beginning Balance, Allowance for Subsidy	**$ (5,292)**	**$ (35,496)**
Activity		
Fee Collections	1,694	1,685
Loan Cancellations	(7,689)	(5,065)
Subsidy Allowance Amortization	23,276	17,815
Other	(513)	(350)
Total Activity	**16,768**	**14,085**
Components of Subsidy Expenses for 2017 and 2016 Cohorts of Loans		
Interest Rate Differential	(13,045)	(15,463)
Defaults, Net of Recoveries	(133)	(127)
Fees	(1,968)	(1,993)
Other	12,541	11,887
Negative Subsidy Expenses for 2017 and 2016 Cohorts of Loans	**(2,605)**	**(5,696)**
Components of Subsidy Re-estimates for All Prior Year Cohorts of Loans		
Interest Rate Re-estimates	(5,765)	(1,536)
Technical and Default Re-estimates	13,699	23,351
Upward Subsidy Re-estimates of Prior Year Cohorts of Loans	**7,934**	**21,815**
Ending Balance, Allowance for Subsidy	**$ 16,805**	**$ (5,292)**

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 that displays the interrelated risks facing the Direct Loan program.

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. Other components of subsidy transfers consist of contract collection costs, program review collections, fees, loan forgiveness under Pay as You Earn (PAYE) and other accruals.

The following schedule summarizes the Direct Loan program interest expense and revenues for the years ended September 30, 2017 and 2016:

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

	2017	2016
Interest Expense on Treasury Borrowing	$ 31,286	$ 30,503
Total Interest Expense	**$ 31,286**	**$ 30,503**
Interest Revenue from the Public	$ 50,142	$ 44,199
Interest Revenue on Uninvested Funds	4,258	3,943
Administrative Fees	162	176
Amortization of Subsidy	(23,276)	(17,815)
Total Revenues	**$ 31,286**	**$ 30,503**

The following schedule summarizes the Direct Loan subsidy expense for the years ended September 30, 2017 and 2016:

Direct Loan Program Subsidy Expense (Dollars in Millions)

	2017	2016
Components of Subsidy Expenses for 2017 and 2016 Cohorts of Loans		
Interest Rate Differential	$ (13,045)	$ (15,463)
Defaults, Net of Recoveries	(133)	(127)
Fees	(1,968)	(1,993)
Other	12,541	11,887
Negative Subsidy Expenses for 2017 and 2016 Cohorts of Loans	**(2,605)**	**(5,696)**
Upward Subsidy Re-estimates for All Prior Year Loan Cohorts	7,934	21,815
Direct Loan Subsidy Expense	**$ 5,329**	**$ 16,119**

Direct Loan program re-estimated subsidy cost was adjusted upward by $7.9 billion in FY 2017. In addition to the major assumption updates described below, the re-estimate reflects several other assumption updates including interest rates provided by OMB, volume, and enter repayment rates. Prepayment rates increased from the FY 2016 estimate, resulting in a $2.4 billion upward re-estimate. Contract collection costs were updated for new data reflecting lower overall average commission rates, resulting in a $5.1 billion downward re-estimate.

IDR Model Changes - The U.S Government Accountability Office (GAO) audit report, *Federal Student Loans: Education Needs to Improve Its Income Driven Repayment Plan Budget Estimates*, identified several areas in which FSA could improve its IDR cost estimates. Largely in response to this audit, as well as concerns raised in FY 2016's Independent Auditor's Report, in FY 2017 FSA incorporated an adjustment for inflation into its IDR sub-model, modified the current IDR sub-model to estimate IDR subsidies by loan type, and implemented methods to address concerns regarding the volatility of the sub-model's income data. In addition, default; collection; death, disability, and bankruptcy; and prepayment rate assumptions used by the sub-model were updated. The combined effect of these changes was a net downward re-estimate of $14.7 billion.

Repayment Plan Selection - The GAO audit report cited above also recommended FSA help ensure that subsidy estimates reasonably reflect trends in IDR plan participation. In response, FSA updated its methodology for repayment plan selection, taking into account the timing of repayment plan selection as well as recent growth trends in the selection of income-driven repayment plans. The combined effect of these changes was a net upward re-estimate of $18.4 billion.

Death, Disability, and Bankruptcy - FSA made major updates to the death, disability, and bankruptcy assumption in FY 2017. These updates included a revised accounting for the effect of a matching agreement with Social Security Administration, updates to closed school regulations, and revised borrower defense. Updates to the data used to calculate discharges was also incorporated. The combined effect of these changes was a net upward re-estimate of $9.2 billion.

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 $5.2 billion. Re-estimated costs only include cohorts that are 90 percent disbursed; cohort years 1994–2016. With the increase in IDR 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 $2.3 billion for cohort 2016. A 10 percent increase in PSLF plan participation would increase costs by $.6 billion for cohort 2016.

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 IDR plan was the primary cost driver for that assumption.

The subsidy rates applicable to the 2017 loan cohort year follow:

Direct Loan Subsidy Rates—Cohort 2017

	Interest Differential	Defaults	Fees	Other	Total
Stafford	4.33%	1.46%	-1.07%	7.21%	11.93%
Unsubsidized Stafford	-8.33%	0.93%	-1.07%	8.99%	0.52%
PLUS	-18.97%	0.56%	-4.30%	7.86%	-14.85%
Consolidation	4.97%	1.25%	0.00%	10.89%	17.11%
Weighted Average Total	**-6.84%**	**1.06%**	**-1.21%**	**9.15%**	**2.16%**

The subsidy rate represents the subsidy expense of the program in relation to the obligations or commitments made during the fiscal year and are weighted on gross volume. The subsidy rates shown above, which reflect aggregate positive subsidy in the FY 2017 cohort, cannot be applied to direct loans disbursed during the current reporting year to yield the subsidy expense, nor are these rates applicable to the portfolio as a whole. The Department does not re-estimate student loan cohorts until they are at least 90 percent disbursed. As a result, the financial statement re-estimate does not include a re-estimate of the current year cohort. The first re-estimate of this cohort will take place upon execution of the FY 2019 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, 2017 and 2016:

Direct Loan Program Loan Disbursements by Loan Type (Dollars in Millions)

	2017	2016
Stafford	$ 23,368	$ 23,752
Unsubsidized Stafford	51,410	52,254
PLUS	18,695	19,001
Consolidation	48,999	45,518
Total Disbursements	**$ 142,472**	**$ 140,525**

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 $49.0 billion during FY 2017 and $45.5 billion during FY 2016. 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 (acquired FFEL loans), consolidated into a direct loan, or otherwise satisfied, discharged, or cancelled. As of September 30, 2017 and 2016, total principal balances outstanding of guaranteed loans held by lenders were approximately $176 billion and $197 billion, respectively. As of September 30, 2017 and 2016, the estimated maximum government exposure on outstanding guaranteed loans held by lenders was approximately $173 billion and $193 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.

The balances of defaulted and acquired FFEL loans as of September 30, 2017 and 2016, are presented below.

FFEL Program Loan Receivables (Dollars in Millions)

	Principal	Accrued Interest	Allowance for Subsidy	Net
2017				
DEFAULTED FFEL GURANTEED LOANS				
FFEL GSL Program (Pre-1992)	$ 3,882	$ 5,659	$ (8,019)	$ 1,522
FFEL GSL Program (Post-1991)	34,395	7,216	(13,838)	27,773
Total Defaulted FFEL Guaranteed Loans	38,277	12,875	(21,857)	29,295
ACQUIRED FFEL LOANS				
Loan Purchase Commitment	21,375	2,224	1,656	25,255
Loan Participation Purchase	40,288	3,947	2,072	46,307
ABCP Conduit	1,661	292	(400)	1,553
Total Acquired FFEL Loans	63,324	6,463	3,328	73,115
FFEL Program Loan Receivables	**$ 101,601**	**$ 19,338**	**$ (18,529)**	**$ 102,410**
2016				
DEFAULTED FFEL GURANTEED LOANS				
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
Total Defaulted FFEL Guaranteed Loans	39,732	12,236	(20,020)	31,948
ACQUIRED FFEL LOANS				
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
Total Acquired FFEL Loans	70,072	5,955	6,895	82,922
FFEL Program Loan Receivables	**$ 109,804**	**$ 18,191**	**$ (13,125)**	**$ 114,870**

The following schedule provides a reconciliation between the beginning and ending balances of the liability for the FFEL program loan guarantees. This liability is included as a component of other liabilities on the balance sheet (see Note 9).

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

	2017	2016
Beginning Balance, FFEL Financing Account Liability for Loan Guarantees	**$ 1,417**	**$ (3,398)**
Activity		
Interest Supplement Payments	(810)	(830)
Claim Payments	(5,819)	(6,678)
Fee Collections	1,633	1,731
Interest on Subsidy Amortization	(1,263)	(1,766)
Other	7,459	5,648
Total Activity	**1,200**	**(1,895)**
Components of Loan Modifications		
Loan Modification Costs	-	151
Modification Adjustment Transfers	-	24
Loan Modifications	**-**	**175**
Upward Subsidy Re-estimates	1,019	6,535
Ending Balance, FFEL Financing Account Liability for Loan Guarantees	**3,636**	**1,417**
FFEL Liquidating Account Liability for Loan Guarantees	23	12
FFEL Liabilities for Loan Guarantees	**$ 3,659**	**$ 1,429**

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 acquired FFEL portfolio.

Loan Purchase Commitment Reconciliation of Allowance for Subsidy (Dollars in Millions)

	2017	2016
Beginning Balance, Allowance for Subsidy	**$ (2,922)**	**$ (4,410)**
Activity		
Subsidy Allowance Amortization	635	644
Loan Cancellations	(203)	(193)
Direct Asset Activities	(45)	(40)
Total Activity	**387**	**411**
Upward Subsidy Re-estimates	879	1,077
Ending Balance, Allowance for Subsidy	**$ (1,656)**	**$ (2,922)**

Loan Participation Purchase Reconciliation Allowance for Subsidy (Dollars in Millions)

	2017	2016
Beginning Balance, Allowance for Subsidy	**$ (4,347)**	**$ (7,573)**
Activity		
Subsidy Allowance Amortization	1,219	1,208
Loan Cancellations	(390)	(355)
Direct Asset Activities	(67)	(74)
Total Activity	**762**	**779**
Upward Subsidy Re-estimates	1,513	2,447
Ending Balance, Allowance for Subsidy	**$ (2,072)**	**$ (4,347)**

The following schedule provides FFEL program subsidy expense for the years ended September 30, 2017 and 2016, respectively:

FFEL Program Subsidy Expense (Dollars in Millions)

	2017	2016
Upward Subsidy Re-estimates		
FFEL Loan Guarantee Program	$ 1,019	$ 6,535
Loan Purchase Commitment	879	1,077
Loan Participation Purchase	1,513	2,447
Total FFEL Program Upward Subsidy Re-estimates	**3,411**	**10,059**
FFEL Guaranteed Loan Program Modification Costs	-	175
FFEL Program Subsidy Expense	**$ 3,411**	**$ 10,234**

FFEL re-estimated subsidy cost was adjusted upward by $3.4 billion in FY 2017. The net upward re-estimates in these programs were due primarily to interest rates provided by OMB and updated prepayment rates. 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 $15.1 billion.

FFEL 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.

Other Credit Programs for Higher Education (Dollars in Millions)

	Principal	Accrued Interest	Allowance for Subsidy	Net
2017				
Federal Perkins Loans	$ 424	$ 268	$ (197)	$ 495
TEACH Program Loans	723	95	(225)	593
HEAL Program Loans	398	30	(74)	354
Total	**$ 1,545**	**$ 393**	**$ (496)**	**$ 1,442**
2016				
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**

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 2017 loan cohort year follow:

TEACH Subsidy Rates—Cohort 2017

	Interest Differential	Defaults	Fees	Other	Total
Subsidy Rates	8.60%	0.20%	0.00%	6.17%	14.97%

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, 2017 and 2016, consisted of the following:

Administrative Expenses (Dollars in Millions)

	2017		2016	
	Direct Loan Program	FFEL Program	Direct Loan Program	FFEL Program
Operating Expense	$ 1,200	$ 144	$ 721	$ 465
Other Expense	19	3	50	33
Total	**$ 1,219**	**$ 147**	**$ 771**	**$ 498**

Administrative expenses are allocated between Direct Loan and FFEL programs based on estimates. FSA revised the estimation process in 2017. The revised process estimates (by program) the number of applications processed, number of loans serviced, dollar amount of loan originations, cost of school compliance actions, and the cost to collect defaulted loans. The revised process is more robust than the process used in previous years and results in a higher percentage of costs being allocated to the Direct Loan program.

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)

	2017		2016	
	Intragovernmental	With the Public	Intragovernmental	With the Public
Liabilities Not Covered By Budgetary Resources				
Subsidy Due to Treasury General Fund	$ 1,784	$ -	$ 2,429	$ -
Other Liabilities				
Federal Perkins Loan Program	482	-	437	-
Accrued Unfunded Annual Leave	-	14	-	12
FECA Liabilities	-	1	2	-
Total Liabilities Not Covered By Budgetary Resources	**$ 2,266**	**$ 15**	**$ 2,868**	**$ 12**
Total Liabilities Covered By Budgetary Resources	1,185,828	10,377	1,127,840	7,881
Total Liabilities	**$ 1,188,094**	**$ 10,392**	**$ 1,130,708**	**$ 7,893**

Note 7. Debt

Debt, as of September 30, 2017 and 2016, consisted of the following:

Debt **(Dollars in Millions)**

	Beginning Balance	Borrowing	Repayments	Ending Balance
2017				
Direct Loan Program	$ 994,285	$ 160,508	$ (93,234)	$ 1,061,559
FFEL Program	131,347	-	(15,057)	116,290
Other Credit Programs for Higher Education	713	87	(176)	624
Total	**$ 1,126,345**	**$ 160,595**	**$ (108,467)**	**$ 1,178,473**
2016				
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**

FSA borrows from Treasury to fund the disbursement of new loans and the payment of credit program outlays and related costs. During FY 2017, debt increased 4.6 percent from $1,126.3 billion in the prior year to $1,178.5 billion. FSA makes periodic principal payments, after evaluating the cash position and liability for future outflows in each program and pays interest, as mandated by the FCRA.

Approximately 90.1 percent of FSA's debt, as of September 30, 2017, 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 2017, TEACH net borrowing of $(88.9) 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)**

	2017	2016
Credit Program Downward Subsidy Re-estimates		
Direct Loan Program	$ 5,010	$ -
FFEL Program	219	213
Total Credit Program Downward Subsidy Re-estimates	**5,229**	**213**
Future Liquidating Account Collections		
FFEL Program	1,614	2,253
Other Credit Programs for Higher Education	170	176
Total Future Liquidating Account Collections	**1,784**	**2,429**
Total Subsidy Due to Treasury General Fund	**$ 7,013**	**$ 2,642**

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

Note 9. Other Liabilities

Other liabilities, as of September 30, 2017 and 2016, consisted of the following:

Other Liabilities (Dollars in Millions)

	2017		2016	
	Intragovernmental	With the Public	Intragovernmental	With the Public
Accounts Payable	$ 1	$ 4,039	$ 1	$ 3,827
Accrued Grant Liability	-	2,452	-	2,403
Guaranty Agencies' Funds Due to Treasury	2,077	-	1,197	-
Loan Guarantee Liability	-	3,870	-	1,633
Federal Perkins Loan Program	482	-	437	-
Miscellaneous Receipt, Deposit Funds and Clearing Accounts	46	-	44	-
Advances from Others and Deferred Credits	-	10	-	12
Accrued Unfunded Annual Leave	-	14	-	12
FECA Liabilities	-	1	2	-
Accrued Payroll and Benefits	-	6	-	6
Employer Contributions and Payroll Taxes	2	-	40	-
Total Other Liabilities	**$ 2,608**	**$ 10,392**	**$ 1,721**	**$ 7,893**

Note 10. Gross Cost and Exchange Revenue by Program

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 2017 and FY 2016.

Gross Cost and Exchange Revenue by Program (Dollars in Millions)

	2017	2016
Increase College Access, Quality, and Completion		
Gross Cost		
Intragovernmental	$ 36,054	$ 35,692
With the Public	37,717	57,340
Total Gross Program Costs	**73,771**	**93,032**
Earned Revenue		
Intragovernmental	(5,335)	(4,464)
With the Public	(30,490)	(29,796)
Total Program Earned Revenue	**(35,825)**	**(34,260)**
Net Cost of Operations	**$ 37,946**	**$ 58,772**

Note 11. Credit Program Interest Expense and Revenues

For the years ended September 30, 2017 and 2016, interest expense and interest revenue for credit programs consisted of the following:

Credit Program Interest Expense and Revenues (Dollars in Millions)

	Gross Interest Expense	Subsidy Amortization	Net Interest Expense	Gross Interest and Administrative Fee Revenue		Subsidy Amortization	Net Revenue
	Intragovern-mental	With the Public		Intragovern-mental	With the Public	With the Public	
2017							
Direct Loan Program	$ 31,286	$ -	$ 31,286	$ 4,258	$ 50,304	$ (23,276)	$ 31,286
FFEL Program	4,661	(1,263)	3,398	1,071	4,234	(1,907)	3,398
Other Credit Programs for Higher Education	23	-	23	6	43	(26)	23
Total	**$ 35,970**	**$ (1,263)**	**$ 34,707**	**$ 5,335**	**$ 54,581**	**$ (25,209)**	**$ 34,707**
2016							
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**

Note 12. Statement of Budgetary Resources

The Statement of Budgetary Resources compares budgetary resources with the status of those resources. As of September 30, 2017, budgetary resources were $349.1 billion and net agency outlays were $106.0 billion. As of September 30, 2016, budgetary resources were $286.4 billion and net agency outlays were $114.7 billion.

New Obligations Incurred and Upward Adjustments by Apportionment Type and Category

New obligations incurred and upward adjustments by apportionment type and category, as of September 30, 2017 and 2016, consisted of the following:

New Obligations Incurred and Upward Adjustments by Apportionment Type and Category (Dollars in Millions)

	2017	2016
Direct:		
Category A	$ 1,585	$ 1,573
Category B	313,549	258,509
Exempt from Apportionment	12	637
New Obligations Incurred and Upward Adjustments	**$ 315,146**	**$ 260,719**

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, 2017 and 2016, consisted of the following:

Unused Borrowing Authority (Dollars in Millions)

	2017	2016
Beginning Balance, Unused Borrowing Authority	**$ 60,730**	**$ 54,567**
Current Year Borrowing Authority	166,426	167,272
Funds Drawn from Treasury	(160,595)	(147,247)
Borrowing Authority Withdrawn	(8,128)	(13,862)
Ending Balance, Unused Borrowing Authority	**$ 58,433**	**$ 60,730**

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, 2017 and 2016, consisted of the following:

Undelivered Orders (Dollars in Millions)

	2017	2016
Budgetary	$ 19,630	$ 17,499
Non-Budgetary	75,424	73,131
Undelivered Orders (Unpaid)	**$ 95,054**	**$ 90,630**

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, 2017 and 2016, consisted of the following:

Distributed Offsetting Receipts (Dollars in Millions)

	2017	2016
Negative Subsidies and Downward Re-estimates of Subsidies:		
Direct Loan Program	$ 18,849	$ 7,881
FFEL Program	370	2,529
TEACH Program	-	5
HEAL Program	18	21
Total Negative Subsidies and Downward Re-estimates	19,237	10,436
Other	201	248
Distributed Offsetting Receipts	**$ 19,438**	**$ 10,684**

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 2017 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, 2017 and 2016, is presented below:

Reconciliation of Net Cost Operations to Budget (Dollars in Millions)

	2017	2016
RESOURCES USED TO FINANCE ACTIVITIES:		
New Obligations Incurred and Upward Adjustments	$ 315,146	$ 260,719
Spending Authority from Offsetting Collections & Recoveries	(185,284)	(135,356)
Offsetting Receipts	(19,438)	(10,684)
Net Budgetary Resources Obligated	**110,424**	**114,679**
Imputed Financing From Costs Absorbed by Others	10	26
Other Financing Sources	(25,360)	(5,058)
Net Other Resources	**(25,350)**	**(5,032)**
Net Resources Used to Finance Activities	**85,074**	**109,647**
RESOURCES USED OR GENERATED FOR ITEMS NOT PART OF THE NET COST OF OPERATIONS:		
(Increase)/Decrease in Budgetary Resources Obligated but Not Yet Provided	(3,566)	1,936
Resources that Fund Subsidy Re-estimates Accrued in Prior Period	(28,006)	(2,598)
Credit Program Collections	141,750	91,974
Acquisition of Fixed Assets	(8)	(11)
Acquisition of Net Credit Program Assets or Liquidation of Liabilities for Loan Guarantees	(171,543)	(161,676)
Resources from Non-Entity Activity	25,352	5,087
Net Resources That Do Not Finance the Net Cost of Operations	**(36,021)**	**(65,288)**
Net Resources Used to Finance the Net Cost of Operations	**49,053**	**44,359**
COMPONENTS OF THE NET COST OF OPERATIONS THAT WILL NOT REQUIRE OR GENERATE RESOURCES IN THE CURENT PERIOD:		
Change in Depreciation	1	-
Subsidy Amortization and Interest on the Liability for Loan Guarantees	23,947	17,972
Other	2	21
Total Components Not Requiring or Generating Resources	**23,950**	**17,993**
Increase/(Decrease) in Annual Leave Liability	2	-
Accrued Re-estimates of Credit Subsidy Expense	134	28,006
Increase in Exchange Revenue Receivable from the Public	(35,154)	(31,613)
Other	(39)	27
Total Components Requiring or Generating Resources in Future Periods	**(35,057)**	**(3,580)**
Total Components That Will Not Require or Generate Resources in the Current Period	**(11,107)**	**14,413**
Net Cost of Operations	**$ 37,946**	**$ 58,772**

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 2017 or 2016 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 2017, the Department provided funding of 83.1 percent of the capital used to make loans to eligible students through participating schools at 5 percent interest. The schools provided the remaining 16.9 percent of program funding. For the latest academic year that ended June 30, 2017, approximately 356 thousand loans were made totaling $885.4 million at 1,266 institutions, making an average of $2,488 per loan. The Department's equity interest was approximately $6.3 billion as of June 30, 2017.

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. As of September 30, 2017, FSA is no longer authorized to make new Perkins Loans.

Litigation and Other Claims

The Department is involved in various lawsuits incidental to its operations. In the opinion of management, the ultimate resolution of pending litigation will not have a material impact on FSA's financial position. The cost of loan forgiveness related to borrower defense claims resulting from proprietary school closures reflected in the accompanying financial statements is limited to claims received through September 30, 2017. The final disposition of claims filed and those yet to be filed from schools closed before September 30, 2017, is not expected to have a material impact on these financial statements.

Other Matters

Some portion of the current-year financial assistance expenses (grants) may include funded recipient expenditures that are subsequently disallowed through program review or audit processes. In the opinion of management, the ultimate disposition of these matters will not have a material effect on the FSA's financial position.

Required Supplementary Stewardship Information

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, 2017 and the preceding four fiscal year ends:

Summary of Human Capital Expenses
(Dollars in Millions)

	2017	2016	2015	2014	2013
Federal Student Aid Expense					
Direct Loan Subsidy	$ 5,329	$ 16,119	$ (892)	$ 8,126	$ (39,557)
FFEL Program Subsidy	3,411	10,235	(3,856)	(6,585)	(8,753)
Perkins Loans, Pell and Other Grant	28,770	30,671	31,400	33,098	33,542
Salaries and Administrative	224	308	242	206	222
Total	**$ 37,734**	**$ 57,333**	**$ 26,894**	**$ 34,845**	**$ (14,546)**

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.

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
Federal Student Aid
Combining Statement of Budgetary Resources
For the Year Ended September 30, 2017

(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	$ 10,384	$ 15,303	$ 6	$ 38
Recoveries of Prior Year Unpaid Obligations	3,919	13,356	-	-
Other Changes in Unobligated Balance (+ or -)	(239)	(18,270)	(5)	-
Unobligated Balance from Prior Year Budget Authority, Net	$ 14,064	$ 10,389	$ 1	$ 38
Appropriations (Discretionary and Mandatory)	88,321	-	-	-
Borrowing Authority (Discretionary and Mandatory) (Note 12)	-	166,426	-	-
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	1,037	68,906	7	8
Total Budgetary Resources	**$ 103,422**	**$ 245,721**	**$ 8**	**$ 46**
Status of Budgetary Resources:				
New Obligations Incurred and Upward Adjustments (Total) (Note 12)	$ 92,308	$ 222,838	$ 2	$ 22
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	8,595	-	-	-
Unapportioned, Unexpired Accounts	2,093	22,883	6	24
Unexpired Unobligated Balance, End of year	**$ 10,688**	**$ 22,883**	**$ 6**	**24**
Expired Unobligated Balance, End of Year	426	-	-	-
Unobligated Balance, End of Year (Total)	**$ 11,114**	**$ 22,883**	**$ 6**	**$ 24**
Total Status of Budgetary Resources	**$ 103,422**	**$ 245,721**	**$ 8**	**$ 46**
Change in Obligated Balance:				
Unpaid Obligations:				
Unpaid Obligations, Brought Forward, October 1	$ 20,216	$ 76,389	$ -	$ -
Obligations Incurred	92,308	222,838	2	22
Outlays (Gross) (-)	(86,205)	(207,131)	(2)	(22)
Recoveries of Prior Year Unpaid Obligations (-)	(3,919)	(13,356)	-	-
Unpaid Obligations, End of Year	**$ 22,400**	**$ 78,740**	**$ -**	**$ -**
Uncollected Payments:				
Uncollected Payments, Federal Sources, Brought Forward, October 1 (-)	$ -	$ (4)	$ -	$ -
Change in Uncollected Payments, Federal Sources (+ or -)	-	(588)	-	-
Uncollected Payments, Federal Sources, End of Year (-)	$ -	$ (592)	$ -	$ -
Memorandum (Non-add) Entries:				
Obligated Balance, Start of Year (+ or -)	**$ 20,216**	**$ 76,385**	**$ -**	**$ -**
Obligated Balance, End of Year (+ or -)	**$ 22,400**	**$ 78,148**	**$ -**	**$ -**
Budget Authority and Outlays, Net:				
Budget Authority, Gross (Discretionary and Mandatory)	$ 89,358	$ 235,332	$ 7	$ 8
Actual Offsetting Collections (Discretionary and Mandatory) (-)	(1,219)	(166,641)	(7)	(8)
Change in Uncollected Payments from Federal Sources (Discretionary and Mandatory) (+ or -)	-	(588)	-	-
Recoveries of Prior Year Paid Obligations (Discretionary and Mandatory) (+ or -)	(1)	(439)	-	-
Budget Authority, Net (Discretionary and Mandatory)	**$ 88,138**	**$ 67,664**	**$ -**	**$ -**
Outlays, Gross (Discretionary and Mandatory)	$ 86,205	$ 207,131	$ 2	$ 22
Actual Offsetting Collections (Discretionary and Mandatory) (-)	(1,219)	(166,641)	(7)	(8)
Outlays, Net (Discretionary and Mandatory)	84,986	40,490	(5)	14
Distributed Offsetting Receipts (-) (Note 12)	(19,438)	-	**(18)**	-
Agency Outlays, Net (Discretionary and Mandatory) (Note 12)	**$ 65,548**	**$ 40,490**	**$ (23)**	**$ 14**

United States Department of Education
Federal Student Aid
Combining Statement of Budgetary Resources
For the Year Ended September 30, 2017

(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	$ -	$ 4,999	$ 4	$ 2
Recoveries of Prior Year Unpaid Obligations	-	12,834	1	7
Other Changes in Unobligated Balance (+ or -)	-	(17,412)	(1)	(10)
Unobligated Balance from Prior Year Budget Authority, Net	$ -	$ 421	$ 4	$ (1)
Appropriations (Discretionary and Mandatory)	45,538	-	153	-
Borrowing Authority (Discretionary and Mandatory) (Note 12)	-	166,338	-	88
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	-	47,593	-	37
Total Budgetary Resources	**$ 45,538**	**$ 214,352**	**$ 157**	**$ 124**
Status of Budgetary Resources:				
New Obligations Incurred and Upward Adjustments (Total) (Note 12)	$ 45,538	$ 208,093	$ 153	$ 122
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	-	-	-	-
Unapportioned, Unexpired Accounts	-	6,259	-	2
Unexpired Unobligated Balance, End of year	**$ -**	**$ 6,259**	**$ -**	**$ 2**
Expired Unobligated Balance, End of Year	-	-	4	-
Unobligated Balance, End of Year (Total)	**$ -**	**$ 6,259**	**$ 4**	**$ 2**
Total Status of Budgetary Resources	**$ 45,538**	**$ 214,352**	**$ 157**	**$ 124**
Change in Obligated Balance:				
Unpaid Obligations:				
Unpaid Obligations, Brought Forward, October 1	$ -	$ 74,417	$ 6	$ 68
Obligations Incurred	45,538	208,093	153	122
Outlays (Gross) (-)	(44,675)	(192,955)	(152)	(108)
Recoveries of Prior Year Unpaid Obligations (-)	-	(12,834)	(1)	(7)
Unpaid Obligations, End of Year	**$ 863**	**$ 76,721**	**$ 6**	**$ 75**
Uncollected Payments:				
Uncollected Payments, Federal Sources, Brought Forward, October 1 (-)	$ -	$ -	$ -	$ (4)
Change in Uncollected Payments, Federal Sources (+ or -)	-	(588)	-	-
Uncollected Payments, Federal Sources, End of Year (-)	$ -	$ **(588)**	$ -	$ **(4)**
Memorandum (Non-add) Entries:				
Obligated Balance, Start of Year (+ or -)	**$ -**	**$ 74,417**	**$ 6**	**$ 64**
Obligated Balance, End of Year (+ or -)	**$ 863**	**$ 76,133**	**$ 6**	**$ 71**
Budget Authority and Outlays, Net:				
Budget Authority, Gross (Discretionary and Mandatory)	$ 45,538	$ 213,931	$ 153	$ 125
Actual Offsetting Collections (Discretionary and Mandatory) (-)	-	(130,953)	-	(204)
Change in Uncollected Payments from Federal Sources (Discretionary and Mandatory) (+ or -)	-	(588)	-	-
Recoveries of Prior Year Paid Obligations (Discretionary and Mandatory) (+ or -)	-	(2)	-	-
Budget Authority, Net (Discretionary and Mandatory)	**$ 45,538**	**$ 82,388**	**$ 153**	**$ (79)**
Outlays, Gross (Discretionary and Mandatory)	$ 44,675	$ 192,955	$ 152	$ 108
Actual Offsetting Collections (Discretionary and Mandatory) (-)	-	(130,953)	-	(204)
Outlays, Net (Discretionary and Mandatory)	44,675	62,002	152	(96)
Distributed Offsetting Receipts (-) (Note 12)	(18,849)	-	-	-
Agency Outlays, Net (Discretionary and Mandatory) (Note 12)	**$ 25,826**	**$ 62,002**	**$ 152**	**$ (96)**

United States Department of Education
Federal Student Aid
Combining Statement of Budgetary Resources
For the Year Ended September 30, 2017
(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	$ 1,299	$ 10,264	$ 9,001	$ 74
Recoveries of Prior Year Unpaid Obligations	20	515	3,881	17
Other Changes in Unobligated Balance (+ or -)	(101)	(848)	(95)	(37)
Unobligated Balance from Prior Year Budget Authority, Net	$ 1,218	$ 9,931	$ 12,787	$ 54
Appropriations (Discretionary and Mandatory)	11,156	-	29,897	1,577
Borrowing Authority (Discretionary and Mandatory) (Note 12)	-	-	-	-
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	1,033	21,268	(1)	(2)
Total Budgetary Resources	**$ 13,407**	**$ 31,199**	**$ 42,683**	**$ 1,629**
Status of Budgetary Resources:				
New Obligations Incurred and Upward Adjustments (Total) (Note 12)	$ 11,231	$ 14,601	$ 33,798	$ 1,586
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	99	-	8,493	3
Unapportioned, Unexpired Accounts	2,077	16,598	10	-
Unexpired Unobligated Balance, End of year	**$ 2,176**	**$ 16,598**	**$ 8,503**	**$ 3**
Expired Unobligated Balance, End of Year	-	-	382	40
Unobligated Balance, End of Year (Total)	**$ 2,176**	**$ 16,598**	**$ 8,885**	**$ 43**
Total Status of Budgetary Resources	**$ 13,407**	**$ 31,199**	**$ 42,683**	**$ 1,629**
Change in Obligated Balance:				
Unpaid Obligations:				
Unpaid Obligations, Brought Forward, October 1	$ 27	$ 1,904	$ 19,451	$ 732
Obligations Incurred	11,231	14,601	33,798	1,586
Outlays (Gross) (-)	(11,220)	(14,046)	(28,576)	(1,580)
Recoveries of Prior Year Unpaid Obligations (-)	(20)	(515)	(3,881)	(17)
Unpaid Obligations, End of Year	**$ 18**	**$ 1,944**	**$ 20,792**	**$ 721**
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 -)	**$ 27**	**$ 1,904**	**$ 19,451**	**$ 732**
Obligated Balance, End of Year (+ or -)	**$ 18**	**$ 1,944**	**$ 20,792**	**$ 721**
Budget Authority and Outlays, Net:				
Budget Authority, Gross (Discretionary and Mandatory)	$ 12,189	$ 21,268	$ 29,896	$ 1,575
Actual Offsetting Collections (Discretionary and Mandatory) (-)	(1,212)	(35,476)	-	-
Change in Uncollected Payments from Federal Sources (Discretionary and Mandatory) (+ or -)	-	-	-	-
Recoveries of Prior Year Paid Obligations (Discretionary and Mandatory) (+ or -)	(1)	(437)	-	-
Budget Authority, Net (Discretionary and Mandatory)	**$ 10,976**	**$ (14,645)**	**$ 29,896**	**$ 1,575**
Outlays, Gross (Discretionary and Mandatory)	$ 11,220	$ 14,046	$ 28,576	$ 1,580
Actual Offsetting Collections (Discretionary and Mandatory) (-)	(1,212)	(35,476)	-	-
Outlays, Net (Discretionary and Mandatory)	10,008	(21,430)	28,576	1,580
Distributed Offsetting Receipts (-) (Note 12)	(370)	-	(201)	-
Agency Outlays, Net (Discretionary and Mandatory) (Note 12)	**$ 9,638**	**$ (21,430)**	**$ 28,375**	**$ 1,580**

United States Department of Education
Federal Student Aid
Combining Statement of Budgetary Resources
For the Year 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	$ -	$ -
Obligations Incurred	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 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 12)	(10,684)	-	-	-
Agency Outlays, Net (Discretionary and Mandatory) (Note 12)	**$ 32,112**	**$ 82,610**	**$ (6)**	**$ 15**

United States Department of Education
Federal Student Aid
Combining Statement of Budgetary Resources
For the Year Ended September 30, 2016

(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	$ -
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
Obligations Incurred	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 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**

United States Department of Education
Federal Student Aid
Combining Statement of Budgetary Resources
For the Year Ended September 30, 2016
(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
Obligations Incurred	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 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**

This page intentionally left blank.

Independent Auditors’ Report

This page intentionally left blank.

UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

THE INSPECTOR GENERAL

November 13, 2017

A. Wayne Johnson, PhD
Chief Operating Officer
Federal Student Aid
Washington, D.C. 20202

Dear Dr. Johnson:

The enclosed report presents the results of the audit of Federal Student Aid's (FSA) financial statements for fiscal years 2017 and 2016 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, 2017 and 2016, 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 2017 and 2016 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,

400 MARYLAND AVENUE, S.W., WASHINGTON, DC 20202-1510

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

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 balance sheets as of September 30, 2017 and 2016, and the related 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. 17-03, *Audit Requirements for Federal Financial Statements* (OMB Bulletin 17-03). Those standards and OMB Bulletin 17-03 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

INDEPENDENT AUDITORS' REPORT (Continued)

of accounting policies used and the reasonableness of 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, 2017 and 2016, 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 information in the Management's Discussion and Analysis (MD&A), Required Supplementary Information (RSI), and Required Supplementary Stewardship Information (RSSI), included in Federal Student Aid's FY 2017 Annual Report, 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, 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 Letter from the Chief Operating Officer of Federal Student Aid and Introduction, the Annual Performance Report section, the Overview of the Financial Section, the Message from the Chief Financial Officer, the Other Information and Appendices in Federal Student Aid's FY2017 Annual Report, 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 on Compliance Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

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. However, we identified certain deficiencies in internal control, described below and in more detail in Exhibit A, which we consider to be significant deficiencies.

<u>Controls over Modeling Activities Need Improvement</u>

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 cost or value of the various student loan programs on a present value basis. In FY2016, we identified deficiencies in the controls over, and documentation of, the Department's processes for model design and development, risk assessment, model operation and validation, and Department and FSA oversight. We also identified certain deficiencies in the Department's modeling for income-driven repayment (IDR) loans.

In FY2017, the Department implemented corrective actions to improve its controls over modeling activities, including the enhancement of the scope and responsibilities of the Credit Reform Working Group, the development of a model inventory, and preliminary risk assessment. However, the Department's FY2017 model validation procedures identified potential areas for model enhancements that require additional analysis. The Department does not have a formal structure to capture these issues identified in their model risk assessment document.

INDEPENDENT AUDITORS' REPORT (Continued)

The Department also made a number of technical model revisions to address findings identified by the Government Accountability Office in FY2016, but corrective actions for certain other issues, including income imputation for IDR loans, are still in process.

They also initiated other corrective actions that have not yet been completed, including the development of policies and procedures for model development, operation and validation, and performance of an independent validation of the Student Loan Model. These remaining issues could impact the reliability of the subsidy 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-owned and contractor-owned business systems and applications that require an effective and comprehensive information system security program. Prior audits have identified numerous control deficiencies at the Department, FSA, and application level. This year, the Department made substantial progress in completing entity-wide information security policies and procedures and addressing general application control deficiencies for the Department's core financial management system. However, we continued to identify control deficiencies in the Department's information security program relating to personnel management and compliance monitoring. We also found configuration management weaknesses in the Department's general network and core financial management system. Furthermore, we continued to identify general control deficiencies in FSA's financial applications. 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.

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, which is required to be reported in accordance with *Government Auditing Standards* and OMB Bulletin 17-03.

As of September 30, 2017, 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.

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

INDEPENDENT AUDITORS’ REPORT (Continued)

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, 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 to certain provisions of laws, regulations, contracts and grant agreements noncompliance with which could 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 14, 2016. The status of prior year findings is presented in Exhibit D.

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

The purpose of the Report on Internal Control over Financial Reporting and Compliance 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.

INDEPENDENT AUDITORS' REPORT (Continued)

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 13, 2017

INDEPENDENT AUDITORS' REPORT (Continued)
EXHIBIT A
Significant Deficiencies

Controls over Modeling Activities Need Improvement

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

The Cost Estimation and Analysis Division (CEAD), a component of the Department's Office of Planning, Evaluation and Policy Development, 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 FSA's various loan programs. These models also support management's estimate of the net present value of cash flows related to nearly $1.4 trillion in direct, defaulted, and guaranteed student loans as of September 30, 2017.

An effective control 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 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 and configuration management activities, which should include authorization, defining the objectives, applicable program attributes, and requirements affecting the planned model; evaluation of available data; proposed design and potential design alternatives; and model testing, approval, and implementation.

Our FY2016 audit found the Department maintained limited documentation supporting the initial design, evaluation, justification and testing of the models 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, CEAD updated its model for recoveries on defaulted loans and enhanced documentation related to the NSLDS sampling process. In FY2017, CEAD updated their model for prepayments and loan forgiveness due to death, disability, and bankruptcy, and have begun efforts to update their model for defaults. CEAD also implemented a number of enhancements to their income-driven repayment (IDR) model in response to deficiencies identified in a FY 2016 GAO report. These included incorporating inflation factors to income forecasts, adjusting grouping factors for imputed borrower incomes to reduce income volatility, and modifying the IDR participation allocation rates related to parent PLUS loans, which are not eligible for IDR. Their

INDEPENDENT AUDITORS' REPORT (Continued)
EXHIBIT A
Significant Deficiencies

documentation for these modifications represented a significant improvement in discussing the methodology and their basis. However, the documentation was not sufficiently detailed to serve as a fully effective guide for an independent reviewer to follow the procedures performed.

The Department performs data quality reviews of its primary data source used in its modeling activities (the National Student Loan Data System or NSLDS). However, the Department does not have a structured process to document its evaluation of whether the reviews sufficiently address the specific data used within its models, or independently determine the appropriateness or reliability of the data used by their models. The Department also does not have a structured process for implementing, controlling and securing the various versions of the models maintained.

CEAD has begun discussing these actions with the Department's reconstituted modeling oversight group, the Credit Reform Working Group (CRWG), in its monthly meetings, but does not document their model development plan, testing plans and approval of testing results before changes are implemented.

CEAD is comprised of a small team of experienced economists and analysts responsible for performing its modeling activities, and thoroughly documenting such design requirements, development processes, and testing evaluation is onerous for the current team. The Department has obtained additional contract support to assist with these efforts, but did not approve an additional specialist position for CEAD. Given the size, growth and changes of the Direct Loan Program in recent years, ineffective controls over the design of new models can significantly impact the reliability of their estimates.

Model risk assessment
CEAD maintains over 18 different economic and financial modeled assumptions used within the calculation of the Allowance for Subsidy for the Direct Loan Program and various other model assumptions for the FFEL and other Department programs. Some of the assumptions are updated annually, while others are updated biannually. The Department does not have a formalized process for maintaining the Department's model inventory, accumulating, assessing and documenting modeling risks, and monitoring the modification or development of its models. 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, and should assist the CRWG in supporting the prioritization of model development activities within the normal CEAD workload. In FY2017, the Department has initiated 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 could not verify the operating effectiveness of certain control activities, including various reviews and approvals. Although the Department completed technical documentation of the Student Loan Model (SLM) in FY2017, their documentation of policies and procedures remains incomplete.

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

INDEPENDENT AUDITORS' REPORT (Continued)
EXHIBIT A
Significant Deficiencies

Department performs a number of critical procedures to monitor the performance of its models and validate the overall reasonableness of its outputs, including backcasts, cash flow analyses, and sensitivity analyses. However, these procedures are performed at the aggregate level and the Department does not evaluate the performance of specific cash flows, assumptions or individual models against established benchmarks using sound approaches and statistical measures of performance. We identified opportunities to enhance the usefulness of various monthly accounting reports that are reviewed by the CRWG and could serve to identify unusual program activity or other potential modeling issues.

The Department also does not have a process to comprehensively 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.

Governance
In FY2017, the Department formalized the roles and responsibilities of the CRWG, which includes various members of Department and FSA management, and serves as the first level monitoring structure over the Department's modeling activities. Due to the current status of the Department's enterprise risk management program, the CRWG has been unable to initiate efforts to integrate model risk issues with Department's risk management program.

Summary
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 Supervision and Regulation (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.*

INDEPENDENT AUDITORS' REPORT (Continued)
EXHIBIT A
Significant Deficiencies

Recommendations:

We recommend the FSA Chief Financial Officer support the efforts of the Director, Budget Service to:

1a. Develop and document the Department's process, policies and procedures for the authorization, design, development, testing, approval and implementation of new models and model enhancements.
1b. Document the Department's process, policies, procedures and related controls for managing the operation and use of approved models.
1c. Enhance the process to capture model risks, update the assessment of risks related to each model, and document how that assessment impacts the Department's prioritization of corrective actions, and requisite level of controls, validation and monitoring over each model.
1d. Document and enhance the Department's processes, policies, procedures and related controls for the periodic review, validation and approval of the Department's models at the assumption, 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.
1f. Ensure modeling risks are considered in connection with the Department's enterprise risk management program.

We recommend the FSA Chief Financial Officer:

1g. Ensure modeling risks are considered in connection with FSA's enterprise risk management program.

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

FSA and the Department oversee a large portfolio of government-owned 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 FSA 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 gradual progress to address these issues in recent years, we continued to identify certain control deficiencies in the Department's information security program relating to compliance monitoring, personnel management, and management of various application level security, configuration management, and access controls. In addition, we continued to identify general application control deficiencies in FSA's financially relevant applications.

INDEPENDENT AUDITORS' REPORT (Continued)
EXHIBIT A
Significant Deficiencies

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 were outdated or did not fully address specific controls required by National Institute of Standards and Technology (NIST) guidance. Designing and implementing effective agency level policies is the responsibility of the Department's Chief Information Officer (CIO). This year the CIO substantially completed the guidance associated with the Department's Information Assurance/Cybersecurity Policy.

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 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, although the Department provided training for completing position designations using the Office of Personnel Management's Position Designation Tool, the Department's Office of Management has not ensured Department system owners completed position designations in order to determine and document suitability and investigation requirements for each system's roles/responsibilities. Furthermore, the Department CISO has been working with Contracting on language for service level agreements (SLAs) for contractor employee clearance monitoring as recommended in FY2015, however the SLAs have not yet been implemented.

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 FY2016 OIG review involved testing Department and FSA financial and non-financial systems' controls and identified control deficiencies in five of eight reporting areas related to configuration management, information security continuous monitoring, incident response, identity and access management, and security and privacy training.

Although FSA 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 system security officers (ISSOs). Since last year, FSA added additional ISSOs and an ISSO supervisor; however, our audit

INDEPENDENT AUDITORS' REPORT (Continued)
EXHIBIT A
Significant Deficiencies

continued to identify application, or system, specific control deficiencies in the areas of security management, access controls, configuration management, and contingency planning in one or more of the five financial systems we tested this year. We 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.

At FSA, we tested four systems and our audit continued to identify control deficiencies in security management, access controls, configuration management, and contingency planning across these systems. The agency expected to implement a new system for user access management to address various access control deficiencies this year, but this system was not completed.

Specifically, we identified system specific issues in the following areas:

Security management

- Plans of Action and Milestones (POA&Ms) were not updated with the results from security control assessments or vulnerability assessments for two FSA systems, and POA&Ms were not updated on a quarterly basis for four FSA systems
- Role based security training for users with significant system security responsibilities was not always completed for one FSA system tested
- Interconnection agreements were not detailed in System Security Plans and/or were not current for one FSA system
- Background reinvestigations were not tracked adequately or completed timely; and inappropriate levels of investigations were completed for numerous Department and FSA employees and contractor users

Access controls

- User access for one FSA system was not always approved for all roles granted
- Termination of system access for separated employees and contractors was not always completed timely for three FSA systems
- Inactive accounts were not always disabled for one FSA system
- User access for three FSA systems 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

Configuration management

- System configuration settings were not always compliant with Department policy for one FSA system
- Computer security configurations were inadequate and software was not patched or was unsupported for two Department systems that support FSA's financial reporting

Contingency Planning

- Contingency plan tests were not conducted annually for one FSA system

INDEPENDENT AUDITORS' REPORT (Continued)
EXHIBIT A
Significant Deficiencies

The combination of agency-level and system specific deficiencies can 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 the data and information. These findings are discussed in further detail below, and in a Limited Distribution Report to be provided to the Department and FSA management.

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 POA&M process. Security policies and procedures also include employee hiring, transfer and termination practices.

Overall, we found improvement in the level of compliance with security awareness training requirements this year. For one FSA system, we found system users with significant system security responsibilities had not always completed role based training.

In addition, documentation was not provided to validate that Department assets were returned and access was disabled timely for one of 25 separated employees tested. In addition, evidence was not provided to validate that Personal Identity Verification cards were returned for the entire population of 25 separated employees tested. Furthermore, we noted issues with regard to background investigations, including numerous individuals with overdue investigations, privileged users with an incorrect level of investigation based on their system access and job function, and privileged users without documented background investigation status. These processes cover both Department and FSA personnel.

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, for one system, we identified expired MOUs, 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 FSA, and loan servicer employees were not disabled for three of the four FSA systems tested
- Inactive accounts were not disabled for one FSA system
- For one FSA system, one from a sample of 25 new users did not have evidence that all user roles were approved
- User access for three systems was not always recertified, and some user accounts that were recertified for one system had either never used the system, or had not logged in for an extended period of time

INDEPENDENT AUDITORS' REPORT (Continued)
EXHIBIT A
Significant Deficiencies

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. Furthermore, our testing identified insecure configurations, as well as unpatched and unsupported software for two systems.

Contingency Planning
Contingency plan tests were not conducted annually for one FSA system.

Information Security Program
The OIG performs an independent evaluation of the Department's information technology security program and practices, as required by the Federal Information Security Modernization Act of 2014 (FISMA). The 2017 FISMA evaluation identified findings in all seven areas reviewed: (1) Risk Management, (2) Configuration Management, (3) Identity and Access Management (4) Security Training, (5) Information Security Continuous Monitoring, (6) Incident Response, and (7) Contingency Planning. The report made 37 recommendations (4 of which were repeat recommendations) to assist the Department and FSA with increasing the effectiveness of their information security program.

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.

- 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

INDEPENDENT AUDITORS' REPORT (Continued)
EXHIBIT A
Significant Deficiencies

monitoring programs, or internal or external audits and reviews, to include OMB reviews.

In order to appropriately manage risk from an organization-wide structure, the Department and FSA CISOs need to hold accountable those individuals responsible for ensuring that persistent IT control deficiencies are remediated and the appropriate security posture is maintained for Department and FSA information systems.

Recommendations:

We recommend FSA's Chief Administration Officer:

2a. Develop and implement a monitoring process over FSA's personnel security activities to ensure investigations and reinvestigations are prioritized for personnel with sensitive system access within the Department.

We recommend the FSA CISO work with the Department CISO to:

2b. Strengthen and refine the process for holding system owners and information system security officers accountable for remediation of control deficiencies and ensuring that the appropriate security posture is maintained for Department and 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, 2017, FSA is not in compliance with the legal requirement for referring 120 day delinquent student loan debts to Treasury.

To meet this requirement, FSA obtained legal clarification of how certain specific requirements of the amended law apply to the Direct Loan Program and other FSA programs, 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 9, 2017

MEMORANDUM

TO: Kathleen Tighe
Inspector General

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

SUBJECT: DRAFT AUDIT REPORTS
Fiscal Years 2017 and 2016 Financial Statements
Federal Student Aid
ED-OIG/A17R0002

Please express our sincere appreciation to everyone on your staff and the CliftonLarsonAllen, LLP team who supported the completion of the Fiscal Year 2017 Financial Statement Audit. Federal Student Aid (FSA) reviewed the draft audit reports provided on November 1, 2017. 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 continue to work with the Department of Education (Department) on improving the controls over the modeling activities. Additionally, FSA will continue to work with the Department to mitigate persistent Information Technology Control Deficiencies. Moreover, 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 maintaining 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 endeavor 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 2016 Recommendations	Fiscal Year 2017 Status
CLA Recommended that the Chief Operating Officer:	
1a. Request the necessary information on the Department's modeling activities and perform a comprehensive evaluation of the impact of the Department's modeling on FSA's mission in connection with the development of its enterprise risk management program.	Modified Repeat, see Significant Deficiency
CLA Recommended the Department Chief Financial Officer, in conjunction with the Director, Budget Service:	
1b. Document the Department's process, policies and procedures for the design, development, testing and authorization of new models.	Modified Repeat, see Significant Deficiency
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 impacts the Department's level of controls, validation and monitoring over each model.	Modified Repeat, see Significant Deficiency
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.	Modified Repeat, see Significant Deficiency
1e. Document the overall review and conclusions drawn related to the evaluation of the results of model performance reviews and validation procedures performed.	Modified Repeat, see Significant Deficiency
CLA Recommended the Director, Budget Service and the Department and FSA Chief Financial Officers:	
1f. Document the Department's process, policies, procedures and related controls for managing the operation and use of approved models.	Modified Repeat, see Significant Deficiency
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.	Modified Repeat, see Significant Deficiency
CLA Recommended the FSA Chief Financial Officer support the Department Chief Financial Officer to:	
1h. Ensure the agency's management controls program fully evaluates the Department's modeling activities commensurate with the materiality of the impact of the process to the agency's reporting activities.	Modified Repeat, see Significant Deficiency

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

CLA Recommended 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.	Closed
2b. Design and implement controls over the handling of Department security and privacy incidents to ensure their resolution is properly documented.	Modified Repeat, see Significant Deficiency
CLA Recommended 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.	Modified Repeat, see Significant Deficiency
CLA Recommended 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.	Modified Repeat, see Significant Deficiency
Noncompliance with Laws and Regulations	
3. CLA recommended that Federal Student Aid Chief Operating Officer 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.	Repeat

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

PROUD SPONSOR of
the AMERICAN MIND™

November 9, 2017

MEMORANDUM

TO: Kathleen Tighe
Inspector General

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

SUBJECT: DRAFT AUDIT REPORTS
Fiscal Years 2017 and 2016 Financial Statements
Federal Student Aid
ED-OIG/A17R0002

Please express our sincere appreciation to everyone on your staff and the CliftonLarsonAllen, LLP team who supported the completion of the Fiscal Year 2017 Financial Statement Audit. Federal Student Aid (FSA) reviewed the draft audit reports provided on November 1, 2017. 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 continue to work with the Department of Education (Department) on improving the controls over the modeling activities. Additionally, FSA will continue to work with the Department to mitigate persistent Information Technology Control Deficiencies. Moreover, 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 maintaining 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 endeavor to complete a successful audit of Federal Student Aid's financial statements.

Other Information

This page intentionally left blank.

Other Information

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 2018 Executive Summary* found in the Other Information section located within the Department's ***AFR***.

This page intentionally left blank.

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

This page intentionally left blank.

Appendix A: Discontinued Strategic Goals and Performance Metrics

Discontinued Strategic Goals and Performance Metrics

As part of its commitment to continuous performance improvement, FSA conducts frequent reviews of its strategic plan. During FY 2017, FSA reviewed its current strategic plan, the *FSA FY 2015–2019 Strategic Plan* and identified several changes that would enhance FSA's performance reporting and improve the delivery of its mission, "*Funding America's Future, One Student at a Time*". As a result of its findings, FSA refined its performance measurements and adjusted several performance metrics to reflect better information. The revised metrics provide a more accurate measure of FSA's performance.

In FY 2017, FSA revised one performance metrics. The revised metric is presented and discussed as part of the *Annual Performance Report* section of this report. The metric and its results, as reported in prior years' *Annual Reports*, are located in the tables below.

Table 35: Discontinued Performance Metric

Strategic Goal A	Improve quality of service for customers across the entire student aid life cycle.	
Performance Metric	**Description**	**Change Type**
Performance Metric A.5	ASCI Aid Life Cycle Surveys	**Budget Limitations**

Table 36: Previous Results of Discontinued Performance Metric

Performance Metric A.5: ASCI Aid Life Cycle Surveys

Fiscal Year	Actual	Target Achieved	Performance Result
FY 2016	70.4	✗	**Not met**
FY 2015	77.2	✗	**Not met**
FY 2014	78.4	✓	**Met**
FY 2013	78.4	✓	**Met**

Appendix B: Indices of Tables and Charts

Index of Tables

Section: Management Discussion and Analysis

Section: Annual Performance Report

Index of Tables

Section: Annual Performance Report

Section: Appendices

Index of 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 2017 Agency Financial Report*
APG	Agency Priority Goal
Annual Report	*Federal Student Aid Annual Report FY 2017*
C	
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
DRG	Default Resolution Group
DRT	Data Retrieval Tool
E	
ECASLA	*Ensuring Continued Access to Student Loans Act of 2008*
ED	U.S. Department of Education
EEI	Employee Engagement Index
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
F	
Federal Funds	Federal Student Loan Reserve Funds
FERS	Federal Employees Retirement System
FEVS	Federal Employee Viewpoint Survey
FDMS	Feedback and Dispute Management System
FFEL	Federal Family Education Loan
FFELP	Federal Family Education Loan Program
FSA	Federal Student Aid
FSA FY 2015–19 Strategic Plan	*Federal Student Aid: Strategic Plan, FY 2015–19*
FSEOG	Federal Supplemental Educational Opportunity Grants
FY	Fiscal Year
G	
GAAP	Generally Accepted Accounting Principles
GAO	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
HTTPS	Hypertext Transfer Protocol Secure
I	
IBR	Income Based Repayment
IDR	Income Driven Repayment
IRS	Internal Revenue Service
IT	Information Technology
L	
LEU	Lifetime Eligibility Used
M	
Met	Performance result met or exceeded target

Acronym	Description
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.
NFP	Not-For-Profit
Not met	Performance result did not meet target
NSLDS	National Student Loan Data System
O	
OCTS	Ombudsman Case Tracking System
OIG	Office of Inspector General
OMB	U.S. Office of Management and Budget
OMB Circular A-123	OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*
OPM	U.S. Office of Personnel Management
OPR	Organizational Performance Review
P	
PAYE	Pay as You Earn
PBO	Performance-Based Organization
PCA	Private Collection Agency
Pell Grant	Federal Pell Grant Program
PSLF	Public Service Loan Forgiveness
Pub.L	Public Law
S	
SBR	Statement of Budgetary Resources
Secretary	Secretary of Education
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

Acronym	Description
T	
TPD	Total and Permanent Disability
Treasury	U. S. Department of the Treasury
U	
U.S.	United States

Appendix D: Availability of the Federal Student Aid Annual Report

The *Federal Student Aid FY 2017 Annual Report* 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**

Stay connected to Federal Student Aid through social media:

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

Acknowledgements

The FSA FY 2017 Annual Report was prepared with the energies and talents of many Federal Student Aid employees. To all these dedicated individuals in the offices listed below, as well as those offices not listed, the Chief Operating Officer and Chief Financial Officer would like to offer their sincere appreciation and recognition.

In particular, we would like to recognize the following offices within Federal Student Aid for their contributions:

- Finance Office
- Strategic Planning and Reporting Division
- Office of the Ombudsman
- Office of Communications and Outreach
- COO Front Office
- Technology Office

We also offer our sincerest thanks and acknowledgement to staff of the following offices outside of Federal Student Aid for their contributions:

- Office of the Chief Financial Officer
- Budget Service
- Office of the Secretary
- Office of Legislative and Congressional Affairs
- Office of Chief Information Officer

We would also like to acknowledge the Office of the Inspector General and CliftonLarsonAllen, LLP for the professional manner in which they conducted the audit of the Fiscal Year 2017 Financial Statements.

The *Federal Student Aid FY 2017 Annual Report*

Federal Student Aid
A Principal Office of the U.S. Department of Education
Finance Office
November 2017

FSA

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

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

PROUD SPONSOR of
the AMERICAN MIND®